# ANNUAL REPORT 2014

NATIONAL CREDIT UNION ADMINISTRATION

# Office of the Chairman

June 23, 2015

To the Members of the Senate Banking and House Financial Services Committees:

On behalf of the National Credit Union Administration and in the spirit of transparency, I am pleased to submit NCUA's *2014 Annual Report* for your review.

This report reviews the agency's performance in 2014 and includes the audited financial statements for NCUA's four permanent funds. These funds include the National Credit Union Share Insurance Fund, the NCUA Operating Fund, the Central Liquidity Facility and the Community Development Revolving Loan Fund.

NCUA works to foster the safety and soundness of federally insured credit unions. We also work to better enable the credit union community's ability to extend credit for productive and provident purposes to all Americans. Further, NCUA vigorously works to protect the Share Insurance Fund from losses.

In its performance, NCUA strives to ensure that credit unions are empowered to make business decisions necessary to serve the diverse needs of their existing members and potential members. NCUA achieves this objective by establishing a regulatory environment that encourages innovation, flexibility, and a continued focus on improving service to existing members and attracting new members.

NCUA developed the agency's *2014 Annual Report* in accordance with the requirements of:

- Section 102(d) of the Federal Credit Union Act,
- the Chief Financial Officers Act of 1990, and
- the Government Performance and Results Modernization Act of 2010.

In accordance with the Reports Consolidation Act of 2000, NCUA also completed an assessment of the reliability of the performance data contained in this report. No material inadequacies were found, and the data are considered to be complete and reliable.

Sincerely,

Debbie Matz
Chairman

# National Credit Union Administration
## 2014 Annual Report

www.NCUA.gov

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# MESSAGE FROM THE CHAIRMAN

## 2014 Annual Report Chairman's Message

**The Federal Credit Union Act turned 80 years old in 2014, and the original drafters of this law would be pleased to learn that federally insured credit unions remain strong and continue to provide affordable financial services to millions of Americans.**

In 2014, the U.S. credit union system also had one of its strongest years in recent memory. Membership continued to rise, reaching 99.3 million members. Delinquencies and charge-offs continued to fall, and the overall credit union system had its best year-over-year loan growth in nearly a decade at 10.4 percent. Federally insured credit unions also had aggregate net income of $8.8 billion, the best performance ever. As a result, our country's federally insured credit unions ended 2014 with a healthy net worth ratio of 10.97 percent and more than $1.1 trillion in assets.

The mission of not-for-profit credit unions has not changed since 1934, but today's credit unions have become significantly more complex in both size and scope. To continue fulfilling NCUA's statutory mission of ensuring the safety and soundness of the credit union system and protecting the National Credit Union Share Insurance Fund, the agency continued to evolve by implementing new systems, adopting new policies and modifying our workforce to keep pace with the changes.

In 2014, NCUA continued making real progress on our Regulatory Modernization Initiative, which began in 2011. This initiative focuses on modernizing NCUA's rules and regulations to account for emerging risks, as well as reducing the regulatory burden where appropriate.

### MODERNIZING TO ADDRESS EMERGING RISKS

To mitigate forward-looking risks, some of the agency's key initiatives in 2014 included:

- Issuing a proposed rule aimed at strengthening and modernizing the risk-based capital requirements for federally insured credit unions;
- Establishing new rules governing capital planning and stress testing for federally insured credit unions with assets greater than $10 billion;

- Approving a final rule to allow eligible federal credit unions to purchase specified, "plain vanilla" derivatives as a hedge against interest rate risk; and
- Proposing a rule that would allow qualified federal credit unions to securitize loans they originate.

Even though the U.S. economy continued to improve in 2014, NCUA remained concerned about two potential storm clouds on the horizon: interest rate risk and cybersecurity risk. The agency focused closely on both risks in carrying out its supervisory and examination program. The agency also launched a new resource page, so credit unions can better prepare for eventual changes in interest rates and understand the risks any sudden or adverse changes could present to their balance sheets and bottom lines.

To address growing threats to the broader financial system posed by cyber-criminals, cyber-terrorists and Internet hackers, NCUA participated in the Federal Financial Institutions Examination Council's cybersecurity assessment program designed to identify vulnerabilities in the financial sector. The FFIEC findings are now guiding the development of future recommendations to improve resiliency against cyber-threats.

NCUA also enhanced examiner training on cybersecurity issues and provided useful information and resources to credit unions and state regulators. The agency continued to reach out to credit union officials and other stakeholders, urging them to improve their cyber-defenses and adopt resilient recovery plans to swiftly resume normal business operations if attacked.

## MODERNIZING TO EASE REGULATORY BURDEN

Regulatory modernization involves streamlining, updating or eliminating existing rules to provide credit unions with greater flexibility and ease any unnecessary burdens, while at the same time ensuring safety and soundness.

In 2014, NCUA eased regulatory burdens by finalizing two rules:

- Allowing federally insured credit unions to refinance or modify existing real estate loans without needing to obtain an additional appraisal, thereby helping more underwater borrowers remain in their homes; and
- Reducing the administrative burdens on solvent credit unions that voluntarily liquidate.

The NCUA Board also proposed two other regulatory relief rules:

- Providing federal credit unions greater flexibility in managing fixed assets by eliminating the 5-percent aggregate limit; and
- Permitting federal credit unions to automatically add certain types of associations to their charters.

NCUA also again voluntarily participated in the interagency Economic Growth and Regulatory Paperwork Reduction Act review. Conducted every 10 years, this process requires the FFIEC member federal banking agencies—but not NCUA—to review their regulations to identify any rules that might be outdated, unnecessary or unduly burdensome. NCUA also continued our internal best practice of reviewing all of the agency's rules on a rolling three-year cycle. NCUA will use the comments received from stakeholders in both reviews to continue to identify areas in which the agency might adopt additional regulatory relief in the future.

## ENGAGING STAKEHOLDERS

Good governance requires an ongoing dialogue with stakeholders. In 2014, NCUA held regular webinars to educate credit union officials and staff on issues like internal controls, fair lending, product pricing, field of membership strategies and the Bank Secrecy Act. During 2014, more than 45,000 participants took part in NCUA-sponsored training programs.

Board members and senior staff also participated in three nationwide Listening Sessions that attracted more than 400 participants to Los Angeles, Chicago and Alexandria, Virginia. While the sessions were designed primarily to obtain input on the agency's proposed risk-based capital rule, many of NCUA's other regulatory policies and procedures were discussed, as well as suggestions to improve examinations, supervision and budget documentation.

In addition, NCUA worked in 2014 to establish strategic partnerships to improve financial literacy and expand access to credit. Specifically, NCUA and AARP signed a Memorandum of Understanding outlining a series of educational initiatives to take place during the next two years. These activities will include consumer-friendly financial services, anti-fraud efforts, elder abuse prevention initiatives, entrepreneurship and financial literacy programs, among others. NCUA also began formalizing a partnership with the Small Business Administration to expand the credit union system's capacity to make more SBA-guaranteed loans.

## PROVIDING ASSISTANCE TO SMALL CREDIT UNIONS

Our nation's small credit unions, currently defined as those with $50 million or less in assets, constitute 65 percent of the total system. These credit unions play a vital role in providing affordable financial services to many underserved and rural communities.

Yet, small credit unions continue to face enormous challenges. While 2014 was a strong year for credit unions overall, roughly half of small credit unions shrank. The return on average assets for very small credit unions (with less than $10 million in assets) was only 4 basis points, well below the system's average of 80 basis points.

To help smaller credit unions thrive, NCUA continued to tailor our rules to fully exempt small credit unions wherever appropriate, including the proposed risk-based capital rule. NCUA provided grants, loans, technical assistance and training to small and low-income credit unions throughout the year. In all, nearly 300 low-income credit unions received more than $1.5 million in grants and $5 million in new loans.

NCUA also continued to streamline its Small Credit Union Examination Program for small, well-managed credit unions. These "short-scope" exams focus on the most pertinent areas of risk in credit unions of this size—lending, recordkeeping, internal controls and fraud detection. These shortened exams reduce the regulatory burden for these smaller credit unions, allowing them more time to serve their members and communities.

## MAKING NCUA AN EMPLOYER OF CHOICE

NCUA's greatest asset is our employees. Having a talented, motivated workforce strengthens both the agency and the credit union system.

In 2014, we continued to make great strides toward our goal of being an "Employer of Choice." We improved our ranking in the annual "Best Places to Work in the Federal Government." Employees gave the agency high marks for satisfaction and effective leadership. NCUA also ranked highly as a great place to work with African-American employees, veterans, women, Asian-American employees, and employees age 40 and above.

NCUA further continued efforts to recruit and retain a talented and diverse workforce. In all, 54 percent of the agency's new hires in 2014 were women, minorities, or both. NCUA also increased the number of veterans and disabled veterans hired.

## PREPARING FOR THE FUTURE

In all, 2014 was a very successful year for both the credit union system and NCUA. We continued our multi-year effort to create and maintain a modern regulatory structure that allows credit unions to evolve and grow.

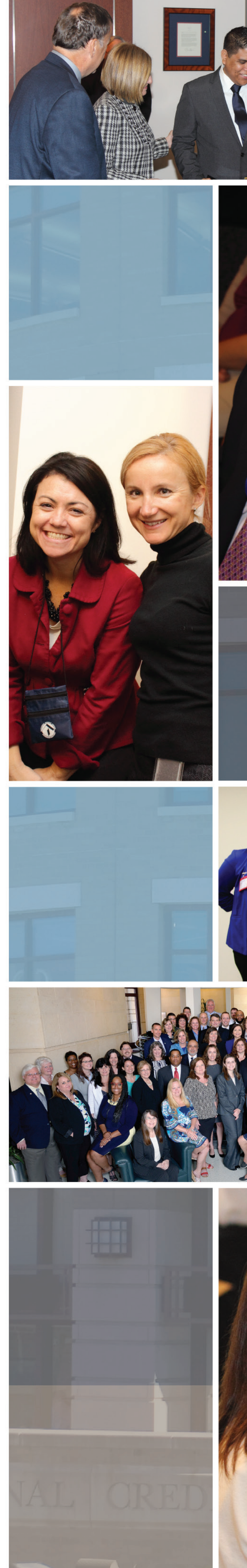
Yet, we must continue our efforts to keep the credit union system safe, sound and relevant in facing future challenges. NCUA and credit unions must continue to prepare for eventual rising interest rates, ever-evolving threats to cybersecurity and potential liquidity risks. To mitigate money laundering and criminal activity, NCUA must also continue to examine for compliance with the Bank Secrecy Act. And we need to fulfill our responsibility to protect consumers.

Today, more Americans than ever have firsthand experience with the benefits and opportunities that a healthy and vibrant credit union system provides. Our actions in 2014 better positioned federally insured credit unions to thrive and succeed in providing affordable credit to consumers well into the future. NCUA stands ready to ensure that millions of Americans can continue to confidently entrust their savings to our nation's cooperative credit system.

Debbie Matz

Debbie Matz
Chairman

# OUR WORK, OUR PEOPLE



## NCUA in Brief

Created by the U.S. Congress in 1970, NCUA is an independent federal agency that insures deposits at federally insured credit unions, protects the members who own credit unions and charters and regulates federal credit unions. A three-member Board of Directors oversees NCUA's operations by setting policy, approving budgets and adopting rules.

NCUA protects the safety and soundness of the credit union system by identifying, monitoring and reducing risks to the National Credit Union Share Insurance Fund. Backed by the full faith and credit of the United States, the Share Insurance Fund provides members with at least $250,000 of insurance at a federally insured credit union. NCUA provides insurance to more than 99 million account holders in all federal credit unions and the overwhelming majority of state-chartered credit unions. Credit union members have never lost a penny of insured savings at a federally insured credit union.

Through robust and effective examinations, NCUA ensures that credit unions are safe and viable financial institutions. When a credit union does fail, we work to minimize the impact of the failure on the entire credit union system.

NCUA further plays a role in helping to ensure broader financial stability. NCUA is a member of the Federal Financial Institutions Examination Council. The council is responsible for developing uniform principles, standards and report forms and for promoting uniformity in the supervision of depository financial institutions.

NCUA's Chairman is also a voting member of the Financial Stability Oversight Council, an interagency body tasked with identifying risks and responding to emerging threats to the financial system.

In 2014, NCUA relied upon 1,225 employees to perform all the vital tasks in the agency's insurance, consumer protection and regulatory roles. NCUA operates a central office located in Alexandria, Virginia; an Asset Management and Assistance Center, located in Austin, Texas, to liquidate credit unions and recover assets; and five regional offices. In these regional offices, NCUA has 71 supervisory examiner groups, each with 8 to 10 examiners responsible for a portfolio of credit unions covering all 50 states, Guam, Puerto Rico, the U.S. Virgin Islands and the District of Columbia.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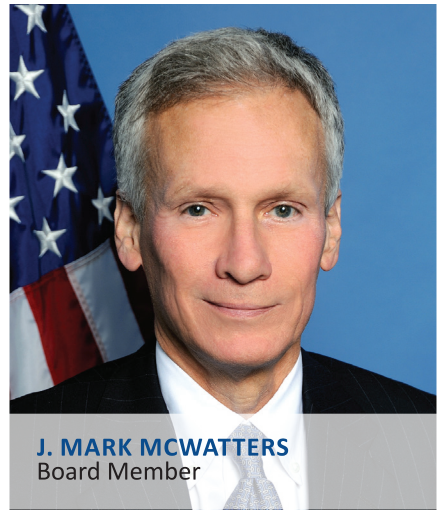
# NCUA BOARD OF DIRECTORS






**Chairman Debbie Matz** was nominated by President Barack Obama to serve as NCUA's eighth Board Chairman. She was sworn into office on August 24, 2009. Mrs. Matz is the only NCUA Board member ever confirmed for a second term, having previously served on the NCUA Board from January 2002 to October 2005. Mrs. Matz represents NCUA as one of ten voting members on the Financial Stability Oversight Council and is the last original FSOC voting member. She additionally serves on the Federal Financial Institutions Examination Council, which she chaired from 2011–2013. Between her two terms at NCUA, Mrs. Matz held the position of executive vice president and chief operating officer at a large federal credit union. Her career in public service spans almost 30 years, including an appointment by President Bill Clinton to serve as Deputy Assistant Secretary of Administration at the U.S. Department of Agriculture. Mrs. Matz also served as an economist on the congressional Joint Economic Committee for many years and has served as a member of the board of NeighborWorks America.

**Vice Chairman Rick Metsger** was nominated by President Barack Obama on May 16, 2013, to a seat on the NCUA Board. The U.S. Senate confirmed him on August 1, 2013, and he took the oath of office on August 23, 2013. The Board designated him as Vice Chairman on September 18, 2014. Prior to joining the NCUA Board, Mr. Metsger owned his own strategic communications consulting firm that focused on the areas of financial services, capital construction, energy and transportation. He served for 12 years in the Oregon State Senate, where he chaired the Business and Transportation Committee and was elected President Pro Tem in 2009. Previously, he served on the Oregon State Treasury Debt Policy Advisory Commission. Mr. Metsger currently serves on the board of NeighborWorks America.

**Board Member J. Mark McWatters** was nominated to the NCUA Board by President Barack Obama on January 7, 2014. Following confirmation by the U.S. Senate on June 19, 2014, Mr. McWatters took office as an NCUA Board Member on August 26, 2014. Immediately prior to joining the NCUA Board, Mr. McWatters served as the Assistant Dean for Graduate Programs and as a Professor of Practice at the Southern Methodist University Dedman School of Law and as an Adjunct Professor at the Southern Methodist University Cox School of Business. He previously served as a member of the Troubled Asset Relief Program Congressional Oversight Panel. He also served on the Governing Board of the Texas Department of Housing and Community Affairs and the Advisory Committee of the Texas Emerging Technology Fund. Mr. McWatters has more than 30 years of legal experience as a tax, corporate finance and mergers and acquisitions attorney. He is also licensed as a Certified Public Accountant.

Mr. McWatters succeeded Michael E. Fryzel, who left the NCUA Board in August 2014.

## SENIOR STAFF REPORTING TO THE NCUA BOARD AT THE END OF 2014

- Gerard S. Poliquin, Secretary of the Board
- Steve Bosack, Chief of Staff to the Chairman
- Buddy Gill, Senior Strategic Communications and External Relations Advisor to the Chairman
- Michael Radway, Senior Policy Advisor to Vice Chairman Metsger
- Sarah Vega, Senior Policy Advisor to Board Member McWatters
- Mark A. Treichel, Executive Director
- Michael McKenna, General Counsel
- James Hagen, Inspector General
- Joy Lee, Ombudsman
- Todd M. Harper, Director, Office of Public and Congressional Affairs

# NCUA Central Office Leadership

**MARK A. TREICHEL**
Office of the Executive Director

**LARRY FAZIO**
Office of Examination and insurance

**MICHAEL MCKENNA**
Office of General Counsel

**GAIL LASTER**
Office of Consumer Protection

**RENDELL JONES**
Office of the Chief Financial Officer

**SCOTT HUNT**
Office of National Examinations and Supervision

**WILLIAM MYERS**
Office of Small Credit Union Initiatives

**JOHN D. WORTH**
Office of the Chief Economist

**TODD M. HARPER**
Office of Public and Congressional Affairs

**CHERYL EYRE**
Office of Human Resources

**JOY MILLER**
Office of Continuity and Security Management

**JAMES HAGEN**
Office of Inspector General

**ACTING DIRECTORS IN 2014**

**DAVID CHOW**
Office of the Chief Information Officer

**LINDA DENT**
Office of Minority and Women Inclusion

**JOY LEE**
Office of Minority and Women Inclusion

# NCUA Leadership

NCUA's Board and executive director are located in the agency's Alexandria, Virginia, central office, along with the following major offices that administer the agency's various programs:

The **Office of the Executive Director**, led by Mark A. Treichel, is responsible for the agency's daily operations. The executive director reports directly to the NCUA Chairman. All regional directors and most central office directors report to the executive director.

The **Office of Examination and Insurance**, led by Larry Fazio, is responsible for NCUA's supervision programs that ensure the safety and soundness of federally insured credit unions. Within the Office of Examination and Insurance, the Division of Supervision oversees NCUA's examination and supervision program and risk exposure to the National Credit Union Share Insurance Fund. The Division of Risk Management oversees the agency's problem resolution program and manages risk to the National Credit Union Share Insurance Fund. The Division of Analytics and Surveillance manages the agency's data-gathering, surveillance and national risk assessment programs. It also supports NCUA's supervision of technology risk in credit unions. The Division of Capital and Credit Markets evaluates and develops policies and procedures related to credit union loans and investments and asset-liability management. The division also oversees the day-to-day operations of the Central Liquidity Facility. Finally, the Division of NGN Support monitors the NCUA Guaranteed Notes program.

The **Office of General Counsel**, led by Michael McKenna, addresses legal matters affecting NCUA. The duties of the office include representing the agency in litigation, executing administrative actions, interpreting the Federal Credit Union Act and NCUA Rules and Regulations, processing Freedom of Information Act requests, and advising the Board and the agency on general legal matters. The General Counsel's office also drafts regulations designed to ensure the safety and soundness of credit unions.

The **Office of Consumer Protection**, led by Gail Laster, is responsible for the agency's consumer compliance policy, program and rulemaking; fair lending examinations; interagency coordination for consumer protection and compliance issues; consumer complaint resolution; and the agency's financial literacy programs. The office also handles chartering, charter conversions, bylaw amendments, field of membership expansions and low-income credit union designations.

The **Office of the Chief Financial Officer**, led by Rendell Jones, oversees the agency's budget preparation and management, ongoing finance and accounting functions, facilities management and procurement. The Office of the Chief Financial Officer also handles billing and collection of credit union Share Insurance Fund premiums and deposit adjustments, federal credit union operating fees and Temporary Corporate Credit Union Stabilization Fund assessments. NCUA's strategic planning process is also housed here. Jones succeeded Mary Ann Woodson, who retired in November 2014.

The **Office of National Examinations and Supervision**, led by Scott Hunt, supervises the corporate credit union system and consumer credit unions with $10 billion or more in assets. In 2014, the office oversaw 14 corporate credit unions that ranged in asset size from $134 million to $3.3 billion.

The **Office of Small Credit Union Initiatives**, led by William Myers, assists the agency's risk mitigation program and fosters credit union development, particularly the expansion of services provided by small and low-income credit unions to all eligible consumers. It provides training, customized consulting assistance and financial support offered through grants and loans funded by the Community Development Revolving Loan Fund. Additionally, the office facilitates credit union access to non-NCUA training and development resources.

The **Office of the Chief Economist**, led by John D. Worth, supports NCUA's safety and soundness goals by developing and distributing economic intelligence. The Chief Economist's Office also enhances NCUA's understanding of emerging microeconomic and macroeconomic risks by producing meaningful and robust modeling and risk identification tools and participating in agency and inter-agency policy development.

The **Office of Public and Congressional Affairs**, led by Todd M. Harper, monitors federal legislative issues and serves as NCUA's liaison with Capitol Hill and other government agencies. The office is also the source of information about NCUA and its functions for the public, credit unions, leagues, trade organizations and the media.

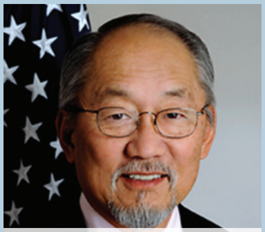
The **Office of Human Resources**, led by Cheryl Eyre, provides a full range of human resources functions to all NCUA employees. The office administers recruitment and merit promotion, position classification, compensation, employee records, training, employee benefits, performance appraisals, incentive awards, adverse actions and grievance programs. It is also responsible for labor relations.

The **Office of Continuity and Security Management**, led by Joy Miller, evaluates and manages security and continuity programs across NCUA and its regional offices. The office is responsible for continuity of operations, emergency planning and response, critical infrastructure and resource protection, cybersecurity and intelligence threat warning, as well as facility security and personnel security.

The **Office of Inspector General**, led by James Hagen, promotes the economy, efficiency and effectiveness of NCUA programs and operations. The Office of Inspector General also detects and deters fraud, waste and abuse in support of NCUA's mission of monitoring and promoting safe and sound federally insured credit unions. Additionally, it conducts independent audits, investigations and other activities and keeps the NCUA Board and U.S. Congress fully informed.

The **Office of the Chief Information Officer**, led by acting director David Chow, manages NCUA's automated information resources. The office's work includes collecting, validating and securely storing electronic agency information; developing, implementing and maintaining computer hardware, software, and data communications infrastructure; and ensuring related security and integrity risks are recognized and controlled. Additionally, the office manages the NCUA.gov and MyCreditUnion.gov websites. Ronnie Levine held the post until October 2014. Edward Dorris became the Chief Information Officer in March 2015.

The **Office of Minority and Women Inclusion**, led by acting directors during 2014, oversees issues related to diversity in management, employment and business activities. The office works to ensure equal opportunities for everyone in NCUA's workforce programs and contracts. The Office of Minority and Women Inclusion also works to preserve minority depository institutions, and develop standards to assess the diversity policies and practices of credit unions regulated by NCUA. Linda Dent and Joy Lee served as acting directors in 2014, and Wendy Angus currently serves as the acting director.



**MIKE BARTON**
Asset Management and Assistance Center

**LARRY BLANKENBERGER**
Region I

**JANE A. WALTERS**
Region II

**MYRA TOEPPE**
Region III

**C. KEITH MORTON**
Region IV

**ELIZABETH WHITEHEAD**
Region V

## NCUA Regional Offices and AMAC

The **Asset Management and Assistance Center**, led by Mike Barton, conducts credit union liquidations and performs asset management and recovery. The Asset Management and Assistance Center also assists NCUA regional offices with the review of large, complex loan portfolios and actual or potential bond claims. Additionally, the office's staff participates extensively in the operational phases of conservatorships and record reconstruction.

NCUA's **Region I** is located in Albany, New York, and directed by Larry Blankenberger. The region covers Connecticut, Maine, Massachusetts, Michigan, New Hampshire, New York, Rhode Island, Vermont and Wisconsin.

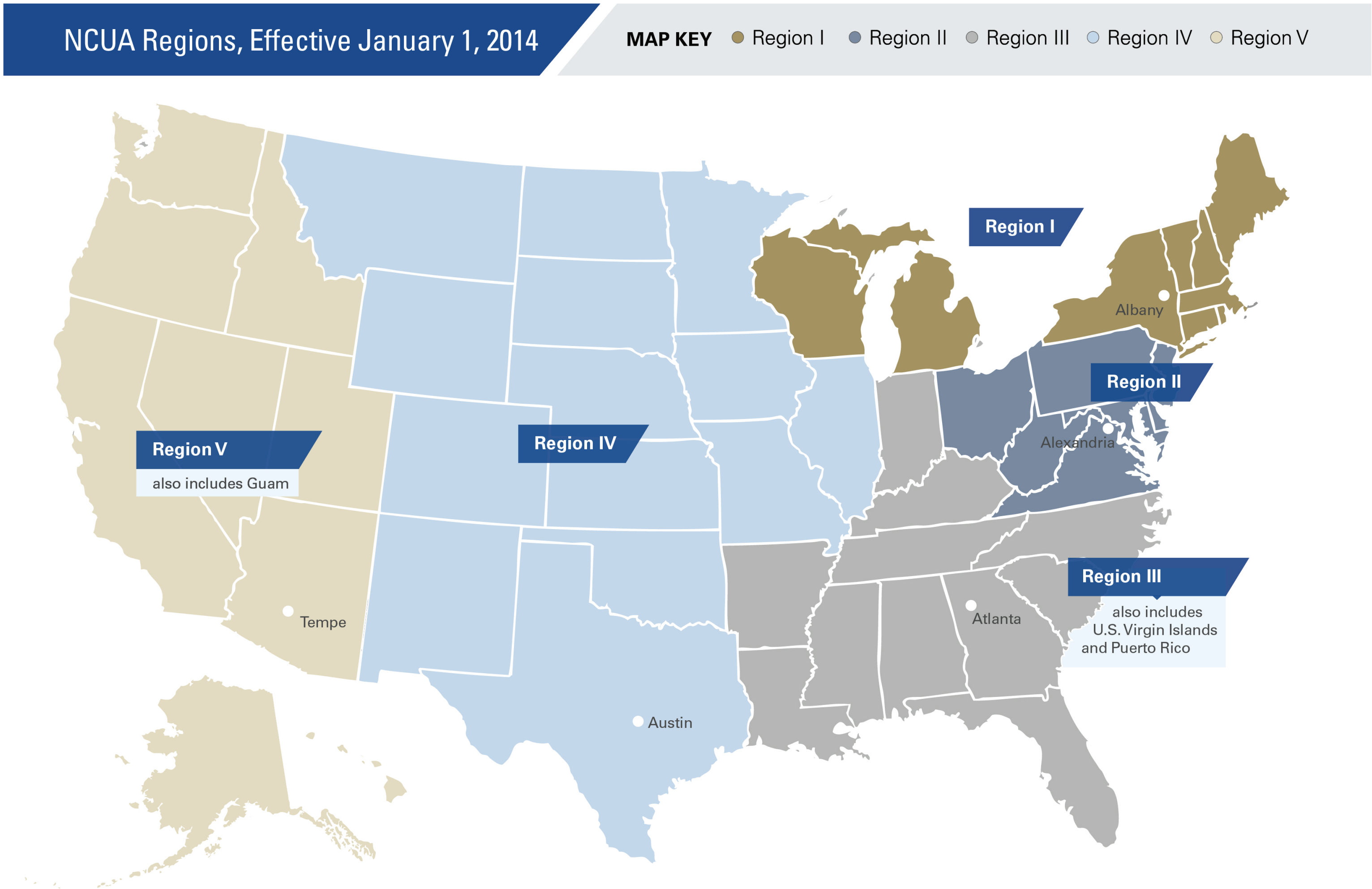
NCUA's **Region II** is located in Alexandria, Virginia, and directed by Jane A. Walters. The region covers Delaware, the District of Columbia, Maryland, New Jersey, Ohio, Pennsylvania, Virginia and West Virginia.

NCUA's **Region III** is located in Atlanta, Georgia, and is directed by Myra Toeppe. The region covers Alabama, Arkansas, Florida, Georgia, Indiana, Kentucky, Louisiana, Mississippi, North Carolina, Puerto Rico, South Carolina, Tennessee and the U.S. Virgin Islands.

NCUA's **Region IV** is located in Austin, Texas, and directed by C. Keith Morton. The region covers Colorado, Illinois, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas and Wyoming.

NCUA's **Region V** is located in Tempe, Arizona, and directed by Elizabeth Whitehead. The region covers Alaska, Arizona, California, Guam, Hawaii, Idaho, Nevada, Oregon, Utah and Washington.

# NCUA Regional Map



MANAGEMENT DISCUSSION AND

# ANALYSIS

## 2014: A Milestone, Better Performance and More Modernization

The year 2014 marked the 80th anniversary of the enactment of the Federal Credit Union Act. This law firmly established the cooperative credit system as part of our nation's financial services landscape.

In 2014, federally insured credit unions also had one of their strongest years in nearly a decade. Outstanding loan balances grew 10.4 percent, the largest year-over-year percentage increase since 2005. Membership reached a new high of 99.3 million. The aggregate net worth ratio was 10.97, up 20 basis points for the year and the highest level since the third quarter of 2008.

With credit unions having one of their strongest years in recent memory, NCUA continued its Regulatory Modernization Initiative, which Board Chairman Debbie Matz launched in 2011. The initiative ensures that the credit union system remains safe, sound and able to evolve to meet the needs of credit union members for years to come.

Throughout 2014, NCUA's activities involved nine broad categories. Specifically, we focused on:

- Modernizing NCUA's rules to account for emerging risks;
- Reducing the regulatory burden by revising and removing regulations that limit flexibility and growth, without jeopardizing safety and soundness;
- Ensuring the safety and soundness of the credit union system;
- Managing the resolution of the corporate crisis;
- Assisting credit unions so they can adapt and thrive in a changing environment;
- Protecting consumers, expanding access to affordable

financial services and advancing financial literacy;
- Promoting transparency and developing strategic partnerships;
- Making NCUA an employer of choice; and
- Acting as a model corporate steward.

A discussion of our achievements in each of these areas, as well as some of the challenges, follows.

## MODERNIZING REGULATIONS TO ADDRESS EMERGING RISKS

As credit unions grow larger and more complex, the regulatory framework must keep pace to maintain the strength and stability of the entire system. Throughout 2014, NCUA pursued several notable rulemaking initiatives to respond to these changes and address emerging risks.

### Updating Risk-Based Capital Requirements

At its first meeting of the year, the NCUA Board issued a proposed rule to protect all credit unions and the National Credit Union Share Insurance Fund by strengthening risk-based capital requirements for federally insured credit unions.

Several factors compelled the NCUA Board to modernize the agency's risk-based net worth rule, first adopted in 2000. They include the lessons learned during the recent financial crisis, the adoption of new Basel capital accords, recommendations of the Government Accountability Office and NCUA's Inspector General, and the issuance in 2013 of new risk-based capital rules by the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System.

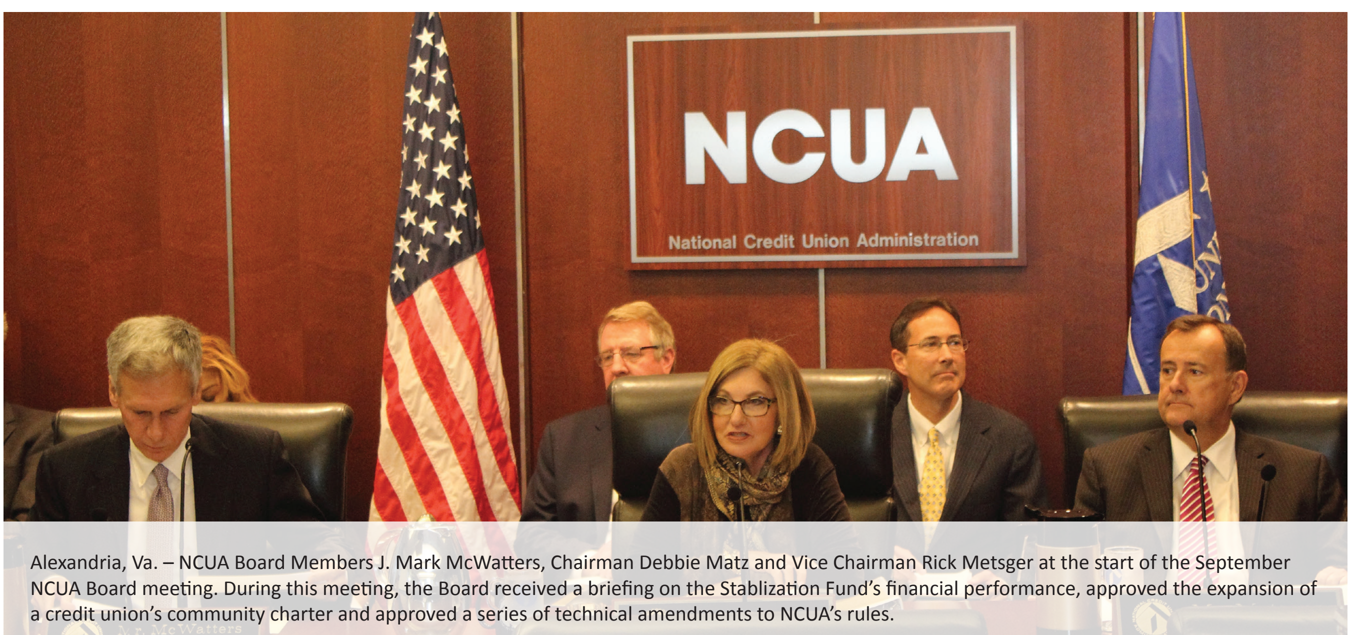
The proposed rule would have required outlying credit unions that take on more risk to hold more capital or to reduce their risk levels. Under the proposal, 3 percent of federally insured credit unions taking higher risks would have been required to take these actions.

Specifically, the proposed rule would have:

- Revised the risk weights for many asset categories;
- Required higher minimum levels of capital for federally insured credit unions with relatively high concentrations of assets in real estate loans, member business loans, delinquent loans, long-term investments, and other risky assets;
- Created a process for NCUA to require a federally insured credit union to hold higher levels of risk-based capital to address unique supervisory concerns; and
- Eliminated several regulatory requirements, including provisions relating to regular reserve accounts, risk-mitigation credits and alternative risk weights.

The proposed changes generated immense stakeholder interest. Ultimately, NCUA received 2,056 comment letters, making the proposal the most commented on in two decades. During the summer, the agency also held three nationwide Listening Sessions after the comment period closed to gather additional information and address the concerns of credit unions.

After carefully considering the comments of stakeholders, Chairman Matz in September announced that the agency would make significant structural changes to the proposal and issue a revised proposed rule for a second comment period. At the time, the agency committed to proposing




Alexandria, Va. – NCUA Board Members J. Mark McWatters, Chairman Debbie Matz and Vice Chairman Rick Metsger at the start of the September NCUA Board meeting. During this meeting, the Board received a briefing on the Stablization Fund's financial performance, approved the expansion of a credit union's community charter and approved a series of technical amendments to NCUA's rules.

a longer implementation period and revising the risk weights for mortgages, investments, member business loans, credit union service organizations and corporate credit unions, among other modifications.

To make these changes, the NCUA Board approved a revised proposed rule on risk-based capital in January 2015. The agency anticipates issuing a final rule during 2015.

## Instituting Capital Planning and Stress Tests for the Largest Credit Unions

The largest credit unions—those with $10 billion or more in assets—represent a systemic risk to the Share Insurance Fund. The failure of just one these institutions could have profound repercussions to the integrity of the fund and the credit union system as a whole. To mitigate this risk, the NCUA Board in April approved a final rule requiring federally insured credit unions of $10 billion or more in assets to develop and maintain a capital plan and to undergo a comprehensive, independent stress-testing regime.

This new rule is the culmination of five years of building a stronger regulatory framework based on the hard lessons learned from the financial crisis. The rule requires the largest credit unions to assess their capital reserves under adverse financial and economic scenarios, so that they can take advance actions if necessary. Under the final rule, covered credit unions will submit an annual capital plan to NCUA for approval.

Initially, the rule requires NCUA to conduct the supervisory stress-tests at the beginning of the program. But, the rule makes it possible for covered credit unions to conduct their own stress-tests after three years. Results from these stress tests will remain confidential during the first three years of the program.

## Using Derivatives to Manage Interest Rate Risk

NCUA's focus on interest rate risk management has been constant for more than 15 years, as evidenced by a steady issuance of guidance to examiners and credit unions on asset-liability management. Since 2010, interest rate risk management has been a heightened focus for NCUA, and it was again a primary supervisory focus for the agency in 2014.

NCUA's focus on interest rate risk exposure has increased due to the extraordinarily low level of interest rates and the overall lengthening of asset durations in the credit union system in recent years. NCUA is mindful that a period of rapidly rising rates could be a particularly challenging scenario for some credit unions. To mitigate this risk and maintain stable earnings, credit unions need to have policies in place to survive adverse rate environments.

To help credit unions mitigate this risk, the NCUA Board in January adopted a final rule allowing certain well-managed federal credit unions to utilize derivatives as a risk management tool.

This final rule was an important addition to NCUA's Regulatory Modernization Initiative. It also was the product of nearly two years of careful engagement with credit unions.

The final rule allows federal credit unions with at least $250 million assets and a composite CAMEL rating of 1, 2 or 3 to apply to use certain derivatives. Federal credit unions below this asset threshold may seek permission to apply from a regional director.

Specifically, the final derivatives rule includes:

- Limited authority to invest in simple interest rate derivatives for balance sheet management and risk reduction, including interest rate swaps, interest rate caps, interest rate floors, basis swaps and Treasury futures. Newly authorized features include amortizing notional amounts for swaps, caps and floors and forward start dates for swaps of 90 days or less;
- A requirement that credit unions engaging in derivatives activities have appropriate resources, controls and systems to maintain an effective derivatives program; and
- Restrictions on total derivatives exposure.

While the final rule does not apply to federally insured, state-chartered credit unions, it does require those credit unions permitted to use derivatives under state law to notify NCUA 30 days before engaging in derivatives activities.

Since becoming effective, 12 credit unions have applied for derivatives authority. NCUA approved nine applications in 2014 and expects to approve three additional applications by the second half of 2015. NCUA expects other credit unions to apply in the coming year.

## Implementing the CUSO Rule

Credit union service organizations, or CUSOs, play an increasingly important role in the operations of many credit unions. CUSOs do everything from lending and loan administration to electronic payment processing, technology services, business continuity and disaster recovery, financial planning and insurance. If managed properly, a CUSO can help a credit union provide more products and services to its members, better manage its operations and expand or enhance its revenue streams.

While CUSOs certainly bring a number of benefits to the system, they also have potential risks that can affect the financial well-being of a credit union and potentially the health of the Share Insurance Fund. To address this risk, the NCUA Board approved a final rule in November 2013 that went into effect in 2014. The rule helps NCUA get a better understanding of potential CUSO risks.

Provisions of the rule include an extension, for consistency, of the CUSO rule to all federally insured credit unions. Under the rule, CUSOs must also agree to:

- Prepare quarterly financial statements;
- Account for transactions in accordance with generally accepted accounting principles; and
- Obtain an annual financial statement audit by a licensed certified public accountant.

To ensure this financial reporting, the rule required credit unions to update their written CUSO agreements to include these requirements by June 30, 2014.

The rule has other provisions to ensure better reporting of CUSO activities, including:

- A requirement that CUSOs must agree to report information directly to NCUA and to the state regulator, as applicable. CUSOs that offer complex or high-risk services—like credit and lending; information technology; as well as custody, safekeeping and investment management—must report more detailed information, including financial statements and general customer information.
- Any subsidiary in which a CUSO has an ownership interest will be subject to the rule if the subsidiary is primarily engaged in providing products and services to credit unions and their members.
- A requirement that a federally insured, state-chartered credit union that is or would be rendered less than adequately capitalized by an additional investment in a CUSO must obtain approval from its state regulator and notify the appropriate NCUA regional director prior to making the investment.

The rule also provided a measure of regulatory relief to credit unions by moving the reporting burden from credit unions to CUSOs with the launch of a CUSO registry that NCUA is currently developing. CUSOs will begin submitting reports in December 2015, when the registry goes live.

## REDUCING REGULATORY BURDENS

Creating a modern regulatory environment requires more than just approving new rules. It also includes updating or eliminating existing rules to provide credit unions with greater flexibility, fewer burdens or new powers, while at the same time ensuring safety and soundness. In 2014, the NCUA Board approved a number of initiatives to streamline existing regulations, provide more flexibility for credit unions to manage their operations, and reduce administrative hurdles.

### Allowing Credit Unions to Securitize Assets

Recognizing the potential for new sources of system liquidity and ways to mitigate interest rate risk, the NCUA Board in June proposed a rule that would allow qualified credit unions to securitize loans they have originated.

The rule would apply to federal credit unions, as well as to federally insured, state-chartered credit unions permitted by state law to securitize their assets. A credit union would be required to create a separate special-purpose entity to hold the assets. The credit union would also need to have appropriate risk-management controls and an independent annual audit. In addition, the credit union would need to have in place a board-approved securitization policy.

In conjunction with the proposed rule on securitization, NCUA proposed another rule providing a safe harbor for assets transferred by a federally insured credit union in connection with a securitization or loan participation. This safe harbor is essential to creating a viable market for assets securitized by credit unions and would protect investors in the unlikely event a credit union is conserved or liquidated.

NCUA is currently reviewing stakeholder comments on this proposal and expects to issue a final rule in 2015.

### Providing More Flexibility in Managing Fixed Assets

To provide credit unions with greater flexibility in managing fixed assets, the NCUA Board issued a proposed rule in July that would eliminate the current waiver requirement for federal credit unions with assets of $1 million or more.

The fixed-assets proposed rule would:

- Allow federal credit unions to exceed the 5-percent limit without prior NCUA approval, provided they do so safely and soundly by establishing and following a fixed-asset management policy and program;
- Simplify the partial occupancy requirement for premises acquired for future expansion; and
- Eliminate or streamline certain aspects of the fixed-asset waiver requirements.

Eliminating the waiver provision would also provide credit unions with more flexibility in their

Jacksonville, Fla. – National Training Specialist Clarence Jones leads a seminer during NCUA's National Training Conference. Held once every two years, this training conference brings all of NCUA's staff together to learn the latest examination techniques to help NCUA continue its mission of ensuring the safety and soundness of the credit union system.

decision-making, such as updating their information technology, modifying facilities or making other purchases that have no material effect on safety and soundness. More than 3,500 federal credit unions would see some regulatory relief under this proposal.

After reviewing the comments, the NCUA Board issued a revised proposed rule on fixed assets during the first quarter of 2015. The Board anticipates completing action on the rule during the second half of 2015.

## Streamlining Regulations and Helping Homeowners

Homeowners who are underwater in their mortgages through no fault of their own received a measure of regulatory relief when the NCUA Board in December approved a new rule providing appraisal exemptions for certain loan modifications and refinancings.

Under the final rule, federally insured credit unions can modify or refinance a real estate loan without a new appraisal if new monies are not being advanced or if there is a new advance with adequate collateral protection. The rule also eliminated a duplicative regulatory requirement that federal credit unions provide members copies of appraisals for loans secured by a first lien on a dwelling.

This new exemption will keep more members in their homes, cut unnecessary paperwork and encourage credit unions to modify mortgages in markets where home values have fallen.

## Reducing Administrative Burdens for Voluntary Liquidations

The NCUA Board approved an update of the rules governing the liquidation of solvent federal credit unions in June. This was the first update of these rules in nearly 20 years. While the rule does not encourage credit unions to liquidate on their own, it does reduce the administrative hurdles for those that decide to take this step.

Specifically, the rule:

- Increases asset-size thresholds for certain procedural requirements in a voluntary liquidation;
- Gives credit unions greater flexibility to use electronic means to publish creditor notices and issue member share payouts; and
- Provides that preliminary distributions to members are permitted up to the insured limit applicable to each member's account.

The rule became effective in July.

## Increasing Clarity and Flexibility with Associational Common Bond Rules

The NCUA Board also proposed a rule in April that would provide federal credit unions with greater clarity on what groups or associations could potentially qualify for membership.

NCUA proposed this rule after several federal credit unions with associational groups were advertising that membership was open to anyone. Without additional qualifying language, these descriptions could be inaccurate or deceptive.

The proposed rule would:

- Establish a threshold requirement that an

association can not be formed primarily for expanding the federal credit union's membership;
- Expand the criteria of the totality-of-circumstances test, which determines if an association satisfies the associational common bond requirements and qualifies for inclusion in the federal credit union's field of membership; and
- Grant automatic qualification under the associational common bond rules to certain categories of groups NCUA has approved in the past, like scouting groups, labor unions, electrical cooperatives, churches, ethnic organizations, and homeowner and alumni associations.

The NCUA Board finalized the rule in the first half of 2015.

### Providing Credit Unions an Opportunity to Suggest Improvements

In addition to NCUA's long-standing policy of reviewing its own rules and regulations every three years, NCUA once again voluntarily agreed to participate in the review process required by the Economic Growth and Regulatory Paperwork Reduction Act.

The law requires the Federal Financial Institutions Examination Council and its member federal banking agencies to review their regulations at least once every 10 years to identify any rules that might be outdated, unnecessary or unduly burdensome. NCUA is not required to participate, but the agency elected to do so.

Under the EGRPRA review, each agency issues several categories of rules for public comment at regular intervals over two years, with an eye toward streamlining, modernizing or even repealing regulations when appropriate. NCUA issued the first two groups of rules for review in May and December. Through this process, credit unions and other system stakeholders were able to provide comments on 50 NCUA rules and regulations as well as other regulations that apply to credit unions, such as the Bank Secrecy Act and consumer protection laws.

The comments received will be evaluated by the appropriate agencies and will be considered in any future rule changes.

## ENSURING SAFETY AND SOUNDNESS

NCUA's primary mission is to ensure that our nation's cooperative credit union system remains safe and sound in both good times and bad. To accomplish this mission, we use a targeted examination program focused on risks to the overall system and the Share Insurance Fund.

### Focusing on Emerging Risks

NCUA works to ensure that credit unions identify and mitigate forward-looking risks before they threaten the viability of the credit union and potentially the broader credit union system. To achieve this goal, NCUA's 2014 supervision priorities included:

- **Interest Rate Risk** — Field staff evaluated if credit unions were making the necessary adjustments to account for a potentially volatile and rising rate environment.
- **Cybersecurity Threats** — NCUA assessed if credit unions implemented the appropriate risk-mitigation controls, including due diligence of vendors, strong password processes, proper patch management and network monitoring to better prevent, detect and recover from cyber-attacks.
- **Money Services Businesses** — Field staff evaluated credit unions' relationships with money services businesses to ensure they complied with the Bank Secrecy Act's requirements.
- **Private Student Lending** — NCUA reviewed credit union policies on student lending, controls and third-party due diligence.
- **Loan Participation** — Field staff examined credit unions for compliance with key provisions of the loan participation rule approved in 2013.
- **Ability-to-Repay and Qualified Mortgage Standards** — Because these rules were relatively new in 2014, field staff took into account a credit union's good-faith efforts to comply.
- **Credit Union Service Organizations Rule** — During the second half of the year, field staff verified that all credit unions updated their contracts to meet the requirements of the CUSO rule that went into effect at the end of June 2014.

### Tailoring Examinations

Since 2002, NCUA has followed a risk-focused exam program. This approach efficiently allocates agency resources to credit unions and areas of operations exhibiting the greatest potential risk exposure to the Share Insurance Fund. The program relies on examiner judgment to determine the areas needing review.

Today, NCUA's supervision program requires annual examinations of all federal credit unions and all federally insured, state-chartered credit unions with $250 million or more in assets. In 2014, NCUA's regional examination staff completed 11,106 supervisory contacts and reported 708,885 examination hours.

In recent years, NCUA has moved to concentrate supervision on credit union activities posing the most risk. Throughout 2014, NCUA therefore continued to streamline exams for small credit unions. During the year, NCUA pilot-tested new procedures for the Small Credit Union Examination Program in selected credit unions that had $30 million or less in total assets and a CAMEL rating of 1, 2 or 3. These types of exams focused on the pertinent areas of risk for small credit unions—namely lending, recordkeeping and internal controls—and typically required less time to complete than other examinations.

In 2014, NCUA's Office of National Examinations and Supervision also began supervising consumer credit unions of $10 billion or more in assets. Created in 2012, the office oversees both these large institutions and corporate credit unions. This office allows NCUA to efficiently deploy its resources to monitor those institutions that can potentially, by their sheer size, pose the greatest risks to the Share Insurance Fund and the broader credit union system.

## Advancing Cybersecurity Preparedness

In conjunction with the Federal Financial Institutions Examination Council, NCUA conducted a pilot cybersecurity risk assessment at more than 500 financial institutions in 2014 to determine the potential vulnerabilities of the financial system. These assessments found financial institutions face a variety of risks from cyber-attacks including operational, liquidity and capital risks, as well as the potential for fraud losses.

The assessment recommended that financial institutions of all sizes participate in information sharing forums like the Financial Services Information Sharing and Analysis Center. This information sharing forum will help all financial institutions improve their ability to identify attack tactics and successfully mitigate cyber-attacks on their systems.

The council and its members are now analyzing the assessment's findings to develop appropriate policies and other supervisory guidance to improve the financial services sector's ability to withstand cyber-attacks.

Additionally, NCUA is committed to ensuring the credit union system is prepared for a range of cybersecurity threats. In 2014, NCUA posted an online Cybersecurity Resources Page. This resource center provides credit unions with a one-stop place to find consolidated and comprehensive information about NCUA's and other agencies' alerts, supervisory guidance and best practices for creating a secured information technology environment.

Finally, the agency continues to work on developing protocols to receive and share information with credit unions and our state regulatory partners.

## Reducing the Amount of Troubled Assets

A key indicator of the positive performance of the nation's credit unions is the continued improvement of the system's aggregate CAMEL ratings.

NCUA's composite CAMEL rating consists of an assessment of a credit union's capital adequacy, asset quality, management, earnings and liquidity. The CAMEL rating system is designed to take into account and reflect all significant financial, operational and management factors examiners assess in their evaluation of a credit union's performance and risk profile.

CAMEL ratings range from 1 to 5, with 1 being the best rating. Credit unions with a composite CAMEL code rating of 3 exhibit some degree of supervisory concern in one or more of the component areas. CAMEL code 4 credit unions generally exhibit unsafe and unsound practices, and CAMEL code 5 institutions demonstrate extremely unsafe or unsound practices and conditions. NCUA collectively refers to CAMEL code 4 and 5 credit unions as "troubled credit unions."

At the end of 2014, assets in CAMEL code 3, 4 and 5 rated credit unions dropped to $109.6 billion, compared to $122.4 billion at the end of 2013. The number of troubled credit unions also declined to 276 at the end of 2014, down 10.1 percent for the year. In all, 4.4 percent of all federally insured credit unions were troubled in 2014, compared to 4.7 percent in 2013. At the end of 2014, troubled credit unions held just 1 percent of the system's assets.

## Maintaining a Healthy Share Insurance Fund

The Share Insurance Fund ended 2014 in a strong financial position because of fewer losses, continued portfolio improvement, sound management practices and a decline in the number of troubled credit unions, among other factors.

The Share Insurance Fund had an equity ratio of 1.29 percent on an insured base of $903 billion at year's end. In comparison, the equity ratio was 1.30 percent on an insured base of $866.3 billion a year earlier.

The Federal Credit Union Act requires NCUA to transfer from the Share Insurance Fund any equity above the normal operating level of 1.30 at the end of each year as long as the Temporary Corporate Credit Union Stabilization Fund has an outstanding balance with the U.S. Treasury. Because the Share Insurance Fund ended the year with an equity ratio of 1.29, NCUA did not make any transfers to the Stabilization Fund in 2014.

However, because of the Share Insurance Fund's continued strong performance, the NCUA Board did

Alexandria, Va. – In February, NCUA Board Chairman Debbie Matz and Consumer Financial Protection Bureau Director Richard Cordray answer questions from credit union stakeholders about consumer protection issues.

not charge credit unions a premium in 2014.

## Protecting Member Deposits

During 2014, member deposits at federally insured credit unions were again protected up to $250,000 by the Share Insurance Fund. As a result, the members of the 15 credit unions that failed and the one that voluntarily liquidated in 2014 suffered no losses on their insured deposits. All verified shares were paid out within five days of a credit union's closure.

Collectively, these 15 failures cost the Share Insurance Fund $40.4 million, a decrease of 39.5 percent from $66.8 million the previous year. Of the credit unions that failed, five went through assisted mergers. Fraud was a contributing factor in seven of these credit union failures in 2014, costing the Share Insurance Fund $36.5 million.

Of the 2014 failures, NCUA's Asset Management and Assistance Center kept $75 million in assets to manage, as compared to $107 million in 2013. As in previous years, the center managed a greater amount of complex assets, which were primarily loans. Gross assets managed were $928 million at the end of 2014, down from $993 million at the end of 2013.

## Reducing Potential Losses through Conservatorship

During 2014, NCUA continued operating three credit unions in conservatorship: Texans Credit Union, AEA Federal Credit Union and Keys Federal Credit Union. NCUA uses conservatorship to prevent or minimize potential losses to the Share Insurance Fund and ensure uninterrupted service. While still undercapitalized, all three credit unions achieved rising net worth ratios in 2014.

For the year, Texans posted net income of $21.7 million and marked 36 consecutive months of positive earnings. The credit union's consumer and real estate loan portfolios grew by more than $31 million and $27 million, respectively. Total assets at the end of the year stood at more than $1.4 billion. Texans' net worth ratio at year's end was 4.49 percent.

AEA had a net income of $3.8 million for 2014. Total assets at the end of the fourth quarter stood at $238 million, and the net worth ratio improved by 51 basis points from 2013, to 5.23 percent in 2014. Loans grew by $9.5 million compared to 2013, with auto lending contributing to the majority of the increase.

Keys posted a net income of $1.2 million. The 2014 annual net income was nearly four times the $307,672 net income recorded in 2013. Total assets at the end of the fourth quarter were $117.7 million, a slight decline from $120.5 million a year earlier. For the year, the net worth ratio improved by 114 basis points to 5.21 percent. Total loans grew by $4 million in 2014, with the majority of the increase due to more auto lending.

## Strengthening Emergency Liquidity

By the end of 2014, covered federally insured credit unions were able to meet NCUA's new requirements for contingency funding. The NCUA Board approved the Liquidity and Contingency Funding Rule in 2013 requiring all federally insured credit unions to plan and make arrangements for a formal liquidity policy and plan.

The rule also ensured that all larger

credit unions establish access to a federal source of liquidity: the Federal Reserve's Discount Window, NCUA's Central Liquidity Facility or both. By the end of March 2014, all federally insured credit unions over $250 million had relationships with at least one federal liquidity source. By December, all had completed a test run with each facility.

This rule also reinforced the Central Liquidity Facility as a backstop for the credit union system. Members of the facility increased from 158 credit unions at the end of 2013 to 248 credit unions by the end of 2014, an increase of 57 percent. With the increase in members came an increase in the amount of funds the facility could lend. For the year, the Central Liquidity Facility's borrowing authority increased by $2.2 billion to $5.1 billion.

In addition, the number of federally insured credit unions that had arrangements with the Federal Reserve's Discount Window also increased, from 483 in 2013 to 663 by the end of 2014.

These relationships with the Discount Window and the increased borrowing authority of the Central Liquidity Facility have enhanced the ability of the credit union system to withstand future liquidity events.

### Reducing the Number of Late Filers

In 2014, NCUA began assessing civil money penalties against credit unions that failed to file Call Reports on time. The agency imposed these penalties solely to deter late filing. All funds collected were remitted to the U.S. Treasury and were not retained by the agency.

Before instituting these penalties, more than 1,000 federally insured credit unions of all asset sizes filed their Call Reports after the deadline. Many of these credit unions were chronically late.

The late filing of this critical regulatory information affected NCUA's ability to conduct effective off-site supervision and delayed the release of system-wide quarterly data to the public. It was also a drain on NCUA resources, as field examiners had to follow up with tardy credit unions.

In March 2014, NCUA for the first time imposed civil money penalties on credit unions that missed the Call Report deadline. In calendar year 2014, NCUA assessed more than 150 credit unions $101,331 in penalties.

Hard enforcement of the filing deadline has dramatically reduced the number of late filers. In the four quarters prior to imposing the penalties, 3,076 credit unions missed the Call Report deadline. In the four quarters after penalties were enforced, only 282 credit unions filed late.

## RESOLVING THE CORPORATE CRISIS

Throughout 2014, NCUA continued its efforts to minimize the costs to the system from the failure of five large corporate credit unions in 2009 and 2010. We also continued to implement a series of initiatives to ensure the corporate credit union system is on a path to a strong and sustainable future.

### Improving Performance of the Stabilization Fund

NCUA is responsible for managing the Temporary Corporate Credit Union Stabilization Fund. Created by Congress, the Stabilization Fund assumed the losses associated with the failure of U.S. Central, WesCorp, Members United, Southwest and Constitution. This fund has allowed the credit union system to absorb these losses over time.

Effective management of the Stabilization Fund is a top priority for the agency. In 2014, the net position of the Stabilization Fund increased by $380.7 million to a positive $238.5 million. The change resulted from improvements in projected cash flows relating to the legacy assets of the NCUA Guaranteed Notes. The amount of borrowings outstanding with the Treasury was $2.6 billion at the end of the year.

The Stabilization Fund also received a clean audit for 2014. NCUA posted this audit on the agency's website at http://go.usa.gov/3j7XF.

Because of improvements in the economy and the performance of the Stabilization Fund's assets, as well as NCUA's management of the fund and recoveries through legal action, federally insured credit unions were not charged a Stabilization Fund assessment in 2014.

NCUA also announced in 2014 that it does not expect to charge credit unions any future Stabilization Fund assessments should the current projections hold. However, NCUA's projections are only estimates and future changes in the economy or the performance of legacy assets could lead NCUA to reassess this situation.

### Improving Legacy Asset Performance

Under the Corporate Resolution Plan, NCUA created a re-securitization program to provide long-term funding for the legacy assets from the five failed corporate credit unions through the issuance of NCUA Guaranteed Notes, or NGNs.

The legacy assets consist of more than 2,000 investment securities secured by approximately 1.6 million residential mortgages, commercial mortgages, student loans and other securitized assets. The NGN program is designed to minimize losses of the corporate credit union system on federally insured credit unions. The NGNs are backed by the full faith and credit of the United States.

The outstanding balance of the NGNs at the end of 2014 was $17.2 billion and the outstanding balance of the legacy assets was $21 billion, down from $23.9 billion at the end of 2013. The decline was due primarily to principal repayments and realized losses.

### Continuing Legal Accountability Efforts

NCUA continued in 2014 to hold accountable those parties that contributed to the corporate credit union crisis.

By the end of the year, NCUA had filed three new lawsuits against Deutsche Bank, Wells Fargo, U.S. Bank and Bank of America alleging the banks violated state and federal laws by failing to fulfill their duties as trustees for residential mortgage-backed securities trusts sold to the failed corporates in the years prior to the financial crisis.

At year's end, NCUA had 15 lawsuits still pending against banks and other Wall Street investment firms alleging these institutions sold faulty mortgage-backed securities or violated federal and state anti-trust laws through their manipulation of the interest rates in the London Interbank Offered Rate system or LIBOR.

Since 2011, NCUA has recovered more than $1.75 billion from legal settlements. NCUA has used the net settlement proceeds to repay the Stabilization Fund's outstanding borrowings from the U.S. Treasury, decreasing the amount that federally insured credit unions will ultimately need to pay to resolve the corporate crisis.

### Strengthening the Corporate Credit Union System

NCUA took additional steps to improve oversight of corporate credit unions in 2014.

The NCUA Board in October issued a proposed rule to implement a number of technical changes to the agency's corporate credit union rule and offer some regulatory relief. These provisions include allowing corporate credit unions to continue counting retained earnings acquired in mergers, which will remove a significant accounting hurdle and reduce future risks to the Share Insurance Fund.

The NCUA Board approved a final rule in April 2015.

## HELPING CREDIT UNIONS TO THRIVE

Our nation's small and low-income designated credit unions play a critical role in providing affordable financial services to millions of Americans. Often these credit unions are the only federally insured financial institutions in underserved communities. Yet these credit unions face a number of challenges, including competitive pressures, declining membership and slow earnings growth. Throughout 2014, NCUA took a number of actions to support these vital institutions, helping to ensure that viable small and low-income credit unions are able to survive into the future.

### Growing the Number of Low-Income Credit Unions

Low-income credit unions excel at providing affordable financial services in underserved communities. To qualify as a low-income credit union, a majority of the credit union's membership must meet certain low-income thresholds, based on data from the Census Bureau.

To expand the number of low-income credit unions, NCUA announced in 2012 an initiative to streamline the application process through which federal credit unions secure a low-income designation. Following an agreement with the National Association of State Credit Union Supervisors in 2013, NCUA expanded the initiative to include federally insured, state-chartered credit unions.

The low-income designation offers several benefits to credit unions, including:

- An exemption from the statutory cap on member business lending, which expands access to capital for small businesses and helps credit unions to diversify portfolios;
- Eligibility for grants and low-interest loans from the Community Development Revolving Loan Fund;
- Ability to accept non-members deposits from any source;
- An authorization to obtain supplemental capital; and
- Qualifying for consulting assistance from NCUA's Office of Small Credit Union Initiatives.

By the end of 2014, one in three federally insured credit unions had the low-income designation and one in four credit union members belonged to a low-income credit union. These institutions ranged in size from very small credit unions to credit unions with more than $1 billion in assets.

In all, there were 2,134 low-income credit unions at year's end, up from 1,996 at the end of 2013. These credit unions had 25.4 million members and more than $237 billion in assets.

### Helping Small Credit Unions Survive and Thrive

In 2014, the Economic Development Specialists in NCUA's Office of Small Credit Union Initiatives again provided consulting and training services to help new, small and low-income credit unions as well as minority depository institutions remain viable, become more efficient and provide new and better services to their members.

In 2014, 389 credit unions

participated in NCUA's customized consulting program. These credit unions received more than 13,181 hours of free assistance on business needs like net worth restoration plans, marketing, new product development, budgeting and strategic planning.

In addition, NCUA's Office of Small Credit Union Initiatives worked with a number of government and industry stakeholders to develop timely and relevant training workshops, webinars and videos for credit union industry staff, boards and management. More than 45,000 participants took part in NCUA-sponsored training programs in 2014.

In addition to these training programs, the agency expanded its FAQ+ online resource. Since FAQ+ debuted in 2013, NCUA has added more than 232 questions and answers on a range of supervisory and regulatory topics, including the benefits of the low-income designation, complying with the Bank Secrecy Act, fair lending requirements, NCUA's rules and the agency's examination program.

## Creating Opportunities through Grants and Loans

NCUA's Office of Small Credit Union Initiatives administers the Community Development Revolving Loan Fund. Created by Congress, this fund provides grants and low-interest loans to credit unions serving low-income communities.

In 2014, NCUA awarded more than $1.5 million in grants to 276 low-income designated credit unions. Sixty percent, or 170 credit unions, were first-time awardees. Credit unions used these funds to:

- Develop new products and services for low-income, underbanked and unbanked consumers;
- Improve staff and manager training;
- Provide for student internships; and
- Receive a Community Development Financial Institutions certification.

Because of these grants, NCUA estimates that more than three million credit union members will benefit from better service, more product options and stronger credit unions in their communities.

In 2014, NCUA provided nine credit unions with Urgent Needs Grants to help them remain in operation and viable following an emergency or a disruption in their normal operations. NCUA also provided credit unions with urgent needs funding to purchase computers to ensure that all credit unions are able to file their Call Reports electronically or to relocate from a home to a commercial space. In total, NCUA provided $43,963 in Urgent Needs Grants in 2014.

Finally, NCUA approved 12 loan applications for more than $5 million in 2014. At the end of the year, the Revolving Loan Fund had more than $8 million in loans outstanding. Credit unions are using these low-interest loans to expand member services, fund loan demand, open new locations and provide affordable alternatives to predatory payday loans.

## Helping Credit Unions Assess Their Fields of Membership

A strong membership base is critical for a strong and healthy credit union. To help credit unions assess how to grow their fields of membership, NCUA's Office of Consumer Protection hosted a

Wausau, Wisc. – Chairman Matz meets with more than 70 credit union officials during a town-hall meeting hosted by Congressman Sean Duffy of Wisconsin.

webinar and developed a video outlining how credit unions can expand their field of membership strategically. Also released in 2014, the *Strive to Thrive* video details the expansion and conversion opportunities available for each field of membership type. This webinar and video have together reached more than 2,000 stakeholders to educate them about these important issues.

### Preserving Minority Depository Institutions

The Dodd-Frank Wall Street Reform and Consumer Protection Act charged NCUA with designing and implementing a program to preserve minority depository institutions. These credit unions play an important role in serving the financial needs of historically underserved populations such as African Americans, Hispanic Americans and Asian Americans.

At the end of 2014, 670 federally insured credit unions had self-certified as minority depository institutions. In total, these credit unions served 4.5 million members and held $37 billion in assets.

As a group, minority depository institutions were also smaller than most federally insured credit unions, creating challenges for their preservation, as smaller institutions have fewer economies of scale. In 2014, NCUA's Office of Minority and Women Inclusion, in partnership with the Office of Consumer Protection, Office of Small Credit Union Initiatives and our regional examination staff, took several actions to assist and preserve minority depository institutions, including:

- Offering technical assistance, training, educational programs, videos, webinars, publications and other educational tools;
- Providing assistance and guidance on examination and compliance issues;
- Facilitating mentor relationships between credit unions;
- Assisting in locating new sponsors for field of membership expansions;
- Negotiating financial support to sustain minority depository institutions;
- Delivering guidance to groups establishing new minority depository institutions; and
- Approving new credit union charters, community charter conversions and low-income designations to increase the capabilities of minority depository institutions.

## PROTECTING, EXPANDING ACCESS AND EDUCATING CONSUMERS

Throughout 2014, NCUA continued to provide consumers important personal finance and consumer protection information. As part of our chartering and field of membership responsibilities, we also worked to expand access to affordable financial services for all Americans. Each of these actions helped the agency fulfill its vision of "...protect[ing] consumer rights and member deposits."

### Addressing Consumer Compliance and Fair Lending

In 2014, NCUA's Division of Consumer Compliance Policy and Outreach spent 3,831 hours examining 25 credit unions for fair lending compliance. NCUA staff spent an additional 1,151 hours performing 50 off-site supervision contacts to review credit unions' fair lending policies and, if necessary, provide recommendations to bring them into compliance.

Also in 2014, NCUA developed a Consumer Compliance Regulatory Resources webpage to provide credit unions a single source for compliance and regulatory information on consumer protection issues. The site features supervisory guidance, webinars, videos and other quick reference guides, as well as useful resources from other regulators.

To further educate credit unions about their consumer protection responsibilities, NCUA issued Regulatory Alerts and Letters to Credit Unions. We also published articles in our monthly newsletter on such topics as the Consumer Financial Protection Bureau's new mortgage lending rules, fair lending, and unfair and deceptive acts and practices.

### Resolving Consumer Complaints Quickly

Throughout the year, NCUA continued to improve its processes to appropriately handle an increasing number of consumer complaints received by the Consumer Assistance Center.

In 2014, the center handled 8,043 complaints and inquiries and 16,404 telephone calls. Of the 6,526 cases investigated—an increase of 232 percent from 2,806 cases investigated in 2013—the center obtained $740,458 in monetary benefits for complainants. Because of the increased volume of calls, the average complaint processing and resolution time increased from 45 days in 2013 to 50 days in 2014.

### Protecting Senior Citizens

Protecting seniors and their livelihood is an important mission for NCUA. To increase awareness of scams and other abuses affecting this population, NCUA created two videos in 2014 designed to help consumers and credit union staff to recognize and prevent fraud.

The first, *Scams Targeting Seniors*, is a dramatization of how an unwary consumer could become the victim of a typical scam. The video offers advice to credit union members who suspect they may have been targeted. The second, *Reporting Elder Financial Abuse or Exploitation*, explains to credit union managers and staff how to spot, prevent and report cases of financial abuse.

Also in 2014, NCUA and AARP agreed to work together on a series of educational initiatives during the next two years. The memorandum of understanding calls for cooperation on subjects like consumer-friendly financial services, anti-fraud efforts, entrepreneurship and financial literacy, among others. Activities will include the sharing of financial education tools and resources, cohosting in-person and online events and participating in working groups with one another and with other organizations.

The first initiative under this partnership was NCUA's participation at AARP's Ideas@50+ National Event in San Diego. NCUA staff provided informational material to hundreds in attendance on such topics as credit union services, share insurance coverage, elder financial abuse and the agency's many financial literacy resources available on MyCreditUnion.gov.

## Expanding Share Insurance Coverage

In December, the Credit Union Share Insurance Fund Parity Act became law. This new statute ensures that NCUA and the Federal Deposit Insurance Corporation insure lawyers' trust accounts and other similar escrow accounts in an equivalent manner.

Previously, NCUA's insurance coverage was limited only to those clients of the attorney who were also members of the insured credit union where the lawyer established the account. Now, only the person administering the escrow account must be a member of the federally insured credit union in which such account is maintained for share insurance coverage to flow through to each client or principal, regardless of that person's membership status.

The law became effective for lawyers' trust accounts upon enactment.

NCUA will work in 2015 to provide greater clarity and regulatory certainty around broad categories of other escrow accounts that would receive pass-through share insurance coverage. These regulatory changes will further increase the competitiveness of federally insured credit unions.

## Chartering New Credit Unions

NCUA approved the charters of three new federal credit unions in 2014.

The first was CommunityWorks, which will serve people who live, work, worship or attend school in South Carolina's Greenville County, as well as businesses and other legal entities in the county. The credit union's potential field of membership is nearly 475,000 people. Along with approving the charter, NCUA granted the credit union a low-income designation.

The second charter was First Unity Federal Credit Union which plans to serve three rural counties in southwestern Mississippi. These counties had a population of 68,978 in the 2010 census. Because its field of membership meets the criteria, NCUA also granted the credit union a low-income designation. First Unity additionally plans to apply for certification in the U.S. Department of the Treasury's Community Development Financial Institution program, giving the credit union access to ongoing grant funding opportunities to support its long-term plans.

The third federal credit union chartered in 2014 was Lutheran Federal Credit Union, which will serve employees, active members and volunteers of the Lutheran Church—Missouri Synod and its affiliated districts, member congregations, seminaries and other closely aligned entities. The credit union was the first new federal charter in Missouri since 2005.

Finally, in 2014 NCUA revised its guidelines for starting a federal credit union, providing interested groups a detailed roadmap through the chartering process. The updated Charter Application Guide includes frequently asked questions about the amount of time required to obtain a charter, the amount of start-up capital necessary and the availability of consulting services from NCUA's Office of Small Credit Union Initiatives.

## Increasing Access to Credit Unions

In 2014, we continued our efforts to expand access to credit unions. NCUA's Underserved Area Initiative allows people of all backgrounds and income levels, especially those of modest means, to experience the benefits of federally insured credit union products and services.

Throughout 2014, credit unions used a variety of strategies to increase the availability of reliable financial services to more Americans. Multiple common-bond credit unions collectively added 7,536 groups to their fields of membership. Twenty-two federal credit unions became community charters, and 20 existing community charters expanded their boundaries.

## Maintaining the Interest Rate Cap

In the beginning of 2014, the NCUA Board approved the extension of the interest-rate cap of 18 percent for most loan products at federal credit unions until September 10, 2015. The current 18 percent ceiling has remained in place since May 1987.

The Federal Credit Union Act caps

the interest rate on most credit unions at 15 percent, but the NCUA Board has the discretion to raise the ceiling for an 18-month period. Under the agency's Payday Alternative Loans rule, federal credit unions may also charge up to 28 percent on short-term loans meeting certain conditions.

The Board continues to monitor market rates and credit union financial conditions to determine if any change to the maximum loan rate should be made. The Board will next consider the interest rate cap in the summer of 2015, but it may take action sooner than 18 months if circumstances warrant.

## Promoting Financial Literacy

Consumers who have a strong foundation of personal finance knowledge are essential to a healthy economy and the credit union system. Smarter consumers can make better choices.

NCUA plays an important role in advancing financial literacy. In 2014, NCUA continued to expand the number of personal finance materials available to credit unions and their members. In conjunction with the anniversary of the Federal Credit Union Act, NCUA released the *80 Years of Federal Credit Unions* video educating consumers about the unique features and the financial benefits of joining a credit union—especially the unique mission of credit unions to promote thrift.

During Financial Capability Month, NCUA's Office of Consumer Protection also hosted a financial literacy webinar entitled "Financial Literacy: Putting Your Mission into Action." The webinar provided credit unions with information on the financial literacy resources available at NCUA, other federal agencies and non-profit groups. More than 600 participants took part in the webinar.

NCUA also used social media to promote financial literacy throughout the year. Notably, NCUA hosted its first Twitter chats during Military and America Saves Week and National Financial Capability Month. During these chats, credit unions and other stakeholders shared their financial literacy and outreach best practices and answered questions from individuals and other organizations. These Twitter chats reached nearly 318,000 Twitter users, based on a measurement of social media impressions and followings.

In addition, NCUA's staff took part in more than 60 financial literacy events and meetings during 2014. Through these appearances, NCUA increased awareness of the importance of financial literacy and NCUA's financial education programs and resources.

NCUA also had considerable success in 2014 with its online consumer protection and financial literacy resources. NCUA's consumer website, MyCreditUnion.gov and its financial literacy microsite, Pocket Cents, had 564,970 visits in 2014, up from 332,596 in 2013. The increase in visits resulted from new content as well as the agency's own outreach. Mobile visits to these sites increased 59 percent in 2014 and accounted for 40 percent of all web traffic.

NCUA's interactive personal finance game, *Hit the Road*, continued to gain visibility in 2014. The Jump$tart Coalition added the game to its Personal Financial Literacy Clearinghouse, a leading online library of financial education resources for educators, parents

Washington, D.C. – Financial Literacy and Outreach Analyst Ken Worthey (left) meets with staff on Capitol Hill to discuss financial literacy and consumer protection issues during National Consumer Protection Week's congressional fair.

and caregivers, among others. The Department of Education also featured the game on its website.

Finally, NCUA supported the efforts of the nation's financial services regulators to increase financial literacy awareness. Our Office of Consumer Protection continued to take an active role in the U.S. Treasury Department's Financial Literacy and Education Commission. NCUA staff attended all public gatherings and contributed to the commission's work on all of its committees.

## PROMOTING TRANSPARENCY AND PARTNERSHIPS

NCUA is committed to being as transparent as possible about its budget, operations and policy. This openness is essential to fulfilling NCUA's statutory mission and maintaining public trust.

### Listening to Stakeholder Concerns

Listening to the views and concerns of stakeholders is fundamental to NCUA's transparency efforts. Throughout 2014, NCUA Board members, senior staff and experts regularly spoke to a variety of audiences answering their questions, explaining policies and listening to the ideas and concerns of credit union management, boards, volunteers and members.

During the summer of 2014, NCUA Board members and senior staff attended three Listening Sessions in Los Angeles, Chicago and Alexandria, Virginia. As noted earlier, these events obtained feedback about NCUA's proposed rule on risk-based capital. They also resulted in thoughtful conversations about the agency's policies, regulatory burden and ways to improve the examination process. This engagement with the industry has influenced NCUA's policy decisions, especially in reshaping the risk-based capital proposal.

In addition to the Listening Sessions, NCUA regularly used webinars as venues for policymakers and stakeholders to have meaningful conversations and to educate credit union professionals. In February, for example, Chairman Matz and Consumer Financial Protection Bureau Director Cordray briefed participants on several initiatives coming from the two agencies and answered dozens of questions. NCUA also cohosted webinars with other agencies on anti-money laundering rules and fair lending regulations. In all, NCUA worked to produce 15 webinars in 2014.

### Promoting Transparency in the Budgeting Process

In 2014, NCUA expanded the amount of publicly available information and data on the agency's budget process. NCUA added several fact sheets to its website, including detailed information on the overall budget, individual office budgets and outside contracts. The agency also posted frequently asked questions about the budgeting process and provided detailed cost breakdowns.

### Developing Online Resource Centers for Credit Unions

Credit unions have to comply not only with NCUA's rules, but also the regulations of several different agencies. To help credit unions more easily find the compliance information they need, NCUA created on its public website regulatory resource centers on such topics as interest rate risk, cybersecurity and fair lending compliance. These webpages feature links to NCUA and external resources, articles, webinars, training videos and examples of industry best practices.

### Expanding NCUA's Communications Products

In 2014, NCUA continued improving and expanding its print, online and social media communications.

Credit unions increasingly turned to NCUA's YouTube Channel for information during the year. In all, NCUA-produced videos were viewed 66,318 times in 2014, nearly doubling the 33,360 views in 2013. The six-part series on deterring and detecting employee fraud, developed through a partnership with NCUA's Office of Small Credit Union Initiatives and CUNA Mutual Group, was particularly well-received.

NCUA's Office of the Chief Economist continued to produce regular economic updates. These videos provided credit union managers, loan officers and boards with up-to-date insights and analyses of broader economic trends and how those trends could potentially affect a credit union's bottom line.

NCUA's free monthly newsletter, *The NCUA Report*, continued serving as the agency's primary communications vehicle. In addition to the nearly 9,000 print subscribers, the online version of the newsletter averaged more than 21,000 page views each month and nearly 260,000 page views for the full year.

In each issue, credit union managers, boards and volunteers can learn more about NCUA's policy initiatives and gain insight into emerging risks, consumer protection regulations and economic trends. The newsletter also featured columns by NCUA Board members, Small Business Administration Administrator Maria Contreras-Sweet and CFPB Director Richard Cordray in 2014.

NCUA continued its outreach on social media in 2014. For the year, the agency's social media sites had nearly 11,000 retweets, stories and mentions. NCUA's social content was viewed by more than 12 million users while 6,300 users interacted with the agency's social media sites daily.

NCUA's consumer Twitter feed @MyCU.gov ended 2014 with 1,425 followers. NCUA's LinkedIn account, launched in February 2013, continues to perform well ending 2014 with 4,944 followers. The agency's Facebook page and Twitter accounts also improved, increasing 41.1 percent and 38 percent for the year, respectively.

Finally, online traffic to NCUA's public website remained steady in 2014. NCUA.gov features detailed information about the agency, our initiatives and credit union regulations. In all, the website had approximately 2.8 million visits during the year. In 2015, NCUA will work to move the website over to a mobile-friendly platform to increase access to information about the agency.

### Partnering with Stakeholders and Other Agencies

In addition to the agency's participation on the Financial Literacy and Education Commission and partnership with AARP, NCUA continued to build relationships and coordinate with other state and federal regulators on important policy issues.

In 2014, Chairman Matz again represented NCUA as one of 10 voting members on the Financial Stability Oversight Council. Created by the Dodd-Frank Act, the council is charged with identifying risks to financial stability, promoting financial market discipline and responding to emerging risks that could threaten the stability of the U.S. financial system.

Participation on the Financial Stability Oversight Council has broadened NCUA's perspective, helped the agency identify emerging risks to credit unions and improved access to critical financial and market information. It has also allowed the agency to share best practices with other federal financial services regulators.

NCUA also actively contributed to the work of the Federal Financial Institutions Examination Council. With representatives from the Consumer Financial Protection Bureau, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and the State Liaison Committee, the council establishes uniform principles, standards and report forms for the federal examination of federally insured depository institutions. The council also makes recommendations to promote uniformity in the supervision of financial institutions and conducts examiner training.

As noted earlier in the discussion on advancing cybersecurity preparedness, protecting the financial system from cyber-attacks was a key concern for the council in 2014. Other key activities included:

- Reaching out to financial institutions and encouraging them to participate in the Financial Services Information Sharing and Analysis Center, a forum to share information about potential threats to the financial system;
- Issuing guidance to financial institutions on how to address and mitigate potential vulnerability from malware, denial of service attacks and attacks on ATM and card authorization systems;
- Holding a cybersecurity webinar with approximately 5,000 chief executive officers and senior managers from community financial institutions; and
- Releasing an updated Bank Secrecy Act and Anti-Money Laundering Examination Manual.

In 2014, NCUA also laid the groundwork for a partnership with the Small Business Administration. This partnership and the initiatives the SBA and NCUA plan on carrying out have the potential to expand small business lending at credit unions. Of the 2,250 credit unions offering member business loans, only 367 have any outstanding SBA-guaranteed loans. The SBA-NCUA partnership was formalized with the signing of a memorandum of understanding at the beginning of 2015.

Finally, NCUA benefited greatly in 2014 from its partnership with the Department of Veterans Affairs. In 2013, the two agencies signed a memorandum of understanding that created more hiring opportunities at the agency through the Feds for Vets program. NCUA was the first financial services regulator to partner with the department in this initiative. The program provides access to a large, diverse group of job candidates for NCUA to consider hiring.

As a result of this agreement, the agency experienced a significant increase in veteran hiring in 2014. In all, 40 percent of the agency's new hires were veterans and 22 percent of new hires were disabled veterans.

## MAKING NCUA AN EMPLOYER OF CHOICE

The dedicated men and women who work at NCUA are the agency's most valuable asset. Throughout 2014, NCUA took steps to nurture and develop this asset to meet the future needs of the agency in an ever-changing and increasingly complex financial services marketplace.

### Maintaining a Diverse, Highly Skilled Workforce

We continued our efforts to enhance NCUA's diversity by establishing a Diversity Advisory Council in 2014. The council supports the agency's strategic goal of cultivating an environment that fosters a diverse, well-trained and motivated staff. It also serves as a resource to assist and advise decision-makers on diversity and inclusion efforts. The council's membership includes a cross section of agency employees in all areas of diversity such as race, ethnicity, gender, age, sexual orientation, experience and grade.

NCUA sought to promote diversity in other ways in 2014. For example, NCUA senior leadership and managers received diversity training. The agency also expanded its diversity outreach footprint through the use of social media recruitment tools, including a diversity recruitment video posted on YouTube. By using these platforms, the agency was able to create greater awareness of NCUA job opportunities. The agency also posted vacant positions on diversity websites in addition to the normal process of posting on the Office of Personnel Management's USAJOBS website and the agency's LinkedIn page.

Together, these efforts resulted in a greater number of minorities, women or both getting hired in 2014. In total, NCUA hired 87 people during the year. Of those 87 employees, 54 percent were minorities, women or both.

### Ranking among the Best Places to Work

NCUA has the goal of being an employer of choice, and NCUA once again remained a top performer in terms of employee satisfaction for federal agencies.

In 2014, NCUA ranked seventh out of 25 mid-sized agencies in the annual Best Places to Work rankings issued by the Partnership for Public Service. In 2013, NCUA had ranked ninth. NCUA scored very high in a number of categories including African Americans, employee skills match, performance-based rewards and advancement, veterans, training and development, teamwork, Asian Americans and employees 40 and over.

NCUA also improved its Employee Viewpoint Survey scores from 2013. NCUA was compared to 37 other departments and agencies and placed in the top eight rankings on the survey's human capital index. In three of the indices—job satisfaction, talent management and results-oriented performance culture—NCUA was ranked fourth or better. NCUA was also recognized for the second largest increase in Global Satisfaction results and for being in the top six in the new Inclusion Quotient index, which measures the levels of diversity and inclusion at an agency.

### Improving Examiner Training

An essential component of an effective workforce for NCUA involves examiner training. In 2014, NCUA held its biennial National Training Conference in Jacksonville, Florida. This two-week long event brings examiners and the agency's support staff together to learn the latest examination techniques, discuss ways to mitigate emerging risks and share insights from the field.

NCUA also reviewed portions of the examiner training program in 2014 to ensure that the content in the courses remains relevant and to identify additional areas of improvement. The findings of this analysis will serve as a baseline for any future changes to the examiner training program.

In all, NCUA conducted 50,480 hours of new examiner, core and other internal training in 2014 for 633 NCUA staff and 334 state examiners. Additionally, 197 NCUA examiners and other staff participated in training provided by the Federal Financial Institutions Examination Council.

### Fostering Collaboration and Innovation

In 2014, NCUA's Office of the Chief Information Officer carried out a number of projects to improve the agency's technology and foster workplace collaboration. During the National Training Conference, NCUA employees gained access to three new tools:

- CoLab, a collaboration platform,
- E-library, a document sharing system, and
- Community, a discussion forum for employees that is the first of its type at the agency.

Input from NCUA's employees on what would make them more productive at their jobs drove the development of these three tools. With these tools now in place, NCUA's employees are more efficiently developing documents and reports, sharing practical experiences gained in the field, and breaking down barriers to collaboration and employee engagement.

## BEING A GOOD CORPORATE STEWARD

NCUA remains committed to being a model corporate citizen. The agency works tirelessly to serve the American people and holds its employees and leaders to the highest standards of conduct, financial management, professionalism and ethics.

### Practicing Sound Financial Management

During 2014, NCUA continued to spend our resources effectively and efficiently without sacrificing the agency's core mission of protecting safety and soundness or the goal of making the agency an employer of choice.

The Board directed each office during the agency's mid-year budget review to increase efficiencies and reduce line items wherever possible. As a result, the agency decreased the 2014 operating budget by $1.1 million.

In developing the agency's budget for 2015, NCUA again used a zero-based budgeting approach, justifying every projected expense. In November, the Board approved an Operating Budget of $279.5 million, an increase of 4.2 percent from the 2014 budget of $268.3 million. This marks the lowest percentage increase since 2008.

### Taking Responsibility

An important part of being a good corporate citizen is taking responsibility for mistakes. In October, NCUA put that principle into action when a thumb drive given to an examiner was lost during a credit union examination.

This loss resulted from a failure to follow the agency's long-standing policies for securing sensitive data. This was an unfortunate, but isolated incident. Both NCUA and the credit union acted quickly, taking all appropriate actions to investigate the incident and protect against identity theft. The agency worked with the credit union to notify the credit union's members consistent with California law, NCUA's rules and Office of Management and Budget guidance.

NCUA has used this incident as an opportunity to learn. The agency reinforced training on protecting sensitive information, reviewed its policies and procedures and began considering the adoption of additional safeguards to protect electronic data, including:

- Creating a team to review the circumstances surrounding this incident;
- Directing the already established review team responsible for NCUA's Guidelines for Safeguarding Member Information to study whether to require federally insured credit unions to encrypt electronic member information; and
- Evaluating the development of a system for sharing information between the agency and federally insured credit unions through a secure portal.

In addition, in January 2015 the NCUA Board approved the payment of up to $50,000 for costs associated with this data breach. These costs include credit report monitoring for members, credit union staff time associated with the breach and legal fees.

### Increasing Supplier Diversity

In 2014, NCUA continued to advance the agency's supplier diversity initiatives. Required by the Dodd-Frank Act, these supplier diversity efforts promote the inclusion of minority- and women-owned businesses in contracting opportunities.

Specifically, NCUA's Office of Minority and Women Inclusion continued to provide each NCUA office with quarterly feedback on supplier diversity progress to inform managers of the results of their inclusion efforts. This feedback assisted managers in assessing and developing strategies to improve their inclusion and consideration of minority- and women-owned businesses during the contracting process. The Office of Minority and Women Inclusion also worked with NCUA's Asset Management and Assistance Center to establish systems to support the documentation and tracking of the center's supplier diversity efforts in its own competitive contracting opportunities.

Through these efforts, NCUA increased the percentage of contracting dollars awarded to minority- and women-owned businesses from 22 percent in 2013 to 29 percent at the end of 2014. Actual contracting dollars also increased during the year, rising from $8.3 million in 2013 to $12.4 million in 2014.

### Giving Back to Others

NCUA employees across the nation got into the spirit of giving in 2014. Together, they donated 92,950 pounds of food in the 2014 Feds Feed Families campaign—more than four times the amount donated in the previous year's drive. NCUA staff gave enough food to provide 55 people with three meals a day for an entire year.

In addition to the agency's enormous contribution to Feds Feed Families, NCUA employees also donated or pledged a total of $82,674 during the 2014 Combined Federal Campaign compared to $70,749 in 2013. For its efforts during the Combined Federal Campaign, the agency received the Chairman's Award and the Summit Award.

## LOOKING TO THE FUTURE

While NCUA achieved much in 2014, we have more work to do to protect the safety and soundness of the credit union system in the years to come. NCUA and the credit union system must work together to resolve a number of pressing issues.

### Addressing Interest Rate Risk

Today's historically low interest rates have led NCUA to warn federally insured credit unions about interest rate risk. To protect against interest rate risk, federally insured credit unions must make sound judgments that focus on long-term, not just short-term, earnings and yield. Credit union management and boards must be prepared for changes in the interest rate environment that are projected to take place in the future. NCUA will continue to make interest rate risk a priority for its examinations and communications in 2015.

Alexandria, Va. — In 2014, NCUA worked with the Small Business Administration to develop a series of initiatives aimed at increasing the ability of credit unions to make more small business loans. These efforts culminated with the signing of a memorandum of understanding between the two agencies in early 2015. Here, Chairman Matz (left) and SBA Administrator Maria Contreras-Sweet share a moment during the signing ceremony.

## Closing a Regulatory Blind Spot

Another major area of concern for NCUA is vendor authority. NCUA lacks the same vendor authority that other federal and many state financial institutions regulators have. As credit unions increasingly use credit union service organizations or other third parties to achieve economies of scale and remain competitive, this regulatory blind spot prevents the agency from having a full understanding of all potential risks within the credit union system.

The Government Accountability Office has previously observed that NCUA has a limited ability to assess the risks third-party vendors, including CUSOs, pose for credit unions and ultimately the Share Insurance Fund, and to respond to any problems. Without vendor authority, NCUA cannot accurately assess the actual risk present in the credit union system and whether current CUSO or third-party vendor risk-mitigation strategies are adequate and can effectively protect the system from a propagated contagion.

NCUA is especially concerned about our ability to effectively mitigate cybersecurity threats absent third-party vendor authority. Our cybersecurity concerns predominantly relate to cyber-threats against financial services vendors, some of which may exclusively serve credit unions and large numbers of them, or that have access to extensive personally identifiable information for millions of credit union members.

NCUA needs to exercise oversight to ensure proper and robust safeguards are in place to protect such systems and data. With respect to such technology service providers, NCUA would seek information related to their cybersecurity safeguards, ongoing vulnerability assessments and mitigation strategies in the event of being compromised.

In testimony before the Senate Banking Committee in September, NCUA detailed the need for this authority. The agency's statement at an April hearing of the House Financial Services Committee also noted NCUA's interest in fixing this problem. In 2015, NCUA will continue to work with Congress to ensure the agency has the same legal authority that other federal financial institutions regulators have to oversee risks posed by third-party vendors.

## Reducing Barriers to Growth

Consistent with protecting safety and soundness, NCUA is committed to addressing stakeholder concerns about how to improve regulations we have the authority to change. Among the most common credit union concerns are field of membership restrictions for federal credit unions and access to supplemental capital.

To address each, Chairman Matz announced the creation of two internal working groups in December. These groups will consult with representatives from the broader credit union system before making recommendations on potential regulatory and legislative changes.

NCUA's Office of Consumer Protection is leading the field of membership working group that is considering suggestions for enhancing federal charters. The group intends to identify obstacles facing federal credit unions seeking to expand their fields of membership and evaluate rule changes the Board could consider to ensure the federal charter remains competitive while complying with the Credit Union Membership Access Act.

The Office of Small Credit Union Initiatives is leading the secondary capital working group. The group is considering ideas for raising the value of secondary capital for low-income credit unions. The working group is also consulting with representatives from federally chartered and state-chartered, low-income credit unions. Secondary capital investors will be consulted as the working group identifies which investment models are likely to be most successful in the marketplace.

## Seizing Opportunities

Finally, because of the work of NCUA, an improving economy and the efforts of credit union management, federally insured credit unions are well positioned for continued growth in 2015.

The continued gains in membership show that more and more Americans are attracted to the services and products that credit unions offer. Credit unions themselves have adapted to the evolving financial services marketplace and are finding new ways to provide affordable financial services to newer and more diverse populations than ever before.

The framers of the Federal Credit Union Act would be proud to know their goal of creating a strong and vibrant system of credit unions has been reached.

As we look back on the productive and successful year that was 2014, NCUA stands ready to work with federally insured credit unions, Congress and other stakeholders to create an adaptive and effective regulatory environment to ensure that our communities, businesses and citizens will be able to utilize federally insured credit unions for their financial services needs in 2015 and beyond.


NCUA PERFORMANCE

# RESULTS

## 2014 Performance Summary

Throughout 2014, NCUA implemented strategies and initiatives designed to achieve its mission of providing, through regulation and supervision, a safe and sound credit union industry that promotes confidence in the national system of cooperative credit. This mission is consistent with our vision of protecting consumer rights and member deposits.

NCUA's vision and mission guided the development of the agency's 2014–2017 Strategic Plan. NCUA's Strategic Plan establishes strategic goals the agency wants to achieve to advance our mission and outlines strategic objectives to describe how the goals will be achieved. Each strategic objective has performance goals further supporting how the agency plans to achieve its goals. NCUA's 2014–2015 Annual Performance Plan supported the Strategic Plan's goals and objectives by establishing performance goals, indicators and targets. NCUA reviews these performance measures periodically to determine whether our strategies are producing the intended results, or if changes are necessary.

In 2014, NCUA's strategic goals, strategic objectives and annual performance goals were:

| Strategic Goals | Strategic Objectives |
|---|---|
| Goal 1: Ensure a Safe, Sound and Sustainable Credit Union Industry | 1.1 Identify, measure, monitor and mitigate levels of risk in the credit union industry through effective regulation, supervision and examination.<br>1.2 Manage operational vulnerabilities resulting from new products and services, especially shifts in balance-sheet composition.<br>1.3 Implement tools and models for evaluation and assessment of industry-wide risks.<br>1.4 Be prepared for and promote awareness of critical risk issues, emerging technologies and related threats.<br>1.5 Increase ability to manage risk through an effective examination and supervision program that minimizes loss to the National Credit Union Share Insurance Fund. |
| Goal 2: Promote Consumer Protection and Financial Literacy | 2.1 Establish a framework of well-balanced regulations and policy statements.<br>2.2 Ensure federally insured credit unions comply with rules and regulations established to protect consumers.<br>2.3 Develop and promote financial literacy education programs to empower consumers to make informed financial decisions.<br>2.4 Promote access to federally insured financial services for consumers of all backgrounds and income levels.<br>2.5 Review marketing and business plans of community charters to ensure progress toward meeting stated goals.<br>2.6 Educate credit unions about consumer compliance issues. |
| Goal 3: Further Develop a Regulatory Environment that Is Transparent and Effective, with Clearly Articulated and Easily Understood Regulations | 3.1 Reduce unnecessary obstacles to credit union competitiveness through modernized regulations.<br>3.2 Collaborate with other regulators to discuss strategies and goals for implementing new or revised regulations.<br>3.3 Maintain a regulatory environment that safeguards member interests and stability in the credit union industry.<br>3.4 Enhance NCUA's communication with credit unions through transparent regulations and guidance. |
| Goal 4: Cultivate an Environment that Fosters a Diverse, Well-trained and Motivated Staff | 4.1 Develop and maintain the optimal knowledge, skills and abilities of the agency's workforce to meet emerging needs.<br>4.2 Enhance staff effectiveness and efficiency through the use of technology.<br>4.3 Recruit and retain a well-diversified and highly qualified workforce that reflects the relevant labor force.<br>4.4 Maintain an effective plan of succession to ensure continuity of leadership throughout all levels of the organization.<br>4.5 Improve NCUA's internal communication, both horizontally and vertically.<br>4.6 Enhance NCUA's position as one of the best places in the government to work. |

# Agency Priority Goals

The Office of Management and Budget encourages all agencies to prioritize goals in their strategic and annual performance plans. An agency priority goal is a subset of the agency's performance goals and represents the highest implementation priorities. NCUA strives to accomplish an agency priority goal within approximately 24 months. In 2014, NCUA identified the following six performance goals as agency priority goals.

## 1.2.1 Implement a robust supervision framework for NCUA's financial reform regulations including interest rate risk, liquidity and contingency funding plans, derivative authority, and capital planning and stress testing.

*Progress:* During 2014, NCUA conducted interest rate risk-focused supervision contacts to guide future examiner and industry guidance in the areas of interest rate sensitivity and quantitative risk measurement. NCUA plans to issue the resulting guidance in 2015. Additional efforts toward achieving this priority goal included creating the Interest Rate Risk Resource Center on NCUA.gov and, issuing Supervisory Letter 14-05, *Capital Planning Under NCUA Rules & Regulations.*

Going forward, NCUA will be evaluating a separate interest rate component for complex credit unions' risk based on net worth requirements, and completing an assessment for adding an interest rate sensitivity 'S' rating to the CAMEL rating system, consistent with other national bank supervisors. In addition, as outlined in regulation, NCUA will commence the review and assessment of all capital plans and stress tests for credit unions with assets greater than $10 billion.

## 1.4.2 Issue industry guidance related to emerging cybersecurity risks and related threats.

*Progress:* Through participation on the Federal Financial Institutions Examination Council and other interagency efforts, NCUA conducted assessments of, and issued guidance related to, cybersecurity risks. Specifically, NCUA participated on the Federal Financial Institutions Examination Council's Cybersecurity and Critical Infrastructure Working Group, participated in the FFIEC Cybersecurity Assessment Pilot Program, promoted the FFIEC Cybersecurity Preparedness webinar to the credit union industry and issued interagency guidance on cybersecurity risk and Bash Shellshock vulnerability.

In addition, the August 2014 issue of *The NCUA Report* outlined a list of the top ten cybersecurity areas examiners look at during examinations, and the Cybersecurity Resource Page was created on NCUA.gov. The Office of National Examinations and Supervision also issues the *ONES Payments and IT News and Events* to NCUA field staff and state supervisory authorities highlighting emerging risks, such as cybersecurity. In the future, NCUA will continue to issue pertinent guidance on emerging risks to examiners, state supervisory authorities and the credit union industry.

## 2.3.1 Monitor issues or trends in consumer complaints to develop effective financial literacy education programs and initiatives.

*Progress:* NCUA participates on the President's Financial Literacy Education Council and is continually monitoring issues and trends from consumer complaints, examinations, and the industry to develop effective financial education programs and initiatives. In 2014, NCUA's MyCreditUnion.gov website was featured on Nerd Wallet and TipHero.com. NCUA also partnered with AARP on financial literacy initiatives. NCUA's Consumer Compliance Resource Page provides credit unions and consumers with helpful information they can use.

NCUA will continue to monitor trends and issues in consumer complaints and in the credit union industry to provide meaningful financial literacy education information on MyCreditUnion.gov and through various partners.

## 3.4.1 Develop guidance to credit unions to provide explanation of regulatory changes and best practices for implementation.

*Progress:* NCUA's goal is to further develop a regulatory environment that is transparent and effective with clearly articulated and easily understood regulations. NCUA is committed to providing guidance to the credit union industry that clearly explains regulatory changes and also highlights best practices for implementation. In 2014, NCUA held numerous webinars on topics such as internal controls, product pricing, business continuity and fraud prevention. These webinars, combined with three in-person Listening Sessions and more traditional forms of guidance, such as Letters to Credit Unions and Regulatory Alerts, provide guidance on new and existing regulations and best practices. *The NCUA Report,* the agency's monthly newsletter, also provided easy-to-understand explanations of regulatory changes and best practices. NCUA will continue to issue appropriate guidance in conjunction with regulatory changes issued by the Board, when warranted.

### 4.3.1 Increase the number of women, persons with disabilities and minority staff at all levels, particularly in the agency's management ranks.

*Progress:* NCUA continually strives to recruit and retain a well-diversified and highly qualified workforce that reflects the relevant labor force. In 2014, NCUA was voted "Best of the Best" by three publications—*Black EOE Journal, U.S. Veterans Magazine, and Professional Women's Magazine*. NCUA also maintained its position in the top five mid-sized agencies for the Support for Diversity Indicator on the Federal Employee Viewpoint Survey.

NCUA's Office of Minority and Women Inclusion issued its annual report to Congress, noting the agency's efforts to recruit and retain highly qualified minorities and women. NCUA's Office of Inspector General issued a report in November 2014 after conducting a *Review of NCUA's Efforts to Promote Equal Opportunity and Achieve Diversity in Senior Management.*

Going forward, NCUA will focus efforts on implementing action items under the "Workforce Diversity" goal in the 2012–2016 Diversity and Inclusion Strategic Plan. NCUA is also conducting analyses to identify any barriers that cause low participation rates of underrepresented groups in the NCUA workforce and will take steps to remove those barriers. Additionally, NCUA established a Diversity Advisory Council to support the agency's diversity goals, serve as a resource to assist and advise decision-makers on diversity and inclusion efforts, and ensure goals established in NCUA's Diversity and Inclusion Strategic Plan are met.

### 4.6.4 Strengthen the security program in the areas of personnel, facilities, continuity of operations and secure communications.

*Progress:* NCUA established the Office of Continuity and Security Management on January 1, 2014. During its first year of operations, the office significantly strengthened agency security programs, including integrating physical security and personnel security programs, working with the Office of Examination and Insurance on developing protocols to share information on cyber-attacks and other national security threats, and updating all NCUA continuity instructions and plans. The office was fully staffed, and has conducted risk assessments and issued new continuity and security policies.

NCUA is focused on further strengthening the agency's security program by conducting emergency management exercises and drills at the central office and regional facilities, and performing an analysis to identify additional security threats and concerns, which will drive the development of staff guidance.

## Cross-Agency Priority Goals

The Government Performance and Results Modernization Act requires federal agencies to address cross-agency priority goals in the strategic plan, annual performance plan and annual performance report. The national-level cross-agency priority goals are located at www.performance.gov. While NCUA is an independent federal agency and not part of the federal budget, its efforts align with three cross-agency priority goals established as part of the President's Fiscal Year 2015 Budget—cybersecurity, open data, and people and culture.

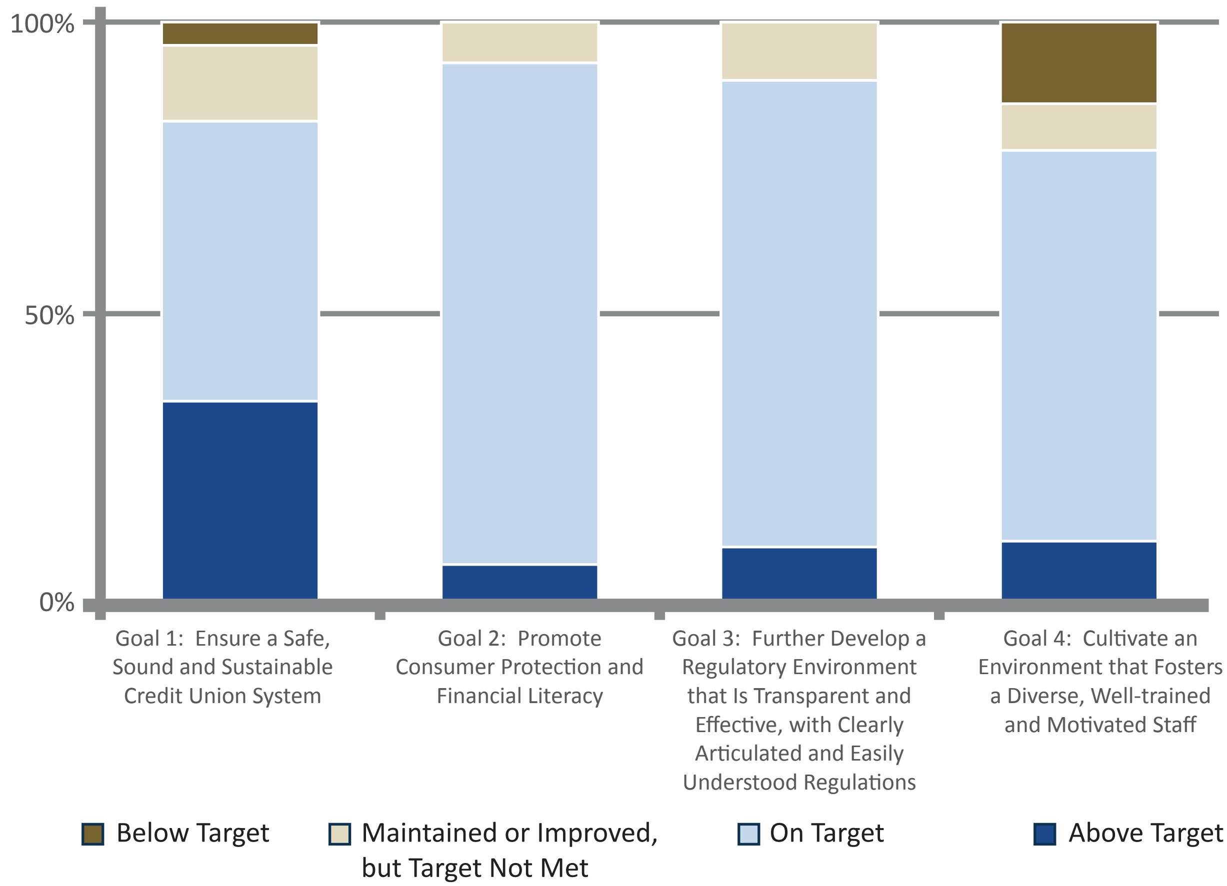
## Performance Results by Strategic Goal

NCUA set ambitious goals in 2014 and achieved most of them. NCUA maintained or improved in 77 of its 83 performance indicators established in the 2014 Annual Performance Plan. NCUA met or exceeded the established target for 69 indicators. This strong level of performance in 2014 set the foundation for the successful execution of the NCUA's 2014–2017 Strategic Plan and achievement of the agency's mission, strategic goals and strategic objectives.

During the periodic review process, NCUA evaluated the performance indicators to determine whether the agency was achieving the intended level of performance and whether the indicator was the best measure of success. The results of this strategic process are reflected in the 2015 Annual Performance Plan.

NCUA had steady performance improvement across all four strategic goals in 2014. Each strategic goal and the supporting strategic objectives and performance goals are presented in the subsequent sections, including the detailed results of each indicator used to measure agency performance.

## Performance by Strategic Goal




# Strategic Goal 1: Ensure a Safe, Sound and Sustainable Credit Union Industry

Ensuring a safe, sound and sustainable credit union industry through our examination and supervision program is NCUA's primary function. Strategic Goal 1 objectives focus on minimizing current and future risks as early as possible and encouraging sustainability within the industry. The goal is supported by five strategic objectives, 13 performance goals, including two agency priority goals—1.2.1 and 1.4.2—and 23 indicators.

## STRATEGIC OBJECTIVE 1.1

**Identify, measure, monitor and mitigate levels of risk in the credit union industry through effective regulations, supervision and examination**

Identifying and managing risk in credit unions is NCUA's core program. Essential to achieving this strategic objective is the effective and efficient management and execution of our examination and supervision programs, including the proper allocation of resources and timely resolution of issues. A stable and sustainable credit union industry allows credit unions to continue to provide services to their members as well as develop new services and products to meet the evolving needs of their members.

In 2014, we used five performance indicators to gauge NCUA's efforts for Strategic Objective 1.1 and its four underlying performance goals. In 2014, NCUA met or exceeded all targets for Strategic Objective 1.1.

| | Prior Year Results | | | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|
| Performance Goal | 2009 | 2010 | 2011 | 2012 | 2013 | Target | Result | Progress |
| 1.1.1 Maintain strong levels of credit union industry-wide net worth and corporate credit union leverage ratios | | | | | | | | |
| Maintain aggregate net worth above 10 percent | 9.9% | 10.1% | 10.2% | 10.4% | 10.7% | Greater than 10% | 10.9% | Above Target |
| Maintain the aggregate corporate credit union leverage ratio above 5 percent | -- | -- | 5.0% | 6.3% | 7.1% | Greater than 5% | 7.7% | Above Target |
| 1.1.2 Improve the number of rehabilitated problem credit unions (CAMEL 3, 4 and 5) as a percentage of problem credit unions | | | | | | | | |
| Maintain the number of problem credit unions upgraded to a CAMEL 1 or 2 as a percentage of total problem credit unions at a minimum of 15 percent | 19.5% | 18.1% | 21.4% | 23.2% | 16.7% | Greater than or equal to 15% | 21.1% | Above Target |
| 1.1.3 Examine all federal credit unions annually | | | | | | | | |
| Examine 100 percent of all federal credit unions | 80.9% | 84.2% | 92.1% | 99.7% | 99.7% | 100% | 99.9% | On Target |
| In 2014, NCUA examiners completed 3,947 examinations (onsite and offsite supervision contacts are not included). NCUA completed onsite fieldwork for all active federal credit unions in 2014. Four credit unions, representing the 0.1 percent, received joint conferences after December 31, 2014. | | | | | | | | |
| 1.1.4 Examine all federally insured, state-chartered credit unions with assets above $250 million annually | | | | | | | | |
| Examine 100 percent of all federally insured, state-chartered credit unions with assets greater than $250 million | 63.4% | 87.5% | 98.6% | 97.3% | 100% | 100% | 100% | On Target |

## STRATEGIC OBJECTIVE 1.2

**Manage operational vulnerabilities resulting from new products and services, especially shifts in balance-sheet composition**

As credit unions grow, they tend to become more complex, providing a wider array of products and additional services. Such complexity can be beneficial when it addresses members' needs and when it leads to increased diversification in a credit union's assets. However, operational vulnerabilities and shifts in balance-sheet composition resulting from the introduction of new products and services, particularly in large concentrations, must be well managed, monitored and controlled to ensure a safe, sound and sustainable credit union industry.

Sound liquidity planning and access to federal liquidity sources are also vital to managing shifts in balance-sheet composition and the safety and soundness of the credit union industry. On March 31, 2014, NCUA's Liquidity and Contingency Funding Plans rule went into effect to ensure all credit unions conduct sound liquidity planning, and large credit unions establish access to at least one federal source of contingent liquidity.

Credit unions' balance sheets should be resilient under a wide variety of rate environments. Credit unions' ability to manage and mitigate interest rate risk remains vital for their success. As such, NCUA identified the implementation of a robust supervision framework for financial reform regulations as an agency priority goal (1.2.1).

In 2014, we used five performance indicators to gauge NCUA's efforts for Strategic Objective 1.2 and its two underlying performance goals. In 2014, all of the indicators showed improved performance and most met their target. For those indicators that did not meet their targets, an explanation is provided.

| | Prior Year Results | | | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|
| **Performance Goal** | **2009** | **2010** | **2011** | **2012** | **2013** | **Target** | **Result** | **Progress** |
| 1.2.1 Implement a robust supervision framework for NCUA's financial reform regulations including interest rate risk, liquidity and contingency funding plans, derivatives authority, and capital planning and stress testing — *Agency Priority Goal* | | | | | | | | |
| Complete interest rate risk-focused supervision contacts at applicable high-risk credit unions | -- | -- | -- | -- | -- | Achieve in Second Quarter of 2014 | Achieved | On Target |
| Issue examiner and industry guidance introducing revised policy on evaluating quantitative risk measurements for interest rate risk | -- | -- | -- | -- | -- | Achieve 2014 | Delayed | Maintained or Improved, but Target Not Met |
| The release of this specific guidance has been delayed as outlined in the 2015 Annual Performance Plan. In the interim, NCUA provided guidance to examiners on changes to evaluating quantitative risk measurements for interest rate risk. NCUA also released the Interest Rate Risk Resource Center on NCUA.gov. | | | | | | | | |
| Develop additional supervision guidance on interest rate risk sensitivity methods | -- | -- | -- | -- | -- | Achieve 2015 | On Target | On Target |
| 1.2.2 Update the automated examination industry to incorporate economic model analysis | | | | | | | | |
| Develop a business solution and specifications for a revised automated examination system, including the incorporation of an economic model analysis | -- | -- | -- | -- | -- | Achieve 2014 | Achieved | On Target |
| Complete programming and testing of a revised automated examination system | -- | -- | -- | -- | -- | Achieve 2015 | On Target | On Target |

## STRATEGIC OBJECTIVE 1.3

**Implement tools and models for the evaluation and assessment of industry-wide risks**

The evaluation and assessment of risks is essential to the sustainability of the credit union industry. NCUA refines information derived from tools and models to prioritize the issuance of industry and examiner guidance and to focus supervision efforts to minimize losses to the Share Insurance Fund. NCUA also employs business intelligence tools to identify and monitor risks to the credit union industry.

In 2014, we used two performance indicators to gauge NCUA's efforts for Strategic Objective 1.3 and its underlying performance goal. In 2014, the agency improved results through alternative means and reprioritized the goal for 2015.

| | Prior Year Results | | | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|
| Performance Goal | 2009 | 2010 | 2011 | 2012 | 2013 | Target | Result | Progress |
| 1.3.1 Employ business intelligence tools to identify and monitor risks to the credit union industry | | | | | | | | |
| Obtain approval for resources for developing an automated risk monitoring report | -- | -- | -- | -- | -- | Achieve 2014 | Reprioritized | Maintained or Improved, but Target Not Met |
| Commence development of an automated risk monitoring report | -- | -- | -- | -- | -- | Achieve 2015 | Reprioritized | Maintained or Improved, but Target Not Met |
| During its 2014 session, NCUA's Information Technology Prioritization Council recommended approval of business intelligence tools to provide enhanced data management and reporting. The Board approved resources for business intelligence tools in the 2015 budget. This project is an important element of implementing an enhanced risk-monitoring reporting system. | | | | | | | | |

## STRATEGIC OBJECTIVE 1.4

**Be prepared for and promote awareness of critical risks issues, emerging technologies and related threats**

The agency is committed to being prepared for and promoting awareness of critical risk issues, emerging technologies and related threats to the credit union industry. As such, NCUA identified this goal as an agency priority goal.

NCUA participates on two critical interagency groups designed to prepare the financial sector for and promote awareness in the financial sector of critical risk issues and related threats—the Federal Financial Institutions Examination Council and the Federal Banking Information Infrastructure Committee. Participation in interagency groups better prepares NCUA and the credit union industry to address critical risk issues. In addition, NCUA's Risk Forum, comprised of senior executives, enhances awareness of the macro risks facing the industry. The forum also develops proactive strategies to address identified threats and integrate organizational improvements.

In 2014, we used nine performance indicators to gauge NCUA's efforts for Strategic Objective 1.4 and its four underlying performance goals. In 2014, most of the indicators met their target. For those indicators that did not meet their targets, an explanation is provided.

| | Prior Year Results | | | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|
| **Performance Goal** | **2009** | **2010** | **2011** | **2012** | **2013** | **Target** | **Result** | **Progress** |
| 1.4.1 Identify regional and national emerging risks requiring necessary actions | | | | | | | | |
| Each region will perform quality control over a sample of risk reviews to identify trends and note whether supervision plans are appropriate | -- | -- | -- | -- | -- | 5% | 7.9% | Above Target |
| Hold Risk Forum meetings at least semi-annually | -- | -- | -- | -- | 2 | 2 | Achieved | On Target |
| 1.4.2 Issue industry guidance related to emerging cybersecurity risks and related threats — *Agency Priority Goal* | | | | | | | | |
| Coordinate issuance of guidance with other financial services regulators related to emerging cybersecurity risks and related threats | -- | -- | -- | -- | -- | Achieve | Achieved | On Target |
| 1.4.3 Provide training in emerging technologies, especially for field and management staff | | | | | | | | |
| Review and assess training needs to ensure that information on emerging technologies is current, annually | -- | -- | -- | -- | -- | Achieve | Achieved | On Target |
| Deliver Information Technology, Subject Matter Examiner training and make materials available to all staff on the learn management system, annually | Achieved | Achieved | Achieved | Achieved | Achieved | Achieve | Achieved | On Target |

| | Prior Year Results | | | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|
| **Performance Goal** | **2009** | **2010** | **2011** | **2012** | **2013** | **Target** | **Result** | **Progress** |
| 1.4.4 Assist small and low-income credit unions to secure the proper technology and resources to ensure regulatory compliance and avoid any potential negative threats | | | | | | | | |
| Provide operational and strategic management consulting services to 450 small credit unions to ensure regulatory compliance and avoid any potential negative threats | 265 | 260 | 342 | 410 | 474 | Greater than or equal to 450 | 439 | Below Target |
| NCUA's Office of Small Credit Union Initiatives provided 439 credit unions with consulting services in 2014 through the formal enrollment program; this number does not reflect those credit unions assisted informally through the follow-up process. During 2013 and 2014, the office worked through a backlog of consulting requests and began using a 6-month consulting cycle, which leveled out in 2014. The office continues to develop and host several training sessions and webinars throughout the year for the credit union industry. The number of attendees increased 74 percent over 2013. | | | | | | | | |
| Issue $181,000 for new product initiatives, which includes payment systems and electronic banking to assist low-income credit unions in obtaining proper technology and resources | -- | -- | -- | -- | -- | $181,000 | $903,000 | Above Target |
| Maintain a minimum number of 20,000 attendees at Office of Small Credit Union Initiatives-sponsored training, annually | 2,711 | 2,040 | 5,184 | 7,791 | 26,134 | Greater than or equal to 20,000 | 45,487 | Above Target |
| Issue 12 FOCUS newsletters throughout the year addressing technology, resources and regulatory compliance | -- | -- | -- | 2 | 12 | 12 | 12 | On Target |

## STRATEGIC OBJECTIVE 1.5

**Increase ability to manage risk through an effective examination and supervision program that minimizes loss to the National Credit Union Share Insurance Fund**

NCUA minimizes losses to the Share Insurance Fund by managing risks in the credit union industry.

With the continuing changes in the credit union industry, NCUA has shifted its focus on the size, scale and scope of credit union examinations. In 2014, NCUA's Office of National Examinations and Supervision became responsible for the oversight of the largest and most complex credit unions. NCUA has also adopted a streamlined examination program for financially and operationally sound credit unions with assets less than $30 million. These two initiatives allow NCUA to better manage risks in all of our insured institutions.

In addition, NCUA's National Supervision Policy Manual establishes national policies, procedures and guidelines for effective supervision of credit unions. Modernizations to the agency's examination report clarify priority action items, reduce redundancy and ensure consistency.

In 2014, we used two performance indicators to gauge NCUA's efforts for Strategic Objective 1.5 and its two underlying performance goals. In 2014, all indicators met their target.

| | Prior Year Results | | | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|
| Performance Goal | 2009 | 2010 | 2011 | 2012 | 2013 | Target | Result | Progress |
| 1.5.1 Maintain yearly Share Insurance Fund losses as a percentage of total insured shares | | | | | | | | |
| Maintain Share Insurance Fund losses at less than 0.03 percent of total insured shares, annually | 0.026% | 0.033% | 0.007% | 0.024% | 0.008% | Less than 0.03% | 0.005% | Above Target |
| 1.5.2 Minimize total assets in CAMEL Codes 4 and 5 rated credit unions | | | | | | | | |
| Declining trend in the total assets of CAMEL codes 4 and 5 year-over-year | 144.7% | -9.9% | -32.3% | -35.3% | -27.4% | Less than 0% | -26.04% | Above Target |

# Strategic Goal 2: Promote Consumer Protection and Financial Literacy

Strategic Goal 2 seeks to ensure a regulatory framework exists to provide consumers appropriate and timely disclosures, sufficient protections against unscrupulous products or services, and financial literacy education programs to help consumers make informed financial decisions. NCUA uses six strategic objectives, 12 performance goals, including an agency priority goal (2.3.1), and 14 indicators to support this strategic goal. In 2014, NCUA performed well, meeting or improving in all 14 indicators.

## STRATEGIC OBJECTIVE 2.1

**Establish a framework of well-balanced regulations and policy statements**

NCUA coordinates with other financial services regulators to develop policy, regulation and guidance. As part of the Federal Financial Institutions Examination Council's Taskforce on Consumer Compliance and the Financial Literacy Education Commission, NCUA contributes to developing well-balanced regulations and policy statements related to consumer protection and financial literacy.

NCUA collects information related to consumer compliance violations and concerns during examinations. Coordination with other agencies, combined with the information collection during examinations and complaints received from consumers, results in a well-rounded framework for developing additional regulations, policies and guidance.

In 2014, we used two performance indicators to gauge NCUA's efforts for Strategic Objective 2.1 and its two underlying performance goals. In 2014, all indicators met their target.

| | Prior Year Results | | | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|
| **Performance Goal** | **2009** | **2010** | **2011** | **2012** | **2013** | **Target** | **Result** | **Progress** |
| 2.1.1 Collaborate and consult with other federal regulators on consumer financial protection issues and potential regulations | | | | | | | | |
| Attend 100 percent of FFIEC Taskforce on Consumer Compliance meetings | -- | -- | 92% | 92% | 83% | 100% | 100% | On Target |
| 2.1.2 Solicit information on potential abusive or deceptive practices through various outreach efforts | | | | | | | | |
| Request information from regions on potential abusive or deceptive practices, semi-annually | -- | -- | -- | -- | -- | 2 | Achieved | On Target |

## STRATEGIC OBJECTIVE 2.2

**Ensure federally insured credit unions comply with rules and regulations established to protect consumers**

NCUA's fair lending examination program is designed to ensure credit unions comply with the rules and regulations established to protect consumers. NCUA also provides the industry and examiners timely guidance related to changes in consumer protection rules and regulations. A Consumer Compliance Regulatory Resource page is also available on NCUA.gov to help the credit union industry comply with rules and regulations.

In 2014, we used four performance indicators to gauge NCUA's efforts for Strategic Objective 2.2 and its three underlying performance goals. In 2014, all indicators met their target.

| | Prior Year Results | | | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|
| **Performance Goal** | **2009** | **2010** | **2011** | **2012** | **2013** | **Target** | **Result** | **Progress** |
| 2.2.1 Complete the risk-based fair lending exam procedures and exam scoping steps to measure credit union compliance with consumer financial protection regulations | | | | | | | | |
| Complete 25 fair lending examinations | -- | 26 | 19 | 11 | 25 | Greater than or equal to 25 | 25 | On Target |
| Complete 40 offsite fair lending supervision contacts | -- | -- | -- | -- | 45 | Greater than or equal to 40 | 50 | Above Target |
| 2.2.2 Ensure quality control reviews of fair lending examination reports highlight potential consumer compliance issues and follow-up for needed corrective actions | | | | | | | | |
| Complete quality control reviews to identify risk trends and guide future supervision efforts on 100 percent of fair lending examinations | Achieved | Achieved | Achieved | Achieved | Achieved | Achieve | Achieved | On Target |

| | Prior Year Results | | | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|
| Performance Goal | 2009 | 2010 | 2011 | 2012 | 2013 | Target | Result | Progress |
| 2.2.3 Increase guidance to the credit union industry to help reduce the number of compliance violations | | | | | | | | |
| Conduct one town hall webinar to follow-up on implementation of Dodd-Frank mortgage and remittance rules. | -- | -- | -- | -- | -- | 1 | Achieved | On Target |

## STRATEGIC OBJECTIVE 2.3

**Develop and promote financial literacy education programs to empower consumers to make informed financial decisions**

NCUA's Office of Consumer Protection is focused on empowering consumers to make informed financial decisions by developing and promoting financial literacy education. The office responds to inquiries from credit unions, credit union members and consumers involving consumer protection and share insurance matters. The office also processes consumer complaints filed against credit unions. Monitoring issues and trends in consumer complaints to develop effective financial literacy education programs is an agency priority goal (2.3.1).

In 2014, we used three performance indicators to gauge NCUA's efforts for Strategic Objective 2.3 and its two underlying performance goals. In 2014, all indicators met their target.

| | Prior Year Results | | | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|
| Performance Goal | 2009 | 2010 | 2011 | 2012 | 2013 | Target | Result | Progress |
| 2.3.1 Monitor issues or trends in consumer complaints to develop effective financial literacy education programs and initiatives — *Agency Priority Goal* | | | | | | | | |
| Produce a monthly report on the top 10 aggregate consumer complaints received in the Consumer Assistance Center to guide educational program development | -- | -- | -- | -- | Established baseline | 12 | Achieved | On Target |
| 2.3.2 Partner with outside resources to effectively market the availability of financial literacy programs | | | | | | | | |
| Identify and engage with public and private entities to increase use of NCUA's financial literacy materials as part of the third-party entities' outreach efforts | -- | -- | -- | -- | -- | Achieve | Achieved | On Target |
| As an active member of the Financial Literacy and Education Commission, attend all (100 percent) public meetings | -- | -- | -- | -- | -- | 100% | 100% | On Target |

## STRATEGIC OBJECTIVE 2.4

**Promote access to federally insured financial services for consumers of all backgrounds and income levels**

NCUA strives to foster the preservation and growth of small credit unions. Additionally, the Office of Consumer Protection's Division of Consumer Access is responsible for chartering new credit unions and reviewing applications by existing credit unions for charter conversions, bylaw amendments, field of membership expansions and low-income designations.

NCUA also promotes access to financial services through its consumer education focused website MyCreditUnion.gov. This site, available in both English and Spanish, provides a one-stop resource for personal finance information for individuals of all ages.

In 2014, we used three performance indicators to gauge NCUA's efforts for Strategic Objective 2.4 and its three underlying performance goals. In 2014, most of the indicators met their target and all indicators maintained or improved actual results. For those indicators that did not meet their targets, an explanation is provided.

| | Prior Year Results | | | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|
| **Performance Goal** | **2009** | **2010** | **2011** | **2012** | **2013** | **Target** | **Result** | **Progress** |
| 2.4.1 Notify credit unions of their eligibility for low-income status | | | | | | | | |
| Notify credit unions newly qualifying for low-income status of their eligibility | -- | -- | -- | -- | 1 | 4 | 3 | Maintained or Improved, but Target Not Met |
| During 2014, NCUA provided three rounds of notifications to credit unions newly qualifying for low-income status—in the first, second and fourth quarters. The low-income designation tool received an update during the third quarter, affecting notifications. NCUA reviewed this target during the 2015 Annual Performance Plan development and determined going forward, two rounds of notifications each year will provide adequate and timely notification to newly qualifying credit unions. In addition, individual requests submitted by credit unions and state supervisory authorities will continue to be evaluated as they are received. | | | | | | | | |
| 2.4.2 Continue to increase usability and contemporary information on MyCreditUnion.gov, including Pocket Cents | | | | | | | | |
| Increase the number of visitors to MyCreditUnion.gov including, Pocket Cents, year-over-year | -- | -- | 13,001 | 156,546 | 332,596 | 500,000 | 564,970 | Above Target |
| 2.4.3 Increase availability of non-English materials on NCUA websites | | | | | | | | |
| Develop a Spanish-language share insurance estimator in 2014 | -- | -- | -- | -- | -- | Achieve | Achieved | On Target |

## STRATEGIC OBJECTIVE 2.5

**Review marketing and business plans of community charters to ensure progress toward meeting stated goals**

Community-chartered credit unions are required to develop marketing and business plans during the application process for a new or expanded community charter. NCUA reviews these business plans periodically after approval to ensure achievement of the objectives, including providing services to consumers in the new or expanded field of membership. NCUA also looks to increase its partnership and outreach efforts in order to provide more opportunities for credit unions to learn about and participate in programs that enhance their service delivery or improve operations.

In 2014, we used one performance indicator to gauge NCUA's efforts for Strategic Objective 2.5 and its underlying performance goal. In 2014, NCUA met its target for this indicator.

| | Prior Year Results | | | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|
| Performance Goal | 2009 | 2010 | 2011 | 2012 | 2013 | Target | Result | Progress |
| 2.5.1 Ensure community-charter penetration rate, loans, shares and other member services are consistent with credit union submitted community-charter business plans | | | | | | | | |
| Issue regional reports assessing compliance with marketing and business plans submitted to support recent community charter actions, semi-annually | -- | -- | -- | -- | Achieved | 2 | Achieved | On Target |

## STRATEGIC OBJECTIVE 2.6

**Educate credit unions about consumer compliance issues**

NCUA informs and educates credit unions on a variety of issues through various reports, Letters to Credit Unions, webinars and videos. Educating credit unions on consumer compliance issues aligns with NCUA's vision statement and furthers the purpose of Strategic Goal 2.

In 2014, we used one performance indicator to gauge NCUA's efforts for Strategic Objective 2.6 and its underlying performance goal. In 2014, NCUA met its target for this indicator.

| | Prior Year Results | | | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|
| Performance Goals | 2009 | 2010 | 2011 | 2012 | 2013 | Target | Result | Progress |
| 2.6.1 Use all available delivery channels to provide information on consumer compliance-related guidance and information | | | | | | | | |
| Develop four consumer protection series videos in 2014 | -- | -- | -- | -- | -- | 4 | 4 | On Target |

# Strategic Goal 3: Further Develop a Regulatory Environment that Is Transparent and Effective, with Clearly Articulated and Easily Understood Regulations

NCUA's Regulatory Modernization Initiative aims to create a regulatory environment that balances safety and soundness with enabling credit unions to be an accessible choice for consumers and continue to introduce products to better serve their members. NCUA's goal is to issue simple, clear and straightforward regulations, while addressing emerging issues before they become major problems. Four strategic objectives, eight performance goals, including one agency priority goal (3.4.1), and 10 indicators support Strategic Goal 3. In 2014, NCUA achieved or improved in all ten indicators.

## STRATEGIC OBJECTIVE 3.1

**Reduce unnecessary obstacles to credit union competitiveness through modernized regulations**

NCUA's Regulatory Modernization Initiative is ongoing. In 2014, NCUA began a review of its regulations in a manner consistent with the Economic Growth and Regulatory Paperwork Reduction Act. The purpose of this review is to identify outdated, unnecessary or unduly burdensome regulations and consider how to reduce regulatory burden on insured depository institutions while, at the same time, ensuring their safety and soundness and the safety and soundness of the financial system.

NCUA also reviews one-third of its regulations annually, including publishing them for public comment, and updating and streamlining regulations where appropriate. NCUA has conducted this rolling three-year review since 1987.

In 2014, we used three performance indicators to gauge NCUA's efforts for Strategic Objective 3.1 and its three underlying performance goals. In 2014, all indicators met their target.

| | Prior Year Results | | | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|
| **Performance Goal** | **2009** | **2010** | **2011** | **2012** | **2013** | **Target** | **Result** | **Progress** |
| 3.1.1 Update existing and develop new regulations through the annual regulatory review process | | | | | | | | |
| Review one-third of all regulations, annually | Achieved | Achieved | Achieved | Achieved | Achieved | Achieve | Achieved | On Target |
| 3.1.2 Coordinate with congressional committees on priority risk issues | | | | | | | | |
| Send letters to the Chairmen and Ranking Members of primary committees and subcommittees of jurisdiction about NCUA's legislative priorities, and conduct follow-up meetings with key congressional staff as warranted | -- | -- | -- | -- | -- | Achieve | Achieved | On Target |
| 3.1.3 Identify industry risks necessitating new or revised regulations or industry guidance | | | | | | | | |
| Discuss risks at the semi-annual risk-forum meetings and develop action plans to address risks identified following each meeting | -- | -- | -- | -- | -- | Achieve | Achieved | On Target |

## STRATEGIC OBJECTIVE 3.2

**Collaborate with other regulators to discuss strategies and goals for implementing new or revised regulations.**

NCUA participates on various councils and interagency groups responsible for regulating the financial system. Revised regulations and interagency guidance on current risk issues are frequently developed by task forces and working groups, and issued to all insured financial institutions.

In 2014, there were two performance indicators used to gauge NCUA's efforts for Strategic Objective 3.2 and the underlying performance goal. In 2014, one indicator met its target and the other indicator improved upon its results from the beginning of the measurement period.

| | Prior Year Results | | | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|
| **Performance Goal** | **2009** | **2010** | **2011** | **2012** | **2013** | **Target** | **Result** | **Progress** |
| 3.2.1 Actively participate in financial regulators meetings to contribute to the development and implementation of industry guidance | | | | | | | | |
| Participate in 100 percent of all interagency meetings Actively participate in the development process on all applicable guidance. | -- | -- | -- | -- | -- | 100% | 95% | Maintained or Improved, but Target Not Met |
| In 2014, NCUA attended 95 percent of interagency meetings. This participation rate reflects NCUA's commitment to actively participating in financial regulator meetings and contributing to the development of industry guidance. While short of the 100 percent goal, 95 percent represents attendance at over 250 meetings on 14 different committees, including the Financial Stability Oversight Council 's Principal and Systemic Risk Council meetings, and Federal Financial Institutions Examination Council's Cybersecurity and Critical Infrastructure Working Group meetings. | | | | | | | | |
| Issue interagency guidance applicable to the credit union industry as necessary | Achieved | Achieved | Achieved | Achieved | Achieved | Achieve | Achieved | On Target |

## STRATEGIC OBJECTIVE 3.3

**Maintain a regulatory environment that safeguards member interests and stability in the credit union industry**

NCUA aims to create a regulatory environment that effectively balances safety and soundness with the credit union industry's competitive needs to maintain viability and stability. New or revised rules and regulations are generally issued for a minimum of 30 days for public comment, though most have a 60-day comment period. NCUA evaluates and considers all comments received from stakeholders to understand the effects regulations may have on credit union operations.

In 2014, we used one performance indicator to gauge NCUA's efforts for Strategic Objective 3.3 and its underlying performance goal. The agency met its target.

| | Prior Year Results | | | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|
| **Performance Goal** | **2009** | **2010** | **2011** | **2012** | **2013** | **Target** | **Result** | **Progress** |
| 3.3.1 Provide sufficient comment periods when introducing new or revised regulations and consider public comments when finalizing regulations | | | | | | | | |
| Provide a minimum comment period of 30 days for new and revised regulations | -- | -- | Achieved | Achieved | Achieved | Achieve | Achieved | On Target |

## STRATEGIC OBJECTIVE 3.4

**Enhance NCUA's communication with credit unions through transparent regulations and guidance**

NCUA maintains open and transparent communications with credit unions to help increase their understanding and implementation of regulations and NCUA initiatives.

To assist in regulation comprehension, NCUA presents informative webinars on current risk issues and relevant guidance. The agency produces YouTube videos addressing NCUA Board actions, economic data and regulatory information. NCUA also issues its monthly newsletter, *The NCUA Report*, which highlights important NCUA Board actions and key issues that credit unions need to know. NCUA emphasizes the importance of this communication by identifying the development and issuance of timely guidance as an agency priority goal.

In 2014, we used four performance indicators to gauge NCUA's efforts for Strategic Objective 3.4 and its three underlying performance goals. In 2014, all indicators met or exceeded their target.

| | Prior Year Results | | | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|
| **Performance Goal** | **2009** | **2010** | **2011** | **2012** | **2013** | **Target** | **Result** | **Progress** |
| 3.4.1 Develop guidance to credit unions to provide explanation of regulatory changes and best practices for implementation — *Agency Priority Goal* | | | | | | | | |
| Issue appropriate guidance such as Letters to Credit Unions, Supervisory Letters, webinars, AIRES questionnaries or other multi-media outreach in conjunction with regulatory changes issued by the Board when warranted | -- | -- | -- | -- | -- | Achieve | Achieved | On Target |

| Performance Goal | Prior Year Results | | | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | Target | Result | Progress |
| 3.4.2 Increase target audience awareness of regulatory activities and their positive effects on the industry's safety and soundness | | | | | | | | |
| Hold four town-hall meetings or webinars with the credit union industry in 2014, coordinated with regulatory changes | 6 | 7 | 2 | 7 | 2 | 4 | 15 | Above Target |
| Issue monthly *The NCUA Report* newsletters containing information on regulatory changes | -- | 12 | 12 | 12 | 12 | 12 | 12 | On Target |
| 3.4.3 Issue information on new and changed regulations through multiple delivery channels including the NCUA website, Twitter, Facebook, LinkedIn and YouTube | | | | | | | | |
| NCUA will use social media channels to communicate each rule change as warranted | -- | -- | -- | -- | -- | Achieve | Achieved | On Target |

# Strategic Goal 4: Cultivate an Environment that Fosters a Diverse, Well-trained and Motivated Staff

Agency leadership recognizes NCUA will not meet our other goals and objectives without our most important resource: our people. With the goal of cultivating an environment that fosters a diverse, well-trained and motivated workforce, Strategic Goal 4 reaches across the organization and emphasizes staff effectiveness through hiring, training, diversity and career development. This goal also focuses on maintaining sufficient levels of communication, preparing staff to assume additional responsibilities and duties in leadership positions, and the strengthening of security programs and other administrative support functions.

NCUA made significant progress on the six strategic objectives, 16 performance goals and 36 indicators supporting this strategic goal. In 2014, NCUA maintained or improved its level of performance in 31 indicators.

## STRATEGIC OBJECTIVE 4.1

**Develop and maintain the optimal knowledge, skills and abilities of the agency's workforce to meet emerging needs**

To properly supervise federally insured credit unions, staff must have the requisite skills, training and abilities to identify and mitigate risk. Providing ongoing training in identified emerging risk areas is necessary to maintain an effective examination process. NCUA also holds webinars and produces videos as necessary to highlight regulatory changes, and provides training on required examination processes.

In 2014, we used two performance indicators to gauge NCUA's efforts for Strategic Objective 4.1 and its two underlying performance goals. In 2014, all indicators met their target.

| Performance Goal | Prior Year Results | | | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | Target | Result | Progress |
| 4.1.1 Use all available delivery channels to educate staff on new and updated guidance and regulations | | | | | | | | |
| Hold webinars with NCUA staff on significant regulatory changes | Achieved | Achieved | Achieved | Achieved | Achieved | 4 | Achieved | On Target |

| | Prior Year Results | | | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|
| **Performance Goal** | **2009** | **2010** | **2011** | **2012** | **2013** | **Target** | **Result** | **Progress** |
| 4.1.2 Deliver quality training consistent with the various staff areas of discipline | | | | | | | | |
| Obtain at least a 4.4 out of 5 average rating in training class evaluations | -- | -- | 3.5 | 4.2 | 4.1 | Greater than or equal to 4.4 | 4.41 | On Target |

## STRATEGIC OBJECTIVE 4.2

**Enhance staff effectiveness and efficiency through the use of technology**

Agency staff rely heavily on technology to perform their duties and responsibilities associated with their positions. The technology needs to be at a level appropriate to carry out the agency's mission and maintain a remote workforce. In order to create additional efficiencies, administrative tasks need to be streamlined. NCUA's Information Technology Prioritization Council, comprised of office and regional directors, reviews and prioritizes software initiatives and aligns IT investments with NCUA's mission and structure.

In 2014, we used seven performance indicators to gauge NCUA's efforts for Strategic Objective 4.2 and its three underlying performance goals. In 2014, most indicators met their target. For those indicators that did not meet their target, an explanation is provided.

| | Prior Year Results | | | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|
| **Performance Goal** | **2009** | **2010** | **2011** | **2012** | **2013** | **Target** | **Result** | **Progress** |
| 4.2.1 Develop specialized systems, tools and models to create a more effective examination program | | | | | | | | |
| Finalize and deliver the revamped eLibrary offering online and offline viewing and search capabilities | -- | -- | -- | -- | Funded | Achieve Second Quarter of 2014 | Achieved | On Target |
| Deliver a collaboration tool including wiki-like capabilities to NCUA staff | -- | -- | -- | -- | Funded | Achieve Second Quarter of 2014 | Achieved | On Target |
| Roll out an online corporate credit union Call Report system | -- | -- | -- | -- | -- | Achieve | Delayed | Below Target |
| This system's development encountered delays in the third quarter of 2014. System development is ongoing and its progress will be monitored as part of the 2015-2016 Annual Performance Plan. | | | | | | | | |
| 4.2.2 Deliver leading-edge information technology hardware and software to maximize staff efficiency | | | | | | | | |
| Upgrade connectivity hardware | -- | -- | -- | -- | -- | Achieve First Quarter of 2014 | Achieved | On Target |
| Complete transition to new computers by March 2015 | Achieved | -- | -- | Achieved | -- | Achieve First Quarter of 2015 | On Target | On Target |

| Performance Goal | Prior Year Results 2009 | 2010 | 2011 | 2012 | 2013 | 2014 Target | Result | Progress |
|---|---|---|---|---|---|---|---|---|
| 4.2.3 Increase virtual, remote and telework employee efficiency through the use of current technology | | | | | | | | |
| Increase the number of telework agreements by at least 25 | -- | -- | 225 | 241 | 318 | +25 | 325 | Maintained or Improved, but Target Not Met |
| In 2014, NCUA increased the number of telework agreements over prior years. Attrition rates and new hires ineligible for telework contributed to the missed target. Over two-thirds of NCUA's workforce is field staff and is ineligible for telework. | | | | | | | | |
| Redesign the agency's internal website to incorporate a more user-friendly interface and new features | -- | -- | -- | -- | -- | Achieve | Achieved | On Target |

## STRATEGIC OBJECTIVE 4.3

**Recruit and retain a well-diversified and highly qualified workforce that reflects the relevant labor force**

NCUA identifies improving diversity as one of its agency priority goals and incorporates the principles of diversity as one of its core values. These principles serve as the foundation for building an environment where the talents of all individuals are fully utilized. When applied effectively, these principles create a workforce where employees not only succeed, but are provided the opportunity to reach their fullest potential.

In 2014, NCUA established a Diversity Advisory Council to support the agency's diversity goals. Developing a well-diversified and highly qualified workforce begins during recruitment. NCUA is committed to filling vacancies timely with the best-qualified applicants available.

In 2014, there were seven performance indicators used to gauge NCUA's efforts for Strategic Objective 4.3 and its three underlying performance goals. For those indicators that did not meet their targets, an explaination is provided.

| Performance Goal | Prior Year Results 2009 | 2010 | 2011 | 2012 | 2013 | 2014 Target | Result | Progress |
|---|---|---|---|---|---|---|---|---|
| 4.3.1 Increase the number of women, persons with disabilities and minority staff at all levels particularly in the management ranks— *Agency Priority Goal* | | | | | | | | |
| Increase female representation | 45.5% | 45.8% | 45.2% | 44.8% | 43.7% | +2 percentage points | 44.2% | Maintained or Improved, but Target Not Met |
| Increase representation of persons with disabilities | 6.7% | 7.7% | 8.3% | 8.9% | 9.3% | +2 percentage points | 9.2% | Below Target |
| Increase Hispanic representation | 4.1% | 4.5% | 4.2% | 4.2% | 4.4% | +1 percentage points | 4.3% | Below Target |

| | Prior Year Results | | | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|
| **Performance Goal** | **2009** | **2010** | **2011** | **2012** | **2013** | **Target** | **Result** | **Progress** |
| 4.3.1 (continued) Increase the number of women, persons with disabilities and minority staff at all levels particularly in the management ranks— *Agency Priority Goal* | | | | | | | | |
| Increase female, persons with disabilities and minority representation in leadership ranks (CU-14 and above)[1] | 50.2% | 53.9% | 52.6% | 54.0% | 54.5% | +1 percentage points | 52.5% | Below Target |
| Maintain NCUA's position in the top five mid-sized agencies for the Support for Diversity Indicator (Employee Viewpoint Survey Questions 34, 45, and 55) | -- | -- | -- | 4th | 4th | Top 5 | 5th | On Target |
| 4.3.2 Partner with organizations to increase the diversity of NCUA staff, particularly management | | | | | | | | |
| Partner with at least one new organization | -- | -- | -- | -- | 1 | 1 | 1 | On Target |

NCUA is committed to creating an environment that fosters a diverse, well-trained and motivated staff. As a result, we continue to set ambitious targets to support this objective.

NCUA continually strives to recruit and retain a well-diversified and highly qualified workforce that reflects the relevant labor force. In 2014, NCUA was voted "Best of the Best" by three publications—*Black EOE Journal, U.S. Veterans Magazine,* and *Professional Women's Magazine.* NCUA maintained its position in the top five mid-sized agencies for the Support for Diversity Indicator on the Employee Viewpoint Survey.

NCUA's Office of Minority and Women Inclusion issued its annual report to Congress noting the agency's efforts to recruit and retain highly qualified minorities and women. NCUA's Office of Inspector General also issued a report in November 2014 after conducting a review of NCUA's efforts to promote equal opportunity and achieve diversity in senior management.

In 2015, NCUA revised the indicators used to measure performance under this performance goal. Future performance will be measured by:

- Implementing actions items under the "Workforce Diversity" goal in the 2012–2016 Diversity and Inclusion Strategic Plan;
- Holding Outreach Committee meetings to assess diversity and outreach needs and progress toward achievement;
- Conducting analyses to identify any barriers that cause low participation rates of underrepresented groups in the NCUA workforce and taking steps to remove those barriers; and
- Maintaining NCUA's position in the top five mid-sized agencies for the "Support for Diversity" indicator.

[1] Prior year results were revised for consistency with current calculation methods.

| Performance Goal | Prior Year Results 2009 | 2010 | 2011 | 2012 | 2013 | 2014 Target | Result | Progress |
|---|---|---|---|---|---|---|---|---|
| 4.3.3 Fill vacancies timely with the best-qualified applicants available | | | | | | | | |
| Fill vacancies within an average of 100 days | -- | -- | -- | 114 | 107 | 100 | 107 | Maintained or Improved, but Target Not Met |
| The average time for filling a vacancy has declined since 2012 and remains unchanged from 2013 at 107 days. NCUA's Office of Human Resources continues to monitor the duration for all stages of the hiring process, from vacancy announcement to onboarding to determine where inefficiencies may exist. | | | | | | | | |

## STRATEGIC OBJECTIVE 4.4

**Maintain an effective plan of succession to ensure continuity of leadership throughout all levels of the organization**

NCUA must be prepared to pursue other opportunities as staff retire or leave their positions. Succession planning helps the agency determine the knowledge, skills and abilities necessary to fill critical positions. As part of its succession planning, NCUA cultivates talent by providing training, mentoring, detail assignments and other leadership development opportunities.

In 2014, we used seven performance indicators to gauge NCUA's efforts for Strategic Objective 4.4 and its two underlying performance goals. In 2014, all indicators met their target.

| Performance Goal | Prior Year Results 2009 | 2010 | 2011 | 2012 | 2013 | 2014 Target | Result | Progress |
|---|---|---|---|---|---|---|---|---|
| 4.4.1 Capture valuable institutional knowledge of retiring senior executives | | | | | | | | |
| Develop a process to capture corporate information from retiring executives | -- | -- | -- | -- | -- | Achieve 2015 | On Target | On Target |
| Have at least four management staff participate in the executive development program per year | -- | -- | -- | -- | Resumed Program | 4 | 4 | On Target |
| Provide executive coaching to at least five managers per year | -- | -- | -- | -- | 10 | 5 | 7 | Above Target |

| | Prior Year Results | | | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|
| **Performance Goal** | **2009** | **2010** | **2011** | **2012** | **2013** | **Target** | **Result** | **Progress** |
| 4.4.2 Enhance leadership training programs to provide continued education for all levels of staff | | | | | | | | |
| Conduct post-program evaluations of external leadership programs to determine if they are meeting NCUA needs throughout the year and identify additional leadership programs to consider | -- | -- | -- | -- | -- | Achieve Second Quarter of 2014 | Achieved | On Target |
| Conduct post-program reviews of internal management and executive development programs in coordination with oversight committees | -- | -- | -- | -- | -- | Achieve | On Target | On Target |
| Promote successful graduation of all NCUA leadership program participants as warranted | -- | -- | 100% | 100% | 95% | 100% | Achieved | On Target |
| Gather baseline data on leadership program graduates moving into leadership positions | -- | -- | -- | -- | -- | Baseline | Achieved | On Target |

## STRATEGIC OBJECTIVE 4.5

**Improve NCUA's internal communication, both horizontally and vertically**

NCUA's leadership understands the importance of keeping all staff informed of major issues, both internally and externally. NCUA communicates with staff by offering webinars, teleconferences and emails notices. Regulatory and policy briefings are provided to staff prior to any external release, and the *Inside NCUA Weekly* newsletter is distributed to all staff to keep them apprised of agency changes and issues.

In 2014, we used five performance indicators to gauge NCUA's efforts for Strategic Objective 4.5 and its two underlying performance goals. In 2014, most indicators met their target.

| | Prior Year Results | | | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|
| **Performance Goal** | **2009** | **2010** | **2011** | **2012** | **2013** | **Target** | **Result** | **Progress** |
| 4.5.1 Provide clear and timely communication between all levels of staff | | | | | | | | |
| Hold quarterly Chairman's webinars with all staff | -- | -- | -- | 2 | 4 | 4 | Achieved | On Target |
| Publish weekly *Inside NCUA Weekly* communication emails | -- | -- | 47 | 52 | 52 | 52 | 51 | Below Target |
| *Inside NCUA Weekly* was published 51 out of 52 weeks. A newsletter was not issued the week ending November 28 due to the Thanksgiving holiday. | | | | | | | | |
| Hold semi-annual regional and annual central office management meetings | -- | -- | 10 | 10 | 10 | 11 | 14 | Above Target |

| Performance Goal | Prior Year Results 2009 | 2010 | 2011 | 2012 | 2013 | 2014 Target | Result | Progress |
|---|---|---|---|---|---|---|---|---|
| 4.5.2 Coordinate agency communications to maintain consistent strategic messaging | | | | | | | | |
| Complete remaining chapters of the Communications Manual | -- | -- | -- | -- | Issued | Achieve | Achieved | On Target |
| Publish communications reminders monthly in *Inside NCUA Weekly* | -- | -- | -- | -- | 4 | 12 | 47 | Above Target |

## STRATEGIC OBJECTIVE 4.6

**Enhance NCUA's position as one of the best places in the government to work**

NCUA's Internal Communications Working Group and Partnership Council both provide venues for agency staff to provide input on areas needing improvement and advance efforts to make NCUA one of the best places to work in the government. Also, quarterly webinars with agency leadership, including the Chairman, encourage and solicit input from all staff on ways to improve the organization.

NCUA has also committed to strengthening its security program and communications and has made this objective an agency priority goal. NCUA's Office of Security and Continuity Management was established January 1, 2014, and oversees for continuity of operations and emergency management, physical security, personnel security, and national security and intelligence.

In 2014, we used eight performance indicators to gauge NCUA's efforts for Strategic Objective 4.6 and its four underlying performance goals. In 2014, all indicators met their target.

| Performance Goals | Prior Year Results 2009 | 2010 | 2011 | 2012 | 2013 | 2014 Target | Result | Progress |
|---|---|---|---|---|---|---|---|---|
| 4.6.1 Solicit staff input on areas requiring attention | | | | | | | | |
| Maintain at least 65 percent staff participation in employee viewpoint survey | -- | 62.5% | 49.7% | 65% | 72% | Greater than or equal to 65% | 68% | Above Target |
| 4.6.2 Strive to balance organizational needs with comparability with the other financial services regulatory agencies in the areas of pay and benefits | | | | | | | | |
| Coordinate with the other Financial Institutions Reform, Recovery, and Enforcement Act agencies to evaluate pay and benefits comparability | -- | -- | -- | -- | -- | Achieve | Achieved | On Target |
| Begin Collective Bargaining Agreement negotiations during 2014 and strive to balance a pay and benefit system within current comparability levels and organizational needs | -- | -- | Achieved | -- | -- | Achieve | On Target | On Target |

| | Prior Year Results | | | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|
| Performance Goals | 2009 | 2010 | 2011 | 2012 | 2013 | Target | Result | Progress |
| 4.6.3 Streamline operation policies and practices to reduce administrative burden for all staff | | | | | | | | |
| Reduce or eliminate at least two administrative management requirements as part of labor relations activities | -- | -- | 2 | 2 | 2 | 2 | On Target | On Target |
| 4.6.4 Strengthen the security program in the areas of personnel, facilities, continuity of operation and secure communications — *Agency Priority Goal* | | | | | | | | |
| Ensure the Sensitive Compartmented Information Facility is operable | -- | -- | -- | -- | -- | Achieve | Achieved | On Target |
| Fully staff the Office of Continuity and Security Management | -- | -- | -- | -- | -- | Achieve | Achieved | On Target |
| Complete onsite security review of all NCUA-leased and owned facilities for physical security enhancements | -- | -- | -- | -- | -- | Achieve | Achieved | On Target |
| Develop and implement at least two new security policies to further the safety of NCUA staff | -- | -- | -- | -- | -- | 2 | Achieved | On Target |

## Budget and Expenditures by Strategic Goal

NCUA's original budget for 2014 totaled $268.3 million. NCUA allocated the majority of its budget, $196.1 million, to Strategic Goal 1 related programs, followed by $46.0 million for Strategic Goal 4. These goals are largely comprised of the supervision and examination programs, and talent management and information technology programs, respectively.

The remaining budget consists of $17.3 million to Strategic Goal 2 on consumer protection, and $8.9 million to Strategic Goal 3 on a transparent regulatory environment. NCUA proportionally allocates general and administrative costs to each goal. The agency utilized 95 percent of its original budget in 2014.

NCUA also budgeted for 1,265 full-time equivalent workers in 2014. NCUA allocated the majority of its workforce to Strategic Goal 1, followed by Strategic Goal 4. At year-end, NCUA had 1,225 full-time equivalent employees on board.

| Strategic Goal | Dollars (in Millions) | | Percent | | Full Time Equivalents | | Percent | |
|---|---|---|---|---|---|---|---|---|
| | Budgeted | Actual | Budgeted | Actual | Budgeted | Actual | Budgeted | Actual |
| Goal 1: Ensure a Safe, Sound and Sustainable Credit Union Industry | $196.1 | $187.0 | 73.1% | 73.7% | 1,053 | 1,024 | 83.2% | 83.6% |
| Goal 2: Promote Consumer Protection and Financial Literacy | $17.3 | $16.0 | 6.5% | 6.3% | 73 | 71 | 5.8% | 5.8% |
| Goal 3: Further Develop a Regulatory Environment that Is Transparent and Effective, with Clearly Articulated and Easily Understood Regulations | $8.9 | $8.9 | 3.3% | 3.5% | 38 | 37 | 3.0% | 3.0% |
| Goal 4: Cultivate an Environment that Fosters a Diverse, Well-trained and Motivated Staff | $46.0 | $41.8 | 17.1% | 16.5% | 101 | 93 | 8.0% | 7.6% |
| **Total** | **$268.3** | **$253.7** | | | **1,265** | **1,225** | | |

The expenses for the Offices of the Board, Executive Director, Inspector General and Chief Financial Officer are allocated across all strategic goals.

# FINANCIAL SECTION

## Message from NCUA's Chief Financial Officer

I am pleased to present the National Credit Union Administration's 2014 financial statements for NCUA's four permanent funds:

- The National Credit Union Share Insurance Fund;
- The Operating Fund;
- The Central Liquidity Facility; and
- The Community Development Revolving Loan Fund.

In 2014, the agency's four permanent funds once again received an unmodified or "clean" financial opinion from our independent auditors. This sustained achievement underscores our commitment to transparency, accountability and stewardship to the President, Congress, credit unions and the American public.

As stewards of our nation's credit union system, NCUA employees understand the importance of strong financial management and accountability, and robust internal controls over financial reporting continue to be a priority for the agency. Strong internal controls allow us to execute sound financial management and provide reliable financial data, as well as identify and mitigate any potential financial reporting risks that may arise due to new programs or complex transactions. I am pleased to report that once again, we had no findings in our independent auditors' reports on compliance and internal control over financial reporting.

During 2014, NCUA continued to be an effective steward of agency funds. NCUA expended just over 95 percent of its $268.3 million Board-approved operating budget, and returned $1.1 million of excess cash thereby reducing 2015 operating fees. NCUA is in compliance with all applicable laws such as the Federal Managers' Financial Integrity Act, the Prompt Payment Act, the Debt Collection and Improvement Act, and the Federal Information Security Management Act. As required by the Improper Payments Elimination and Recovery Act of 2010, we have determined that NCUA programs are not susceptible to a high risk of significant improper payments.

I would like to express my sincere thanks and appreciation to the NCUA professionals whose consistent efforts to plan, execute and account for the agency's resources provides the foundation for our strong stewardship. NCUA is committed to upholding its tradition of accountability and transparency. As such, we will continue to present quarterly reporting of the financial highlights on both the Share Insurance Fund and the Temporary Corporate Credit Union Stabilization Fund at public board meetings and post our monthly financial highlights on our website. NCUA will continue to measure its success by accomplishing its safety and soundness mission in an effective and fiscally responsible manner.

Sincerely,

Rendell L. Jones
Chief Financial Officer

# Overview of NCUA's Permanent Fund Programs

NCUA operates four permanent funds—the National Credit Union Share Insurance Fund, the Operating Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund. All four funds received unmodified or "clean" audit opinions for 2014. A summary of each fund follows.

The National Credit Union Share Insurance Fund is the federal fund created by Congress in 1970 to insure member deposits in federally insured credit unions. Administered by NCUA, the Share Insurance Fund is backed by the full faith and credit of the United States. The Share Insurance Fund protects the deposits of more than 99 million members at federally insured credit unions up to $250,000.

The NCUA Operating Fund, in conjunction with the National Credit Union Share Insurance Fund, finances agency's operations.

The Central Liquidity Facility provides liquidity for all member credit unions and can invest in U.S. Government and agency obligations, deposits of federally insured institutions, and shares or deposits in credit unions.

The NCUA Community Development Revolving Loan Fund provides loans and grants to low-income designated credit unions.

In addition to the Share Insurance Fund, the Operating Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund, NCUA operates the Temporary Corporate Credit Union Stabilization Fund, which Congress created to manage the costs of paying for the recent corporate credit union failures over time. The Stabilization Fund will sunset in 2021. The results of the 2014 independent audit of the Stabilization Fund are available at http://go.usa.gov/3D3Um.

# NATIONAL CREDIT UNION SHARE INSURANCE FUND

Financial Statements as of and for the Years Ended
December 31, 2014 and 2013, and
Independent Auditors' Report

# Overview

## *I. Mission and Organizational Structure*

**NCUSIF Mission**

The National Credit Union Administration (NCUA) administers the National Credit Union Share Insurance Fund (NCUSIF or Fund).[1] Congress created the NCUSIF in 1970 to insure members' shares (deposits) in credit unions. The NCUSIF is backed by the full faith and credit of the U.S. Government. As of December 2014, the NCUSIF insures an estimated $903.0 billion in member shares in just under 6,300 credit unions.

The NCUSIF protects members' accounts in insured credit unions in the unlikely event of a credit union failure. The NCUSIF insures the balance of each members' account, dollar-for-dollar, up to the standard maximum share insurance amount of $250,000, including principal and posted dividends through the date of the failure. The Fund insures all types of member shares received by a credit union in its usual course of business.

The NCUSIF also provides funding when the NCUA Board determines that some form of financial assistance to troubled credit unions will result in the least resolution cost. Examples of financial assistance include:

- a waiver of statutory reserve requirements;
- a guaranteed line of credit, cash assistance, including subordinated notes or other forms; and
- cash assistance to arrange a merger or purchase and assumption.

When a credit union is no longer able to continue operating and assistance alternatives are not practical, the credit union will be liquidated and the NCUSIF will pay members' shares up to the standard maximum insurance amount.

**Organizational Structure**

NCUA's Director of the Office of Examination and Insurance (E&I) is responsible for overseeing the agency's examination and supervision program. NCUA's E&I Director is also the President of the NCUSIF and responsible for risk management of the NCUSIF. Regional offices and the Office of National Examinations and Supervision (ONES) conduct examinations and other NCUA offices provide operational and administrative services to the NCUSIF. The Asset Management and Assistance Center (AMAC) conducts credit union liquidations. AMAC establishes an Asset Management Estate (AME) to collect the obligations due to the credit union, monetize assets and distribute amounts to claimants, including the NCUSIF, according to their respective regulatory payout priorities.

[1] The NCUSIF is one of five funds established in the U.S. Treasury and administered by the NCUA Board. The four permanent funds include the NCUSIF, the Operating Fund, the Central Liquidity Facility (CLF) and the Community Development Revolving Loan Fund. In addition, the NCUA Board administers the Temporary Corporate Credit Union Stabilization Fund (TCCUSF) that was established in 2009 to accrue the losses of corporate credit unions during the credit crisis and to recover such losses over time. All five funds report under separate financial statements.

## *II. Performance Goals, Objectives and Results*

Consistent with the *NCUA Strategic Plan 2014 through 2017*, which emphasizes ensuring a "sustainable credit union system," the agency prepared the *NCUA 2014-2015 Annual Performance Plan*. Performance goals include maintaining strong levels of credit union system-wide net worth and corporate credit union leverage ratios, examining all federal credit unions annually, examining all federally-insured state-chartered credit unions with assets above $250 million annually, maintaining yearly NCUSIF losses for current year failures as a percentage of average insured shares at less than 0.03%, and minimizing total assets in CAMEL[2] Code 4/5 rated credit unions. For 2014, NCUSIF losses for current year failures ratio was 0.004%, as compared to 0.008% for 2013. Total assets in CAMEL Code 4/5 credit unions decreased to $11.5 billion in 2014, as compared to $13.8 billion in 2013.

In measuring the performance of the NCUSIF for 2014 and 2013, the following additional measures should be considered.

| **2014 and 2013 Performance Measures** | | |
|---|---|---|
| | December 31, 2014 | December 31, 2013 |
| Equity Ratio (Before Distribution) | 1.29% | 1.31% |
| Insurance and Guarantee Program Liabilities (Contingent Liability) | $178.3 million | $220.7 million |
| Net Position | $11.8 billion | $11.3 billion |
| Insured Shares | $903.0 billion | $866.3 billion |
| Credit Union Involuntary Liquidations and Assisted Mergers | 15 | 17 |
| Assets in CAMEL 3, 4 and 5 rated Credit Unions | $106.9 billion | $122.4 billion |

The equity ratio and contingent liability are significant financial performance measures in assessing the ongoing operations of the NCUSIF. The equity ratio serves as a mechanism to balance funding from capitalization deposits and premium assessments in response to changes in insured share growth, insurance losses, interest income from U.S. Treasury security investments, as well as other revenues and expenses.

*Equity Ratio and Normal Operating Level*
The financial performance of the NCUSIF revolves around the equity ratio and the Normal Operating Level (NOL). The equity ratio is calculated as the ratio of the contributed one percent deposit plus cumulative results of operations, excluding net cumulative unrealized gains and losses on investments, to the aggregate amount of the insured shares in all insured credit unions. The NOL is the desired long-term target equity level for the NCUSIF. The NCUA Board sets the NOL between 1.20% and 1.50%. The NCUA Board set the current NOL at 1.30%.

By statute, when the equity ratio falls below 1.20%, the NCUA Board must establish and implement a restoration plan to rebuild the equity ratio, which may include a premium assessment to each insured credit union. In 2014 and 2013, the NCUA Board did not assess a premium charge to insured credit unions for the NCUSIF. The NCUSIF pays a distribution when the equity ratio exceeds the NOL at year-end. When the NCUSIF or the Temporary Corporate Credit Union Stabilization Fund (TCCUSF) does not have an outstanding borrowing from the U.S. Treasury, the distribution is paid to insured credit unions.

[2] CAMEL is the acronym for **C**apital, the quality of **A**ssets, the capability of **M**anagement, the quality and level of **E**arnings, and the adequacy of **L**iquidity.

The equity ratio was 1.29%, slightly below the NOL as of December 2014. As a result, no distribution was payable to the TCCUSF for 2014. For 2013, the NCUSIF ended the year with an equity ratio of 1.31%, which resulted in a distribution of $95.3 million to TCCUSF to reduce the equity ratio to 1.30%.

*Insurance Losses (Contingent Liabilities)*

Through its supervision process, NCUA applies a supervisory rating system to assess each insured credit union's relative health in the adequacy of **C**apital, the quality of **A**ssets, the capability of **M**anagement, the quality and level of **E**arnings, and the adequacy of **L**iquidity (CAMEL), applying a rating to the credit union ranging from "1" (strongest) to "5" (weakest). The CAMEL rating system is a tool to measure risk and allocate resources for supervisory purposes. NCUA periodically reviews the CAMEL rating system to respond to continuing economic and regulatory changes in the credit union industry.

The NCUSIF's year-end contingent liability is derived by using an internal model that applies estimated failure and loss rates based on an econometric model that takes into account the historical loss history, CAMEL ratings, credit union level financial ratios, and macroeconomic conditions to all insured credit unions. In addition, specific analysis is performed on those insured credit unions where failure is imminent or where additional information is available that may affect the estimate of losses.

NCUA identifies credit unions at risk of failure through the supervisory and examination process, and estimates losses based upon economic trends and credit unions' financial condition and operations. NCUA also evaluates overall credit union economic trends and monitors potential system-wide risk factors, such as increasing levels of consumer debt, bankruptcies, and delinquencies.

The credit union industry improved during 2014 as reflected by the reduction in assets in CAMEL 3, 4 and 5 rated credit unions as compared to 2013. Assets in CAMEL 3, 4 and 5 rated credit unions dropped to $106.9 billion at the end of 2014, versus $122.4 billion at the end of 2013. Improvements were also seen with the system-wide net worth ratio; this ratio increased to 11.0% from 10.7%. These improvements, as well as other trends, helped contribute to a reduction in amounts for the Insurance and Guarantee Program Liabilities on the NCUSIF Balance Sheets. The NCUSIF ended 2014 with Insurance and Guarantee Program Liabilities of $178.3 million to cover potential losses as compared with $220.7 million for the previous year-end, a reduction of $42.4 million.

Due to uncertain economic risks and the possibility of variances from historical data, actual losses could differ materially from the contingent liabilities recorded by the NCUSIF.

Performance measures are designed to enable management and our stakeholders to assess programs and financial performance and to use this information to make improvements. Performance measures have inherent limitations including the change over time in the correlation of cause and effect. A strong correlation between cause and effect in one period may not continue into the next. In addition, performance measures may not address systemic risks, which can have a significant determination on future results.

### *III. Financial Statement Analysis*

The NCUSIF ended 2014 with the Balance Sheets showing an increase in Total Assets and its Total Net Position and a reduction in Insurance and Guarantee Program Liabilities from the prior year. With the Statements of Net Cost, net cost increased to $132.3 million primarily due to increases in Operating Expenses. These changes are explained in further detail below.

| Summarized Financial Information (in thousands) | | |
|---|---|---|
| | December 31, 2014 | December 31, 2013 |
| Total Assets | $11,957,607 | $11,606,600 |
| Investments, Net | 11,611,538 | 11,199,001 |
| Notes Receivable, Net | 174,213 | 212,208 |
| Receivables from Asset Management Estates, Net | 87,785 | 119,863 |
| Insurance and Guarantee Program Liabilities | 178,318 | 220,651 |
| Contributed Capital | 8,944,099 | 8,661,174 |
| Net Position | 11,775,355 | 11,281,103 |
| Operating Expenses | 179,818 | 148,312 |
| Provision for Insurance Losses, Reserve Expense (Reduction) | 3,298 | (41,054) |
| Provision for Insurance Losses, AME Receivable Bad Debt Expense | (45,138) | (7,584) |
| Total Net Cost of Operations | 132,345 | 95,124 |
| Cumulative Results of Operations | 2,831,256 | 2,619,929 |
| Interest Revenue – Investments | 208,259 | 198,264 |

*Balance Sheet Highlights*
Total Assets increased by $351.0 million in 2014. The increase came primarily from net unrealized gains on Investments, $135.4 million, and Interest Revenue – Investments, $208.3 million, partially offset by Total Net Cost of Operations, $132.3 million.

Balances of Investments increased by $412.5 million during 2014, primarily driven by investing net additions to Contributed Capital and increasing market values of U.S. Treasury securities held as available-for-sale. During 2014, the interest rate yield curve on U.S. Treasury securities decreased, primarily driven by the decrease in market interest rate yields on securities with maturities of five years or more. The decrease in market interest rate yields resulted in an increase in the market value of U.S. Treasury securities.

Notes Receivable, Net declined $38.0 million and Receivables from Asset Management Estates, Net declined $32.1 million. The decreases in the balances of Notes Receivable, Net and Receivables from Asset Management Estates, Net include the collection of principal on outstanding loans, mortgages and other debt instruments. Also, Receivables from Asset Management Estates, Net include various transactions that are explained in Note 7 to the financial statements.

Insurance and Guarantee Program Liabilities, referred to as contingent liabilities, were $178.3 million and $220.7 million as of December 31, 2014 and 2013, respectively. In general, the decrease reflects improved financial strength in the credit union industry and strengthening macroeconomic conditions, such as geographic housing indicators.

Contributed Capital increased by $282.9 million during 2014 due to the growth of insured shares in credit unions. Each insured credit union deposits one percent of its insured shares as Contributed Capital. In 2014, credit union membership grew by 3.13% to approximately 99.3 million members.

Net Position increased $494.3 million during 2014 and is a combination of other increases and decreases. Increases include interest revenue on Investments of $208.3 million, net additions of Contributed Capital of $282.9 million, and net unrealized gains on Investments of $135.4 million. Decreases include Net Cost of Operations of $132.3 million.

*Statements of Net Cost Highlights*

Total Net Cost of Operations was $132.3 million for 2014, as compared to $95.1 million for 2013. The primary increase in Net Cost of Operations is attributable to the increase in Operating Expenses of $31.5 million. As explained on Note 10, Operating Expenses include expenses from the NCUA Operating Fund based on an allocation factor that increased from 59.1% to 69.2% for 2014. Also, the Provision for Insurance Losses is an expense reduction of $41.8 million and $48.6 million for both 2014 and 2013, respectively; the net change between years is an increase in cost of $6.8 million. Within the Provision of Insurance Loss for 2014, the Reserve Expense was $3.3 million, reflecting an increase in losses related to the 15 credit union involuntary liquidations and assisted mergers, while the AME Receivable Bad Debt Expense was a $45.1 million expense reduction, reflecting recoveries and increases in net realizable values of assets managed.

*Statements of Changes in Net Position Highlights*

Cumulative results of operations increased by $211.3 million in 2014. This increase was primarily driven by net unrealized gains on Investments of $135.4 million and Interest Revenue of $208.3 million, partially offset by Net Cost of Operations of $132.3 million. Interest Revenue was the primary source of funds to partially offset expenses and obligations.

As of December 31, 2014, the NCUSIF calculated equity ratio was 1.29%; therefore, NCUSIF was not required to make a distribution to the TCCUSF. As of December 31, 2013, the NCUSIF recorded an estimate for the distribution payable due to the TCCUSF totaling $95.3 million, thereby bringing the equity ratio down to its NOL of 1.30%. This amount was paid to TCCUSF in March 2014.

*Statements of Budgetary Resources Highlights*

Activity impacting budget totals of the overall Federal Government is recorded in the NCUSIF's Statements of Budgetary Resources. The NCUSIF's net outlays were negative, meaning that NCUSIF had net cash inflows of $435.3 million and $376.3 million for 2014 and 2013, respectively. This increase is primarily the result of the growth of credit union insured shares and the corresponding 1.00% contributed capital deposit adjustment received.

**Limitations of the Financial Statements**

The principal financial statements have been prepared to report the financial position and results of operations of the NCUSIF. While the statements have been prepared from the books and records of the NCUSIF in accordance with U.S. generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

**Liquidity Risk and Capital Resources**

For liquidity, the NCUSIF maintains cash in its Fund Balance with Treasury (FBWT) as well as investments in U.S. Treasury securities. Investments in U.S. Treasury securities include overnight investments, which are available for the possibility of urgent liquidity needs.

| 2014 and 2013 Fund Balance with Treasury and Investments | | |
|---|---|---|
| | December 31, 2014 | December 31, 2013 |
| Fund Balance with Treasury | $ 10.5 million | $ 2.5 million |
| U.S. Treasury Securities | | |
| Overnight | 173.6 million | 329.6 million |
| Available-for-Sale | 11,437.9 million | 10,869.4 million |

During 2014, the FBWT account was increased primarily by maturing investments in U.S. Treasury securities. The FBWT account was decreased by purchases of U.S. Treasury securities, nonexpenditure transfers, and amounts expended for the purposes of the share insurance program.

The NCUSIF has multiple other sources of funding including:

- capitalization deposits contributed by insured credit unions, as provided by the Federal Credit Union Act (FCU Act);
- cumulative results of operations retained by the NCUSIF;
- assessments on insured credit unions, as necessary;
- borrowings from the U.S. Treasury; and
- borrowings from the Central Liquidity Facility (CLF).

The NCUSIF is a revolving fund in the U.S. Treasury and has access to sufficient funds to meet its obligations, including its Insurance and Guarantee Program Liabilities.

*Contributed Capital*
Each insured credit union must deposit and maintain in the NCUSIF 1.00% of its insured shares. For the years ended December 31, 2014 and 2013, the NCUSIF's contributed capital from insured credit unions increased by $282.9 million and $346.2 million, respectively. Total insured shares were estimated at $903.0 billion and $866.3 billion as of December 31, 2014 and 2013, respectively.

At December 31, 2014, NCUA estimated the total insured shares to be approximately $903.0 billion, subject to certified reporting of insured share amounts. We expect that the NCUSIF will receive additional capitalization deposits of approximately $86.1 million from insured credit unions in early 2015 when NCUA invoices for its biannual contributed capital adjustment.

*Cumulative Results of Operations*
The NCUSIF ended 2014 and 2013 with a total of $2.8 billion and $2.6 billion in cumulative results of operations, respectively. Interest Revenue is currently the primary source of funds for operations.

*Assessments*
The NCUA Board may also assess premium charges to all insured credit unions, as provided by the FCU Act. During the years ended December 31, 2014 and 2013, the NCUA Board did not assess any premium charges to insured credit unions for the NCUSIF.

*Borrowing Authority from the U.S. Treasury*
The NCUSIF has $6.0 billion in maximum statutory borrowing authority, shared with the TCCUSF, from the U.S. Treasury. As of December 31, 2014 and 2013, the TCCUSF had $2.6 billion and $2.9 billion in borrowing outstanding from the U.S. Treasury, respectively; the NCUSIF had no borrowings outstanding. As a result, the NCUSIF had $3.4 billion and $3.1 billion, respectively, in available borrowing authority

shared with the TCCUSF. The estimated losses and liquidity needs of the TCCUSF are based on the NCUA's expectations and assumptions about the resolution of failed corporate credit unions, including the disposition and recovery value of their assets. Actual losses of the TCCUSF, including the TCCUSF's funding needs, could differ from those estimates. Consequently, additional borrowing for the TCCUSF reduces funds available from this source.

*Borrowing Authority from the CLF*

The NCUSIF also has the ability to borrow from the CLF as provided in the FCU Act. At December 31, 2014 and 2013, the NCUSIF did not have any outstanding borrowing from the CLF. The CLF is authorized by statute to borrow, from any source, an amount not to exceed twelve times its subscribed capital stock and surplus. The CLF had statutory borrowing authority of $5.1 billion as of December 31, 2014. NCUA maintains a note purchase agreement with Federal Financing Bank (FFB) on behalf of CLF with a maximum principal amount of $2.0 billion. Under the terms of its agreement, CLF borrows from FFB as needed. Under terms prescribed by the note purchase agreement, CLF executes promissory notes in amounts as necessary and renews them annually. Advances under the current promissory note can be made no later than March 31, 2015.

### *IV. Systems, Controls, and Legal Compliance*

The NCUSIF was created by Title II of the FCU Act, 12 U.S.C. §1781 *et seq*., as amended. In January 2011, the *National Credit Union Authority Clarification Act*, Public Law 111-382, amended the FCU Act in part by amending the definitions of "equity ratio" and "net worth." NCUA, including the NCUSIF, is exempt from requirements under the *Federal Credit Reform Act of 1990* (2 U.S.C. § 661 et seq.).

Internal controls should be designed to provide reasonable assurance regarding prevention or prompt detection of unauthorized acquisition, use, or disposition of assets. The Federal Managers' Financial Integrity Act (FMFIA) requires agencies to establish management controls over their programs and financial systems. Accordingly, NCUA management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of FMFIA, which include safeguarding assets and compliance with applicable laws and regulations. NCUA managers monitor and assess their relevant internal controls and report on their assessment. This allows NCUA management to provide reasonable assurance that internal controls are operating effectively. NCUA is in compliance with FMFIA as well as all applicable laws such as the Prompt Payment Act, and the Debt Collection and Improvement Act. As required by the Improper Payments Elimination and Recovery Act, we have determined that the NCUSIF's programs are not susceptible to a high risk of significant improper payments.

As required by the Federal Information Security Management Act (FISMA), NCUA develops, documents, and implements an agency-wide program to provide information privacy and security (management, operational, and technical security controls) for the information and information systems that support the operations of the agency, including those provided or managed by another agency, contractor, or other source.

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## Independent Auditors' Report

Inspector General, National Credit Union Administration and
the National Credit Union Administration Board:

### Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Share Insurance Fund (NCUSIF), which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of net cost, changes in net position, and statements of budgetary resources for the years then ended, and the related notes to the financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion on the Financial Statements*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Share Insurance Fund as of December 31, 2014 and 2013, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

***Other Matters***

*Required Supplementary Information*

U.S. generally accepted accounting principles require that the information in the Overview and Required Supplementary Information sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2014, we considered the NCUSIF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NCUSIF's internal control. Accordingly, we do not express an opinion on the effectiveness of the NCUSIF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the NCUSIF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 14-02.

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***Purpose of the Other Reporting Required by* Government Auditing Standards**

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the NCUSIF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

February 13, 2015

**NATIONAL CREDIT UNION SHARE INSURANCE FUND**

**BALANCE SHEETS**
**As of December 31, 2014 and 2013**
**(Dollars in thousands)**

| | 2014 | 2013 |
|---|---|---|
| **ASSETS** | | |
| **INTRAGOVERNMENTAL** | | |
| Fund Balance with Treasury (Note 2) | $ 10,493 | $ 2,501 |
| Investments, Net - U.S. Treasury Securities (Note 3) | 11,611,538 | 11,199,001 |
| Accounts Receivable - Note due from the National Credit Union Administration Operating Fund (Note 4) | 11,733 | 13,074 |
| Accrued Interest Receivable (Note 3) | 59,700 | 59,597 |
| Total Intragovernmental Assets | 11,693,464 | 11,274,173 |
| **PUBLIC** | | |
| Notes Receivable, Net (Note 5) | 174,213 | 212,208 |
| Accounts Receivable - Due from Insured Credit Unions, Net (Note 4) | 1,586 | - |
| Accrued Interest Receivable - Notes (Note 5) | 396 | 329 |
| General Property, Plant and Equipment, Net (Note 6) | 128 | - |
| Other - Receivables from Asset Management Estates (AMEs), Net (Note 7) | 87,785 | 119,863 |
| Other Assets | 35 | 27 |
| Total Public Assets | 264,143 | 332,427 |
| **TOTAL ASSETS** | $ 11,957,607 | $ 11,606,600 |
| **LIABILITIES** | | |
| **INTRAGOVERNMENTAL** | | |
| Accounts Payable - Due to the National Credit Union Administration Operating Fund (Note 10) | $ 3,509 | $ 3,313 |
| Accounts Payable - Due to the Temporary Corporate Credit Union Stabilization Fund | - | 3,910 |
| Other - Distribution Payable to the Temporary Corporate Credit Union Stabilization Fund (Note 9) | - | 95,291 |
| Total Intragovernmental Liabilities | 3,509 | 102,514 |
| **PUBLIC** | | |
| Accounts Payable | 425 | 2,332 |
| Other - Insurance and Guarantee Program Liabilities (Note 8) | 178,318 | 220,651 |
| Total Public Liabilities | 178,743 | 222,983 |
| **TOTAL LIABILITIES** | 182,252 | 325,497 |
| Commitments and Contingencies (Note 8) | | |
| **NET POSITION** | | |
| Contributed Capital (Note 13) | 8,944,099 | 8,661,174 |
| Cumulative Result of Operations | 2,831,256 | 2,619,929 |
| Total Net Position | 11,775,355 | 11,281,103 |
| **TOTAL LIABILITIES AND NET POSITION** | $ 11,957,607 | $ 11,606,600 |

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

**NATIONAL CREDIT UNION SHARE INSURANCE FUND**

**STATEMENTS OF NET COST**
**For the Years Ended December 31, 2014 and 2013**
**(Dollars in thousands)**

| | 2014 | 2013 |
|---|---|---|
| **GROSS COSTS** | | |
| Operating Expenses | $ 179,818 | $ 148,312 |
| Provision for Insurance Losses | | |
| Reserve Expense (Reduction) (Note 8) | 3,298 | (41,054) |
| AME Receivable Bad Debt Expense (Reduction) (Note 7) | (45,138) | (7,584) |
| Total Gross Costs | 137,978 | 99,674 |
| **LESS EARNED REVENUES** | | |
| Interest Revenue on Note Receivable from the National Credit Union Administration Operating Fund (Note 4) | (229) | (249) |
| Interest Revenue on Notes (Note 5) | (3,142) | (3,476) |
| Insurance and Guarantee Premium Revenue | (2,262) | (825) |
| Total Earned Revenues | (5,633) | (4,550) |
| **TOTAL NET COST OF OPERATIONS** | $ 132,345 | $ 95,124 |

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

**NATIONAL CREDIT UNION SHARE INSURANCE FUND**

**STATEMENTS OF CHANGES IN NET POSITION**
**For the Years Ended December 31, 2014 and 2013**
**(Dollars in thousands)**

| | 2014 | 2013 |
|---|---|---|
| **CUMULATIVE RESULTS OF OPERATIONS** | | |
| Beginning Balances | $ 2,619,929 | $ 2,968,841 |
| **BUDGETARY FINANCING SOURCES** | | |
| Non-Exchange Revenue | | |
| Interest Revenue - Investments | 208,259 | 198,264 |
| Other | | |
| Distribution to the Temporary Corporate Credit Union Stabilization Fund (Note 9) | - | (95,291) |
| **OTHER FINANCING SOURCES** | | |
| Non-Exchange Revenue | | |
| Net Unrealized Gain/(Loss) - Investments (Note 3) | 135,413 | (356,761) |
| Total Financing Sources | 343,672 | (253,788) |
| Net Cost of Operations | (132,345) | (95,124) |
| Net Change | 211,327 | (348,912) |
| **CUMULATIVE RESULTS OF OPERATIONS** | 2,831,256 | 2,619,929 |
| **CONTRIBUTED CAPITAL (Note 13)** | | |
| Beginning Balances | 8,661,174 | 8,315,011 |
| Change in Contributed Capital | 282,925 | 346,163 |
| **CONTRIBUTED CAPITAL** | 8,944,099 | 8,661,174 |
| **NET POSITION** | $ 11,775,355 | $ 11,281,103 |

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

**NATIONAL CREDIT UNION SHARE INSURANCE FUND**

**STATEMENTS OF BUDGETARY RESOURCES**
**For the Years Ended December 31, 2014 and 2013**
**(Dollars in thousands)**

| | 2014 | 2013 |
|---|---|---|
| **BUDGETARY RESOURCES (Notes 12 and 15)** | | |
| Unobligated balance, brought forward, January 1 | $ 10,895,555 | $ 10,541,159 |
| Spending authority from offsetting collections (mandatory) | | |
| Collected | 804,885 | 846,416 |
| Change in receivables from federal sources | 103 | (3,564) |
| Anticipated nonexpenditure transfer | - | (95,291) |
| **TOTAL BUDGETARY RESOURCES** | $ 11,700,543 | $ 11,288,720 |
| | | |
| **STATUS OF BUDGETARY RESOURCES** | | |
| Obligations incurred | $ 367,310 | $ 393,165 |
| Unobligated balance, end of year: | | |
| Exempt from apportionment | 11,333,233 | 10,895,555 |
| Total unobligated balance, end of year | 11,333,233 | 10,895,555 |
| **TOTAL STATUS OF BUDGETARY RESOURCES** | $ 11,700,543 | $ 11,288,720 |
| | | |
| **CHANGE IN OBLIGATED BALANCE** | | |
| **Unpaid Obligations:** | | |
| Unpaid obligations, brought forward, January 1 | $ 10,377 | $ 87,311 |
| Obligations incurred | 367,310 | 393,165 |
| Outlays (gross) | (369,633) | (470,099) |
| Unpaid obligations, end of year | $ 8,054 | $ 10,377 |
| **Uncollected payments:** | | |
| Uncollected customer payments from federal sources, brought forward, January 1 | $ (59,597) | $ (63,161) |
| Change in uncollected customer payments from Federal sources | (103) | 3,564 |
| Uncollected customer payments from Federal sources, end of year | $ (59,700) | $ (59,597) |
| | | |
| Obligated balance, start of year (net) | $ (49,220) | $ 24,150 |
| Obligated balance, end of year (net) | $ (51,646) | $ (49,220) |
| | | |
| **BUDGET AUTHORITY AND OUTLAYS, NET** | | |
| Budget authority, gross (mandatory) | $ 804,988 | $ 747,561 |
| Actual offsetting collections (mandatory) | (804,885) | (846,416) |
| Change in uncollected customer payments from Federal sources (mandatory) | (103) | 3,564 |
| Anticipated offsetting collections (mandatory) | - | 95,291 |
| **BUDGET AUTHORITY, NET (MANDATORY)** | $ - | $ - |
| | | |
| Outlays, gross (mandatory) | $ 369,633 | $ 470,099 |
| Actual offsetting collections (mandatory) | (804,885) | (846,416) |
| Outlays, net (discretionary and mandatory) | (435,252) | (376,317) |
| **AGENCY OUTLAYS, NET (MANDATORY)** | $ (435,252) | $ (376,317) |

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

**NATIONAL CREDIT UNION SHARE INSURANCE FUND**

**NOTES TO FINANCIAL STATEMENTS**
**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Reporting Entity

The National Credit Union Share Insurance Fund (NCUSIF) was created by Title II of the Federal Credit Union Act (FCU Act), 12 U.S.C. §1781 *et seq.*, as amended. The NCUSIF was established as a revolving fund in the Treasury of the United States (U.S. Treasury), under management of the National Credit Union Administration (NCUA) Board (NCUA Board) for the purpose of insuring member share deposits in all Federal Credit Unions (FCUs) and in qualifying state-chartered credit unions requesting insurance.

The NCUA exercises direct supervisory authority over FCUs and coordinates required supervisory involvement with the state chartering authorities for state-chartered credit unions insured by the NCUSIF. Federally insured (insured) credit unions are required to report certain financial and statistical information to NCUA on a quarterly basis and are subject to periodic examination by the NCUA. Information derived through the supervision and examination process provides the NCUA with the ability to identify insured credit unions experiencing financial difficulties that may require assistance from the NCUSIF.

Assistance from the NCUSIF may be in the form of a waiver of statutory reserve requirements, liquidity assistance in the form of a guaranteed line of credit pursuant to Section 208 of the FCU Act, cash assistance in the form of a subordinated note pursuant to Section 208 of the FCU Act, or other such form. In some cases, a merger partner for the credit union may be sought. Mergers between financially troubled credit unions and stronger credit unions may also require NCUSIF assistance. Merger assistance may be in the form of cash assistance, purchase of certain assets by the NCUSIF, and/or guarantees of the values of certain assets (e.g., primarily loans). When a credit union is no longer able to continue operating and the merger and assistance alternatives are not practical, the NCUSIF or the appropriate state supervisory authority may liquidate the credit union. In the event of a credit union liquidation, the NCUSIF pays members' shares up to the maximum insured amount and monetizes the credit union's assets.

*Fiduciary Responsibilities*
Fiduciary activities are the collection or receipt, management, protection, accounting, investment, or disposition by the Federal Government of cash or other assets, in which non-federal individuals or entities have an ownership interest that the Federal Government must uphold. NCUA's Asset Management and Assistance Center (AMAC) conducts liquidations and performs management and recovery of assets for failed credit unions. Assets and liabilities of liquidated credit unions reside in Asset Management Estates (AMEs). These assets and liabilities are held in part, for the primary benefit of non-federal parties and therefore are considered fiduciary in accordance with Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 31, *Accounting*

*for Fiduciary Activities*. Fiduciary assets are not assets of the Federal Government and therefore are not recognized on the Balance Sheet. Additionally, NCUA entity assets are non-fiduciary.

*Sources of Funding*
Deposits insured by the NCUSIF are backed by the full faith and credit of the United States. The NCUSIF has multiple sources of funding. Each insured credit union is required to deposit and maintain in the NCUSIF 1.00% of its insured shares. The NCUA Board may also assess premiums to all insured credit unions, as provided by the FCU Act.

In addition, the NCUSIF has borrowing authority, shared with the Temporary Corporate Credit Union Stabilization Fund (TCCUSF), from the U.S. Treasury and the ability to borrow from the NCUA's Central Liquidity Facility (CLF).

**Basis of Presentation**

The NCUSIF's financial statements have been prepared from its accounting records in accordance with the FASAB's SFFAS. The American Institute of Certified Public Accountants recognizes FASAB as the official accounting standards-setting body of the Federal Government. The format of the financial statements and notes is in accordance with the form and content guidance provided in Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements,* revised September 18, 2014.

Consistent with SFFAS No. 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, NCUA considers and, where appropriate, applies Financial Accounting Standards Board (FASB) guidance for those instances where no applicable FASAB guidance is available. Any such significant instances are identified herein.

**Basis of Accounting**

In its accounting structure, the NCUSIF records both proprietary and budgetary accounting transactions. Following the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to the actual collection or payment of cash.

Federal budgetary accounting recognizes the obligation, borrowing authorities, and other fund resources upon the establishment of a properly documented legal liability, which may be different from the recording of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal controls over the use of federal funds and compliance with budgetary laws.

NCUA, including the NCUSIF, is exempt from requirements under the *Federal Credit Reform Act of 1990* (2 U.S.C. § 661 et seq.).

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) for the Federal Government requires management to make estimates and assumptions that affect the following:

- reported amounts of assets and liabilities;
- disclosure of contingent assets and liabilities at the date of the financial statements; and
- the amounts of revenues and expenses reported during that period.

Actual results could differ from estimates. Significant items subject to those estimates and assumptions include (i) reserves for probable losses and contingencies related to Insurance and Guarantee Program Liabilities; (ii) the amount and timing of recoveries, if any, related to any claims paid and settlement of the guarantee liabilities; (iii) allowance amounts established for loan loss related to cash assistance provided to insured credit unions; and (iv) allowance amounts for losses on the receivables from AMEs.

**Fund Balance with Treasury**

Fund Balance with Treasury (FBWT) is the aggregate amount of the NCUSIF's accounts with the Federal Government's central accounts, from which the NCUSIF is authorized to make expenditures and pay liabilities. The entire FBWT is a revolving fund type.

**Investments**

Investment securities primarily consist of marketable U.S. Treasury securities of varying maturities (debt securities). The NCUSIF also holds non-marketable U.S. Treasury overnight securities purchased and reported at par value, which are classified as held to maturity. All marketable securities are carried as available-for-sale, in accordance with FASB Accounting Standards Codification (ASC) 320, *Investments – Debt and Equity Securities*.

Interest earned and unrealized holding gains and losses on U.S. Treasury securities are excluded from net costs and reported as components of non-exchange revenue. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis.

The NCUSIF reviews all U.S. Treasury securities that are in an unrealized loss position for other-than-temporary impairment (OTTI). The NCUSIF evaluates its U.S. Treasury securities on a monthly basis. An investment security is deemed impaired if the fair value of the investment is less than its amortized cost. Amortized cost includes adjustments (if any) made to the cost basis of an investment for accretion, amortization, and previous OTTI. To determine whether impairment is an OTTI, the NCUSIF takes into consideration whether it has the intent to sell the security. The NCUSIF also considers available evidence to assess whether it is more likely than not that it will be required to sell the debt security before the recovery of its amortized cost basis. If the NCUA intends to sell, or more likely than not will be required to sell the security before recovery of its amortized cost basis, an OTTI shall be considered to have occurred.

Premiums and discounts are amortized or accreted over the life of the related available-for-sale security as an adjustment to yield using the effective interest method.

**Accounts Receivable**

Accounts receivable represent the NCUSIF's claims for payment from other entities. Gross receivables are reduced to net realizable value by an allowance for doubtful accounts as further discussed below. The NCUSIF's accounts receivable has two components: Intragovernmental and Public. Intragovernmental accounts receivable represent receivables between the NCUSIF and another reporting entity within the Federal Government. Public accounts receivable represent accounts receivable between the NCUSIF and a non-federal entity.

*Capitalization Deposits from Insured Credit Unions*
Each insured credit union pays to and maintains with the NCUSIF a capitalization deposit amount equal to 1.00% of its insured shares. Receivables and associated non-exchange revenue are recognized upon invoicing.

*Premium Assessments from Insured Credit Unions*
The NCUA Board has the statutory authority according to the FCU Act Section 202, *Administration of the Insurance Fund*, to assess insured credit unions for a premium charge. The NCUA Board may assess each insured credit union a premium charge for insurance in an amount stated as a percentage of insured shares outstanding as of the most recently ended reporting period if the NCUSIF's equity ratio, as defined, is less than 1.30%. When the NCUA Board projects that the equity ratio will, within six months, fall below 1.20%, the NCUA Board shall establish and implement a restoration plan within 90 days, which meets the statutory requirements and any further conditions that the NCUA Board determines appropriate. In order to meet statutory requirements, the plan must provide that the equity ratio will meet or exceed the minimum amount specified of 1.20% before the end of the 8-year period beginning upon the implementation of the plan (or such longer period as the NCUA Board may determine to be necessary due to extraordinary circumstances).

Premium receivable refers to premium charge amounts that have been billed to insured credit unions, but have not been received as of the reporting date. As the premium assessments are collected, the portion billed on behalf of the TCCUSF is recorded as a payable to the TCCUSF.

The NCUA Board did not assess premiums for 2014 and 2013.

*Allowance for Doubtful Accounts*
An allowance for doubtful accounts is the NCUSIF's best estimate of the amount of losses in an existing receivable. Based on an assessment of collectability, the NCUSIF calculates an allowance on an individual account basis for public accounts receivable. An account may be impaired or written off if it is probable that the NCUSIF will not collect all principal and interest contractually due. No allowance is calculated for intragovernmental accounts receivable, as these are deemed to be fully collectible.

**Accrued Interest Receivable**

The NCUSIF recognizes accrued interest receivable for amounts of interest contractually earned but not yet received.

**Notes Receivable, Net**

Notes Receivable, Net represent loans to insured credit unions as authorized by the NCUA Board, including assistance under Section 208 of the FCU Act. Any related allowance for loss represents the difference between the funds disbursed and the expected repayment from the insured credit unions.

**General Property, Plant and Equipment, Net**

General Property, Plant and Equipment is subject to depreciation and carried at net cost once placed into service. Depreciation and amortization are recognized over the useful life. Incurred costs for internal use software during the software development phase are capitalized in accordance with SFFAS No. 10, *Accounting for Internal Use Software*.

**Other - Receivables from Asset Management Estates, Net**

Receivables from AMEs, Net include claims to recover payments made by the NCUSIF to satisfy obligations to insured shareholders and to recoup administrative expenses paid on behalf of AMEs. A related allowance for loss represents the difference between the funds disbursed and obligations incurred and the expected repayment, when recognized, from the AMEs pursuant to the liquidation payment priorities set forth in 12 C.F.R. §709.5(b). Assets held by the AMEs are the main source of repayment of the NCUSIF's receivables from the AMEs. The recoveries from these AME assets are paid to the NCUSIF as AME assets are monetized and to the extent a receivable is due for share payout obligations and administrative expenses.

The allowance for loss on receivables from AMEs is based on expected asset recovery rates, and come from several sources including:

- actual or pending AME asset disposition data;
- asset valuation data based upon the performance, quality, and type of the assets in the portfolio;
- estimated liquidation costs based on information from similar recently failed credit unions; and
- estimated AME specific administrative expenses based upon complexity and expected duration of the AME.

Expected asset recovery rates are evaluated during the year, but remain subject to uncertainties because of potential changes in economic and market conditions.

**Distribution Payable**

In accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, the NCUSIF records a non-exchange liability, per Section 202(c)(3) of the FCU Act, *Distributions from Fund Required*, for unpaid amounts due as of the reporting date, as discussed herein.

**Insurance and Guarantee Program Liabilities**

In accordance with SFFAS No. 5, all federal insurance and guarantee programs, except social insurance and loan guarantee programs, should recognize a liability for:

- unpaid claims incurred, resulting from insured events that have occurred as of the reporting date;

- a contingent liability when an existing condition, situation, or set of circumstances involving uncertainty as to possible loss exists, and the uncertainty will ultimately be resolved when one or more probable future events occur or fail to occur; and
- a future outflow or other sacrifice of resources that is probable.

The NCUSIF records a contingent liability for probable losses relating to insured credit unions. Through NCUA's supervision process, NCUA applies a supervisory rating system to assess each credit union's relative health in the adequacy of Capital, the quality of Assets, the capability of Management, the quality and level of Earnings, and the adequacy of Liquidity (CAMEL), applying a rating ranging from "1" (strongest) to "5" (weakest). The year-end contingent liability is derived by using an internal model that applies estimated failure and loss rates using an econometric model that takes into account the historical loss history, CAMEL ratings, credit union level financial ratios, and macroeconomic conditions to all insured credit unions. In addition, credit union specific analysis is performed on those credit unions where failure is imminent or where additional information is available that may affect the estimate of losses. In such cases, specific reserves are established.

Liabilities for loss contingencies also arise from claims, assessments, litigation, fines, penalties, and other sources. These loss contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred for any contingencies.

**Net Position and Contributed Capital**

Each insured credit union pays and maintains with the NCUSIF a capitalization deposit in the amount equal to 1.00% of its insured shares. The NCUSIF reports the capitalization deposits from member credit unions as contributed capital. This amount is included in the NCUSIF's Balance Sheets and Statements of Changes in Net Position.

**Revenue Recognition**

*Exchange Revenue*
Exchange revenues arise and are recognized when a Federal Government entity provides goods and services to the public or to another Federal Government entity for a price. Exchange revenue primarily consists of premium assessments, the purpose of which is to recover the losses of the credit union system.

*Non-Exchange Revenue*
Non-exchange revenues are inflows of resources that the Federal Government demands or receives by donation. Such revenues are recognized when a specifically identifiable, legally enforceable claim to resources arises, to the extent that collection is probable (more likely than not) and the amount is reasonably estimable. NCUSIF recognizes non-exchange revenue as described below.

Each insured credit union pays to and maintains with the NCUSIF a capitalization deposit amount equal to 1.00% of its insured shares. This amount is recognized as non-exchange revenue upon receipt. In accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, interest revenue on investments in U.S. Treasury securities is recognized as non-exchange revenue because the main source of funds for investments comes from capital deposits. Additionally, the related unrealized holding gains and losses on investments in U.S. Treasury securities are excluded from net costs and reported as a component of non-exchange revenue.

**Tax-Exempt Status**

NCUA, as a government entity, is not subject to federal, state, or local income taxes and accordingly, no provision for income taxes is recorded for the NCUSIF.

**Reclassification**

Certain prior year amounts have been reclassified to conform to the current year presentation.

## 2. FUND BALANCE WITH TREASURY

FBWT balances and status at December 31, 2014 and 2013, consisted of the following:

| (Dollars in thousands) | | 2014 | | 2013 |
|---|---|---|---|---|
| Total Fund Balance with Treasury: Revolving Funds | $ | 10,493 | $ | 2,501 |
| Status of Fund Balance with Treasury: | | | | |
| Unobligated Balance - Available | $ | 11,333,233 | $ | 10,895,555 |
| Obligated Balances Not Yet Disbursed | | 8,054 | | 10,377 |
| Non-Budgetary Investment Accounts | | (11,271,094) | | (10,939,125) |
| Non-FBWT Budgetary Accounts | | (59,700) | | 35,694 |
| Total | $ | 10,493 | $ | 2,501 |

As a revolving fund, the FBWT is used for continuing business-like activities. The NCUSIF collects premiums and capitalization deposits, which in turn are invested in U.S. Treasury securities. The proceeds are primarily held to cover insurance losses and are also used for merger assistance, liquidations, and other administrative expenses, without requirement for annual appropriations. FBWT contains monies available for future obligations as well as monies obligated for current activities. Non-budgetary Investment accounts, which consist of U.S. Treasury investments, reduce the status of fund balance. Non-FBWT Budgetary Accounts consist of budgetary receivables and nonexpenditure transfers.

As of December 31, 2014 and 2013, there were no unreconciled differences between U.S. Treasury records and balances reported on the NCUSIF's general ledger.

## 3. INVESTMENTS

The FCU Act, Section 203(c), as amended, provides guidance regarding U.S. Treasury security investments. All investments at the NCUSIF pertain to marketable (available-for-sale) U.S. Treasury securities of varying maturities and non-marketable (held to maturity) U.S. Treasury daily overnight securities. Premiums or discounts on available-for-sale securities are amortized using the effective interest method.

As of December 31, 2014 and 2013, the carrying amount, gross unrealized holding gains, gross unrealized holding losses, and fair value of U.S. Treasury securities were as follows:

| (Dollars in thousands) | Cost | Amortized (Premium) Discount | Interest Receivable | Investments, Net (Par) | Net Unrealized Gain (Loss) | Carrying/ Fair Value |
|---|---|---|---|---|---|---|
| As of December 31, 2014: | | | | | | |
| U.S. Treasury Securities | | | | | | |
| Available-for-Sale | $ 11,496,631 | $ (209,040) | $ 59,700 | $ 11,170,000 | $ 150,312 | $ 11,437,903 |
| Held to Maturity | 173,635 | - | - | 173,635 | - | 173,635 |
| Total | $ 11,670,266 | $ (209,040) | $ 59,700 | $ 11,343,635 | $ 150,312 | $ 11,611,538 |
| As of December 31, 2013: | | | | | | |
| U.S. Treasury Securities | | | | | | |
| Available-for-Sale | $ 11,042,452 | $ (187,992) | $ 59,597 | $ 10,670,000 | $ 14,899 | $ 10,869,359 |
| Held to Maturity | 329,642 | - | - | 329,642 | - | 329,642 |
| Total | $ 11,372,094 | $ (187,992) | $ 59,597 | $ 10,999,642 | $ 14,899 | $ 11,199,001 |

Maturities of U.S. Treasury securities as of December 31, 2014 and 2013 were as follows:

| (Dollars in thousands) | 2014 Fair value | 2013 Fair value |
|---|---|---|
| Held to Maturity (Overnights) | $ 173,635 | $ 329,642 |
| Available-for-sale: | | |
| Due prior to one year | 2,095,075 | 1,619,031 |
| Due after one year through five years | 4,536,594 | 5,801,859 |
| Due after five years through ten years | 4,806,234 | 3,448,469 |
| | $ 11,611,538 | $ 11,199,001 |

There were no realized gains or losses for the years ended December 31, 2014 and 2013.

The following table includes gross unrealized losses on investment securities, for which OTTI has not been recognized, in addition to the fair values of those securities, aggregated by investment classification and length of time the investments have been in a loss position, at December 31, 2014 and 2013.

| | Losses Less than 12 months | | Losses 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | Unrealized Losses | Fair Value | Unrealized losses | Fair value | Unrealized losses | Fair value |
| As of December 31, 2014: | | | | | | |
| Available-for-sale: | | | | | | |
| U.S. Treasury securities | $ (2,378) | $ 755,516 | $ (49,055) | $ 2,213,719 | $ (51,433) | $ 2,969,235 |
| As of December 31, 2013: | | | | | | |
| Available-for-sale: | | | | | | |
| U.S. Treasury securities | $ (169,841) | $ 3,585,000 | $ - | $ - | $ (169,841) | $ 3,585,000 |

## 4. ACCOUNTS RECEIVABLE

### Intragovernmental – Accounts Receivable

*Note Due from the NCUA Operating Fund*

In 1992, the NCUSIF lent $42.0 million to the NCUA Operating Fund, pursuant to a 30-year note secured by the NCUA premises in Alexandria, Virginia. Interest income recognized was approximately $228.6 thousand and $248.8 thousand for the years ended December 31, 2014 and 2013, respectively. The note receivable balance as of December 31, 2014 and 2013 was approximately $11.7 million and $13.1 million, respectively.

The variable rate on the note is equal to the NCUSIF's prior-month yield on investments. The average interest rate for the years ended December 31, 2014 and 2013 was 1.85% and 1.82%, respectively. The interest rate as of December 31, 2014 and 2013 was 1.87% and 1.78%, respectively.

As of December 31, 2014, the above note requires principal repayments as follows:

| **Years Ending December 31** | **Secured Term Note** (Dollars in thousands) |
|---|---|
| 2015 | $ 1,341 |
| 2016 | 1,341 |
| 2017 | 1,341 |
| 2018 | 1,341 |
| 2019 | 1,341 |
| Thereafter | 5,028 |
| Total | $ 11,733 |

**Public – Accounts Receivable**

*Accounts Receivable Due from Insured Credit Unions*
As of December 31, 2014 and 2013, accounts receivable due from insured credit unions were $1.6 million and $0, respectively. As none of these amounts were deemed uncollectible, the allowance for doubtful accounts on public accounts receivable as of December 31, 2014 and 2013 was $0.

## 5. NOTES RECEIVABLE

As of December 31, 2014 and 2013, the NCUSIF had two outstanding capital notes due from insured credit unions. The capital notes receivable totaled $54.6 million and $67.5 million and the related allowance for loss was $7.1 million and $8.3 million, for a net capital note receivable of $47.5 million and $59.2 million as of December 31, 2014 and 2013, respectively. These capital notes are subordinated to all shareholders, creditors, and any other such financial obligations. Accrued interest on the notes is due on a semi-annual basis. Interest on these notes have fixed and variable terms.

The NCUSIF had an outstanding collateralized senior note due from an insured credit union for $126.7 million and $153.0 million as of December 31, 2014 and 2013, respectively. There was no related allowance for loss as of December 31, 2014 and 2013. Accrued interest on the notes is due on a monthly basis. Interest on this note had variable terms through December 2014. In December 2014, the outstanding collateralized senior note was modified to mutually benefit the NCUSIF and the insured credit union. The resulting modification resulted in changing the interest rate from variable to a fixed term over the remaining life of the senior note.

As of December 31, 2014 and 2013, the accrued interest receivable for the notes totaled $395.8 thousand and $329.1 thousand, respectively.

## 6. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

As of December 31, 2014 and 2013, general property, plant and equipment, net, consisted of internal use software in development of $128.4 thousand and $0, respectively. There is no accumulated depreciation and amortization as of December 31, 2014 and 2013. Once placed into service, internal use software is expected to have a useful life of 5 years.

As of December 31, 2014, NCUSIF included $20.9 thousand in internal labor costs attributable to internal use software during its software development stage. NCUSIF reimburses the Operating Fund for these internal labor costs since these costs are incurred by the Operating Fund.

## 7. OTHER – RECEIVABLES FROM ASSET MANAGEMENT ESTATES

As of December 31, 2014 and 2013, the receivable from AMEs was $1.0 billion and $1.1 billion, and the related allowance for loss was $953.0 million and $963.4 million, for a net receivable from AMEs of $87.8 million and $119.9 million, respectively.

| (Dollars in thousands) | For the Year Ended December 31, 2014 | For the Year Ended December 31, 2013 |
|---|---|---|
| Gross Receivable from AME | $ 1,040,764 | $ 1,083,287 |
| Allowance for Loss, beginning balance | 963,424 | 880,108 |
| AME Receivable Bad Debt Expense (Reduction) | (45,138) | (7,584) |
| Increase in Allowance | 43,888 | 145,345 |
| Write-off of Cancelled Charters | (9,195) | (54,445) |
| Allowance for Loss, ending balance | 952,979 | 963,424 |
| Receivable from AME, Net | $ 87,785 | $ 119,863 |

AME Receivable Bad Debt Reduction represents overall increases in expected asset recovery rates and related repayments. The Increase in Allowance primarily represents the net loss on payments made during liquidation. Write-off of Cancelled Charters represent applying the capital deposits of certain failed credit unions as a recovery.

## 8. OTHER LIABILITIES – INSURANCE AND GUARANTEE PROGRAM LIABILITIES

NCUA identifies insured credit unions experiencing financial difficulty through NCUA's supervisory and examination process. On both a general and specific case basis, management determines the estimated losses from these credit unions. NCUA also evaluates overall economic trends and monitors potential system-wide risk factors, such as increasing levels of consumer debt, bankruptcies, and delinquencies. NCUA applies the CAMEL rating system to assess an insured credit union's financial condition and operations. The CAMEL rating system is a tool to measure risk and allocate resources for supervisory purposes. NCUA periodically reviews the CAMEL rating system to respond to continuing economic and regulatory changes in the credit union industry. The general reserve at year-end is derived by using an internal model that applies estimated failure and loss rates based on an econometric model that takes into account the historical loss history, CAMEL ratings, credit union level financial ratios, and macroeconomic conditions to all insured credit unions. The anticipated losses are net of estimated recoveries from the disposition of the assets of failed credit unions. The total reserves for both identified and anticipated losses resulting from insured credit union failures were $178.3 million and $220.7 million as of December 31, 2014 and 2013, respectively.

In exercising its supervisory function, the NCUSIF will occasionally extend guarantees of assets (primarily loans) to third-party purchasers or existing insured credit unions in order to facilitate mergers. The NCUSIF would be obligated upon borrower nonperformance. There were no guarantees outstanding during 2014 or as of December 31, 2014. There were no guarantees outstanding during 2013 or as of December 31, 2013.

In addition, the NCUSIF may grant a guaranteed line-of-credit to a third-party lender, such as a corporate credit union or bank, if a particular insured credit union were to have a current or immediate liquidity concern and the third-party lender refuses to extend credit without a guarantee. The NCUSIF would thereby be obligated if the insured credit union failed to perform. Total line-of-credit guarantees of credit unions as of December 31, 2014 and 2013 were approximately $2.2 million and $0, respectively. The insured credit unions borrowed $463.2 thousand and $0 from the third-party lender under these lines-of-credit guarantees as of December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, the NCUSIF reserved $41.8 thousand and $0, respectively, for these guaranteed lines-of-credit. The guarantees expire in March 2015.

On rare occasions, the NCUSIF may provide indemnifications as part of a merger assistance or purchase and assumption agreement to acquiring credit unions. Such indemnifications make the NCUSIF contingently liable based on the outcome of any legal actions. There were no such indemnification contingencies as of December 31, 2014 and 2013, respectively.

The activity in the Insurance and Guarantee Program Liabilities from insured credit unions and AMEs was as follows:

| (Dollars in thousands) | For the Year Ended December 31, 2014 | | For the Year Ended December 31, 2013 | |
|---|---|---|---|---|
| Beginning balance | $ | 220,651 | $ | 412,452 |
| Reserve Expense (Reduction) | | 3,298 | | (41,054) |
| Insurance losses claims paid | | (97,621) | | (225,220) |
| Net Estimated Recovery/Claim on AMEs | | 51,990 | | 74,473 |
| Ending balance | $ | 178,318 | $ | 220,651 |

The Insurance and Guarantee Program Liabilities at December 31, 2014 and December 31, 2013 were comprised of the following:

- Specific reserves were $5.7 million and $12.5 million, respectively. Specific reserves are identified for those credit unions where failure is imminent or where additional information is available that may affect the estimate of losses.
- General reserves were $172.6 million and $208.2 million, respectively.

In addition to these recorded contingent liabilities, additional adverse performance in the financial services industry could result in additional losses to the NCUSIF. The ultimate losses for insured credit unions will largely depend upon future economic and market conditions and, accordingly, could differ significantly from these estimates.

## 9. OTHER LIABILITIES – DISTRIBUTION PAYABLE

Per Section 202(c) (3) of the FCU Act, *Distributions from Fund Required*, the NCUA Board shall effect a pro rata distribution to insured credit unions after each calendar year, if:

(i) any loans to the NCUSIF from the Federal Government, and any interest on those loans, have been repaid;
(ii) the NCUSIF's equity ratio exceeds the normal operating level of 1.30%; and
(iii) the NCUSIF's available assets ratio exceeds 1.00%.

The amount of share distribution should equal the maximum possible amount that does not reduce the NCUSIF's equity ratio below the normal operating level of 1.30%, and does not reduce the NCUSIF's available assets ratio below 1.00%.

At the end of any calendar year in which the TCCUSF or the NCUSIF has an outstanding advance from the U.S. Treasury, the NCUSIF is prohibited from making the distribution to insured credit unions described under Section 202 of the FCU Act. As of December 31, 2014 and 2013, the TCCUSF had an outstanding advance from the U.S. Treasury. Where the TCCUSF has an outstanding advance from the U.S. Treasury, Section 217(e) of the FCU Act requires the NCUSIF to make a distribution to the TCCUSF of the maximum amount possible that does not reduce the NCUSIF's equity ratio below the normal operating level of 1.30% and does not reduce the NCUSIF's available assets ratio below 1.00%.

As of December 31, 2014, the NCUSIF calculated equity ratio of 1.29% was below its normal operating level of 1.30%; therefore, NCUSIF will not make a distribution to the TCCUSF. As of December 31, 2013, the NCUSIF recorded an estimate for the distribution payable due to the TCCUSF totaling approximately $95.3 million, thereby bringing the equity ratio down to its normal operating level of 1.30%. As of December 31, 2014 and 2013, the NCUSIF's available assets ratio was 1.27% and 1.26%, respectively. The equity ratio and available assets ratio calculations are discussed in Note 13.

## 10. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Program costs and revenues are separated between intragovernmental and public to facilitate government-wide financial reporting. Intragovernmental revenue and expenses arise from transactions with other federal entities. Public revenue and expenses arise from transactions with domestic and foreign persons and organizations outside of the Federal Government.

| Intragovernmental Costs and Exchange Revenue | For the Year Ended December 31, 2014 | For the Year Ended December 31, 2013 |
|---|---|---|
| (Dollars in thousands) | | |
| Intragovernmental Costs | $ 175,592 | $ 146,009 |
| Public Costs/(Cost Reduction) | (37,614) | (46,335) |
| Total | 137,978 | 99,674 |
| Intragovernmental Exchange Revenue | (229) | (249) |
| Public Exchange Revenue | (5,404) | (4,301) |
| Total | (5,633) | (4,550) |
| Net Cost | $ 132,345 | $ 95,124 |

Certain administrative services are provided to the NCUSIF by the NCUA Operating Fund. The NCUSIF is charged by the NCUA Operating Fund for these services based upon an annual allocation factor approved by the NCUA Board and derived from a study of actual usage. In 2014, the allocation to NCUSIF was 69.2%. In 2013, the allocation to NCUSIF was the entire cost of the Office of National Examinations and Supervision (formerly called Office of Corporate Credit Unions) to the extent that they exceeded the actual operating fees paid by Federal corporate credit unions, plus 59.1% of NCUA Operating Fund expenses. The cost of the services allocated to the NCUSIF, which totaled approximately $175.6 million and $146.0

million for the years ended December 31, 2014 and 2013, respectively, is reflected as an expense in the Statements of Net Cost and above in Intragovernmental Costs. These transactions are settled monthly. As of December 31, 2014 and 2013, amounts due to the NCUA Operating Fund for allocated administrative expenses were $3.5 million and $3.3 million, respectively. The following table provides a breakdown of the administrative services provided to the NCUSIF by the NCUA Operating Fund.

| **Administrative Services Reimbursed to the NCUA Operating Fund** | **For the Year Ended December 31, 2014** | **For the Year Ended December 31, 2013** |
|---|---|---|
| (Dollars in thousands) | | |
| Employee Salaries | $ 93,858 | $ 78,656 |
| Employee Benefits | 34,868 | 28,431 |
| Employee Travel | 18,473 | 16,651 |
| Contracted Services | 15,240 | 12,462 |
| Administrative Costs | 9,743 | 6,928 |
| Rent, Communications, and Utilities | 3,410 | 2,881 |
| Total Services Provided by the NCUA Operating Fund | $ 175,592 | $ 146,009 |

## 11. AVAILABLE BORROWING AUTHORITY, END OF PERIOD

The NCUSIF shares $6.0 billion in borrowing authority from the U.S. Treasury with the TCCUSF. As of December 31, 2014 and 2013, the TCCUSF had $2.6 billion and $2.9 billion in borrowing outstanding from the U.S. Treasury, respectively. As a result, as of December 31, 2014 and 2013, the NCUSIF had $3.4 billion and $3.1 billion, respectively, in available borrowing authority shared with the TCCUSF.

Under the FCU Act, the NCUSIF also has the ability to borrow from the CLF. The NCUSIF is authorized to borrow from the CLF up to the amount of the CLF's unused borrowing authority. As of December 31, 2014 and 2013, the CLF had statutory borrowing authority of $5.1 billion and $2.9 billion, respectively. As of December 31, 2014 and 2013, the CLF had a note purchase agreement with the Federal Financing Bank with a maximum principal of $2.0 billion, respectively, all of which was unused. Advances made under the current promissory note can be made no later than March 31, 2015.

At December 31, 2014 and 2013, the NCUSIF had $5.4 billion and $5.1 billion, respectively, in total available borrowing capacity.

## 12. DISCLOSURES RELATED TO THE STATEMENTS OF BUDGETARY RESOURCES

The Statements of Budgetary Resources discloses total budgetary resources available to the NCUSIF, and the status of resources as of December 31, 2014 and 2013. Activity impacting budget totals of the overall Federal Government budget is recorded in the NCUSIF's Statements of Budgetary Resources budgetary accounts. As of December 31, 2014 and 2013, the NCUSIF's resources in budgetary accounts were $11.7 billion and $11.3 billion, and undelivered orders were $4.2 million and $848.2 thousand, respectively. All liabilities are covered by budgetary resources, excluding the Insurance and Guarantee Program Liabilities because they are contingent liabilities and do not require budgetary resources until the liabilities are no longer contingent. All obligations incurred by the NCUSIF are reimbursable. The NCUSIF is exempt from OMB apportionment control.

Budgetary resources listed on the NCUSIF's statements and the budgetary resources found in the budget of the Federal Government differ because the NCUSIF's statements are prepared as of December 31, calendar year, rather than as of September 30, the Federal Government's fiscal year end.

## 13. CONTRIBUTED CAPITAL

The *Credit Union Membership Access Act of 1998* (CUMAA) mandated changes to the NCUSIF's capitalization provisions effective January 1, 2000. Each insured credit union shall pay to and maintain with the NCUSIF a deposit in an amount equaling 1.00% of the credit union's insured shares. Under Section 202(c) of the FCU Act, the amount of each insured credit union's deposit is adjusted as follows, in accordance with procedures determined by the NCUA Board, to reflect changes in the credit union's insured shares: (i) annually, in the case of an insured credit union with total assets of not more than \$50.0 million; and (ii) semi-annually, in the case of an insured credit union with total assets of \$50.0 million or more. The annual and semi-annual adjustments are based on insured member share deposits outstanding as of December 31 of the preceding year and June 30 of the current year, respectively. The 1.00% contribution is returned to the insured credit union in the event that its insurance coverage is terminated, or is obtained from another source, or the operations of the NCUSIF are transferred from the NCUA Board. As of December 31, 2014 and 2013, contributed capital owed to the NCUSIF totaled \$649.0 thousand and \$0, respectively. As of December 31, 2014 and 2013, contributed capital due to insured credit unions was \$0 and \$1.4 million, respectively.

Beginning in 2000, the CUMAA mandated that distributions to insured credit unions are determined from specific ratios, which are based upon year-end reports of insured shares. Accordingly, distributions associated with insured shares at year-end are declared and paid in the subsequent year. This was updated with the passage of the *Helping Families Save Their Homes Act of 2009*, which states that at the end of any calendar year in which the TCCUSF has an outstanding advance from the U.S. Treasury, the NCUSIF is prohibited from making the distribution to insured credit unions as described above. In lieu of the distribution, the NCUSIF shall make a distribution to the TCCUSF for the maximum amount possible that does not reduce the NCUSIF's equity ratio below the normal operating level of 1.30% and does not reduce the current available assets ratio below 1.00%.

Pursuant to the FCU Act, the NCUSIF calculated equity ratio, 1.29%, was below the normal operating level of 1.30%; therefore, NCUSIF did not estimate or record a distribution as of December 31, 2014. In 2013, the NCUSIF calculated and initiated distributions to the TCCUSF in the estimated amount of \$95.3 million, which was recognized as a payable as of December 31, 2013, and paid in March 2014. Thus, the NCUSIF's calculated equity ratio after distribution as of December 31, 2013 was 1.30%, based on estimated total insured shares as of December 31, 2013 of \$866.3 billion. Total contributed capital as of December 31, 2014 and 2013 was \$8.9 billion and \$8.7 billion, respectively.

The NCUSIF equity ratio is calculated as the ratio of contributed capital plus cumulative results of operations excluding net cumulative unrealized gains and losses on investments, to the aggregate amount of the insured shares in all insured credit unions.

The calculated available assets ratio as of December 31, 2014 and 2013 was 1.27% and 1.26%, based on total estimated insured shares as of December 31, 2014 and 2013 of $903.0 billion and $866.3 billion, respectively. The NCUSIF available assets ratio, as defined by the FCU Act, is calculated as the ratio of (A) the amount determined by subtracting (i) direct liabilities of the NCUSIF (including the distribution payable to the TCCUSF) and contingent liabilities for which no provision for losses has been made, from (ii) the sum of cash and the market value of unencumbered investments authorized under Section 203(c) of the FCU Act, to (B) the aggregate amount of the insured shares in all insured credit unions.

## 14. FIDUCIARY ACTIVITIES

Fiduciary activities are the collection or receipt, management, protection, accounting, investment, and disposition by an AME of cash and other assets, in which non-federal individuals or entities have an ownership interest. Fiduciary assets are not assets of the Federal Government. Fiduciary activities are not recognized on the basic financial statements, but are reported on schedules in the notes to the financial statements in accordance with SFFAS No. 31, *Accounting for Fiduciary Activities*.
The NCUA Board, as liquidating agent of the AMEs, disburses obligations owed by and collects money due to the liquidating credit unions through AMAC.

| Schedule of Fiduciary Activity | For the Year Ended December 31, 2014 | For the Year Ended December 31, 2013 |
|---|---|---|
| (Dollars in thousands) | | |
| Fiduciary Net Liabilities, beginning of year | $ (973,044) | $ (974,820) |
| Net Realized Losses upon Liquidation | (40,188) | (60,349) |
| **Revenues** | | |
| Interest on Loans | 11,124 | 12,207 |
| Other Fiduciary Revenues | 1,338 | 1,973 |
| **Expenses** | | |
| Professional & Outside Services Expenses | (7,354) | (8,006) |
| Compensation and Benefits | (1,760) | (2,892) |
| Other Expenses | (2,287) | (2,375) |
| **Net Change in Recovery Value of Assets and Liabilities** | | |
| Net Gain/(Loss) on Loans | 56,354 | 3,509 |
| Net Gain/(Loss) on Real Estate Owned | 3,416 | (2,055) |
| Other, Net Gain/(Loss) | (15,302) | 5,319 |
| Decrease/(Increase) in Fiduciary Net Liabilities | 5,341 | (52,669) |
| Write off of Fiduciary Liabilities for Cancelled Charters | 9,195 | 54,445 |
| **Fiduciary Net Liabilities, end of year** | **$ (958,508)** | **$ (973,044)** |

Comparing 2014 activity for the year in the schedule of fiduciary activity with 2013, the increase in fiduciary net liabilities line item improved by $14.5 million overall, including a decrease in fiduciary net liabilities of $5.3 million and cancelled charters write-offs of $9.2 million. The primary drivers were with the net realized losses upon liquidation, net change in recovery value of assets and liabilities, and cancelled charters. The net realized losses upon liquidation decreased by $20.2 million due, in part, to fewer credit union liquidations in 2014. The net change in recovery value of assets and liabilities line item increased by $37.7 million due to rising net realizable values of assets managed. Charter cancellation write-offs decreased by $45.2 million corresponding with fewer credit union charter cancellations in 2014.

Revenues consist of cash collected during the liquidation of assets held within the AME. Gains and losses include the revaluation of assets based upon expected asset recovery rates, as well as the disposition of assets and adjustments to liabilities, which contribute to the change in fiduciary net assets/liabilities.

| Schedule of Fiduciary Net Assets/Liabilities | As of December 31, 2014 | As of December 31, 2013 |
|---|---|---|
| (Dollars in thousands) | | |
| **Fiduciary Assets** | | |
| Loans | $ 97,780 | $ 110,098 |
| Real Estate Owned | 8,387 | 18,972 |
| Other Fiduciary Assets | 7,773 | 17,713 |
| **Total Fiduciary Assets** | 113,940 | 146,783 |
| **Fiduciary Liabilities** | | |
| Insured Shares | 9,315 | 10,841 |
| Accrued Liquidation Expenses | 16,551 | 15,494 |
| Unsecured Claims | 1,561 | 5,727 |
| Uninsured Shares | 4,257 | 4,478 |
| Due to NCUSIF (Note 7) | 1,040,764 | 1,083,287 |
| **Total Fiduciary Liabilities** | 1,072,448 | 1,119,827 |
| **Total Fiduciary Net Assets/(Liabilities)** | **$ (958,508)** | **$ (973,044)** |

## 15. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of operations. The Reconciliation of Net Cost of Operations to Budget consisted of the following:

| **Reconciliation of Net Cost of Operations to Budget** | **As of December 31, 2014** | **As of December 31, 2013** |
|---|---|---|
| (Dollars in thousands) | | |
| **Resources Provided to Finance Activities:** | | |
| **Budgetary Resources Obligated** | | |
| Budgetary Obligations Incurred | $ 367,310 | $ 393,165 |
| Less: Spending Authority from Offsetting Collections and Change in Receivables from Federal Sources | (804,988) | (842,852) |
| **Net Obligations** | (437,678) | (449,687) |
| **Other Resources:** | | |
| Net Unrealized (Gain)/Loss | (135,413) | 356,761 |
| **Total Resources Provided to Finance Activities** | (573,091) | (92,926) |
| **Resources Provided to Fund Items Not Part of the Net Cost of Operations:** | | |
| Change in Budgetary Resources Obligated for Goods and Services Not Yet Received | (3,306) | (154) |
| Resources that Fund Expenses Recognized in Prior Periods | 5 | - |
| Costs Capitalized on the Balance Sheet | 417,917 | 458,993 |
| Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations | 332,732 | (221,001) |
| **Total Resources Provided to Fund Items Not Part of the Net Cost of Operations** | 747,348 | 237,838 |
| **Resources Generated to Finance the Net Cost of Operations** | 174,257 | 144,912 |
| **Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period** | | |
| Provision for Insurance Losses | | |
| Reserve Expense (Reduction) | 3,298 | (41,054) |
| AME Receivable Bad Debt Expense (Reduction) | (45,138) | (7,584) |
| Increase in Exchange Revenue | (67) | (1,150) |
| **Components not Requiring or Generating Resources** | | |
| Other Expenses | (5) | - |
| **Total Components of Net Cost of Operations That Do Not Require or Generate Resources During the Reporting Period** | (41,912) | (49,788) |
| **Net Cost of Operations** | $ 132,345 | $ 95,124 |

Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations consists largely of unrealized losses on investments net of investment revenue and increases to the receivable from AME Allowance due to transfers, net of AME receivable bad debt expense.

## 16. SUBSEQUENT EVENTS

Subsequent events have been evaluated from the Balance Sheet date through February 13, 2015, which is the date the financial statements were available to be issued. Management determined that there were no items to disclose as of December 31, 2014.

## REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

### Risk Assumed Information

### Insurance and Guarantee Program Liabilities

As of December 31, 2014 and 2013, the aggregate outstanding insured shares of the insured credit unions were estimated at $903.0 billion and $866.3 billion, respectively. This amount represents the maximum potential future guarantee payments that the NCUSIF could be required to make under the share insurance program, without consideration of any possible recoveries. Additionally, to the extent the TCCUSF's obligations exceed the funds available in the TCCUSF, the NCUSIF will provide the necessary funds. These amounts bear no direct relationship to the NCUSIF's anticipated losses.

As discussed previously herein, NCUA identifies credit unions at risk of failure through the supervisory and examination process, and estimates losses based upon economic trends and credit unions' financial condition and operations. NCUA also evaluates overall economic trends and monitors potential credit union system-wide risk factors, such as increasing levels of consumer debt, bankruptcies, and delinquencies. NCUA applies the CAMEL rating system to assess a credit union's financial condition and operations. The CAMEL rating system is a tool to measure risk and allocate resources for supervisory purposes. NCUA periodically reviews the CAMEL rating system to respond to continuing economic and regulatory changes in the credit union industry. The aggregate amount of reserves recognized for credit unions at risk of failure was $178.3 million and $220.7 million as of December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, the general reserves were $172.6 million and $208.2 million, respectively. At December 31, 2014 and 2013, the specific reserves resulting from insured credit unions' expected failures were $5.7 million and $12.5 million, respectively.

The NCUSIF's contingent liability decreased by $42.4 million from 2013 to 2014, and decreased by $191.8 million from 2012 to 2013. The credit union industry improved during 2014 as reflected by the reduction in assets in CAMEL 3, 4 and 5 rated credit unions as compared to 2013. Assets in CAMEL 3, 4 and 5 rated credit unions dropped to $106.9 billion at the end of 2014, versus $122.4 billion at the end of 2013. Improvements were also seen with the system-wide net worth ratio; this ratio increased to 11.0% from 10.7%. These improvements, as well as other trends, helped contribute to a reduction in amounts for the Insurance and Guarantee Program Liabilities on the NCUSIF Balance Sheets.

### Fees and Premiums

During 2014 and 2013, the NCUA Board did not assess premiums to insured credit unions from the NCUSIF.

**Sensitivity, Risks and Uncertainties of the Assumptions**

During 2013, NCUA implemented the use of the econometric reserve model to improve the precision of the future loss forecast. As discussed previously herein, the NCUA estimates the anticipated losses resulting from insured credit union failures by evaluating imminent failures and using an internal model that applies estimated failure and loss rates based on an econometric model that takes into account the historical loss history, CAMEL ratings, credit union level financial ratios, and macroeconomic conditions to all insured credit unions. The effectiveness of the reserving methodology is evaluated by applying analytical techniques to review variances between projected losses and actual losses and adjustments are made accordingly. Actual losses will largely depend on future economic and market conditions and could differ materially from the anticipated losses recorded by the NCUSIF as of December 31, 2014.

The development of assumptions for certain key input variables of our estimation model is a highly subjective process that involves significant judgment and will change over time. Future values are difficult to estimate, especially over longer timeframes. Key assumptions in the modeling include failure and loss rates. The failure rate is developed based on actual failures and historical migration trends in the CAMEL ratings, and incorporates actual data on macroeconomic trends such the consumer price index and geographic housing prices, as well as credit union system-wide factors such as delinquencies and charge-offs. The loss rate is partly subjective and is developed based on historical loss experience from actual failures, and incorporates the NCUA's expectations and assumptions about anticipated recoveries. The assumptions developed for the estimation model are periodically evaluated by the NCUA to determine the reasonableness of those assumptions over time.

The internal model provides a range of losses. The minimum in the range of losses is the 50 percent confidence level forecast and the upper bound is the 90 percent confidence level forecast. The NCUSIF general reserve is sensitive to assumptions made about the loss rates under various scenarios. For example, changing the assumptions to exclude staticial outliers for calculating loss rates results in a change in the range of losses. Additionally, management's judgment is used to select a point in the range of projected losses to record probable contingent liabilities in compliance with SFFAS No. 5, which was $172.6 million in anticipated losses recognized on the NCUSIF's balance sheet at December 31, 2014. In selecting the point in the range of the forecasts, management considers overall credit union economic trends and system-wide risk factors, such as increasing levels of consumer debt, bankruptcies and delinquencies.

Consistent with accounting standards, the assumptions and method used to estimate the anticipated losses will require continued calibration and refinement as circumstances change.

NATIONAL CREDIT UNION ADMINISTRATION

# OPERATING FUND

Financial Statements as of and for the Years Ended
December 31, 2014 and 2013, and
Independent Auditors' Report

**KPMG LLP**
Suite 12000
1801 K Street, NW
Washington, DC 20006

## Independent Auditors' Report

Inspector General, National Credit Union Administration and
the National Credit Union Administration Board:

### Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Administration Operating Fund (OF), which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of revenues, expenses and changes in fund balance, and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion on the Financial Statements***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Administration Operating Fund as of December 31, 2014 and 2013, and the results of its operations, changes in fund balance, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

**Other Reporting Required by *Government Auditing Standards***

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2014, we considered the OF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OF's internal control. Accordingly, we do not express an opinion on the effectiveness of the OF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the OF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 14-02.

***Purpose of the Other Reporting Required by* Government Auditing Standards**

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the OF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

February 13, 2015

## NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

## BALANCE SHEETS
## AS OF DECEMBER 31, 2014 AND 2013
## (Dollars in thousands)

| | 2014 | 2013 |
|---|---|---|
| ASSETS: | | |
| CASH AND CASH EQUIVALENTS (Note 3) | $ 40,940 | $ 37,913 |
| DUE FROM NATIONAL CREDIT UNION SHARE INSURANCE FUND (Note 7) | 3,509 | 3,313 |
| EMPLOYEE ADVANCES | 62 | 38 |
| OTHER ACCOUNTS RECEIVABLE, Net (Notes 7 and 10) | 322 | 203 |
| PREPAID EXPENSES AND OTHER ASSETS | 2,145 | 1,378 |
| ASSETS HELD FOR SALE (Note 6) | 644 | - |
| FIXED ASSETS — Net of accumulated depreciation of $28,210 and $29,121 as of December 31, 2014 and December 31, 2013, respectively (Note 4) | 30,279 | 30,215 |
| INTANGIBLE ASSETS — Net of accumulated amortization of $15,844 and $13,134 as of December 31, 2014 and December 31, 2013, respectively (Note 5) | 2,904 | 4,263 |
| TOTAL | $ 80,805 | $ 77,323 |
| LIABILITIES AND FUND BALANCE: | | |
| LIABILITIES: | | |
| Accounts payable and accrued other liabilities | $ 6,598 | $ 4,718 |
| Obligations under capital leases (Note 8) | 213 | 59 |
| Accrued wages and benefits | 12,873 | 11,356 |
| Accrued annual leave | 15,469 | 14,571 |
| Accrued employee travel | 491 | 1,068 |
| Notes payable to National Credit Union Share Insurance Fund (Note 7) | 11,733 | 13,074 |
| Total liabilities | 47,377 | 44,846 |
| COMMITMENTS AND CONTINGENCIES (Notes 7, 8, 11 & 12) | | |
| FUND BALANCE | 33,428 | 32,477 |
| TOTAL | $ 80,805 | $ 77,323 |

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION**
**OPERATING FUND**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE**
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**
**(Dollars in thousands)**

| | 2014 | 2013 |
|---|---|---|
| REVENUES: | | |
| Operating fees | $ 77,875 | $ 93,112 |
| Interest | 16 | 28 |
| Other | 1,213 | 1,346 |
| Total revenues | 79,104 | 94,486 |
| EXPENSES, NET (Note 7): | | |
| Employee wages and benefits | 57,294 | 69,797 |
| Travel | 8,222 | 10,520 |
| Rent, communications, and utilities | 1,518 | 1,990 |
| Contracted services | 6,783 | 8,518 |
| Depreciation and amortization | 5,878 | 5,418 |
| Administrative | (1,542) | (634) |
| Total expenses, net | 78,153 | 95,609 |
| EXCESS OF REVENUES OVER (UNDER) EXPENSES | 951 | (1,123) |
| FUND BALANCE—Beginning of year | 32,477 | 33,600 |
| FUND BALANCE—End of year | $ 33,428 | $ 32,477 |

See accompanying notes to the financial statements.

## NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (Dollars in thousands)

| | 2014 | 2013 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Excess of revenues over (under) expenses | $ 951 | $ (1,123) |
| Adjustments to reconcile excess of revenues over (under) expenses to net cash provided by operating activities: | | |
| Depreciation and amortization | 5,878 | 5,418 |
| Provision for loss on disposal of employee residences held for sale | 122 | 27 |
| Loss on fixed asset and intangible asset retirements | 13 | 17 |
| (Increase) decrease in assets: | | |
| Due from National Credit Union Share Insurance Fund | (196) | (1,273) |
| Employee advances | (24) | (13) |
| Other accounts receivable, net | (119) | 8 |
| Prepaid expenses and other assets | (767) | (323) |
| (Decrease) increase in liabilities: | | |
| Accounts payable | 1,431 | (500) |
| Accrued wages and benefits | 1,517 | 1,178 |
| Accrued annual leave | 898 | 739 |
| Accrued employee travel | (577) | 373 |
| Net cash provided by operating activities | 9,127 | 4,528 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of fixed assets and intangible assets | (3,969) | (2,603) |
| Proceeds from sale of employee residences held for sale | 359 | 827 |
| Purchases of employee residences held for sale | (1,125) | - |
| Net cash used in investing activities | (4,735) | (1,776) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repayments of notes payable to National Credit Union Share Insurance Fund | (1,341) | (1,341) |
| Principal payments under capital lease obligations | (24) | (19) |
| Net cash used in financing activities | (1,365) | (1,360) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 3,027 | 1,392 |
| CASH AND CASH EQUIVALENTS—Beginning of year | 37,913 | 36,521 |
| CASH AND CASH EQUIVALENTS—End of year | $ 40,940 | $ 37,913 |
| SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES - | | |
| Acquisition of equipment under capital lease | $ 177 | $ - |
| CASH PAYMENTS FOR INTEREST | $ 229 | $ 249 |

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION**
**OPERATING FUND**

**NOTES TO FINANCIAL STATEMENTS**
**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

## 1. ORGANIZATION AND PURPOSE

The National Credit Union Administration Operating Fund (the "Fund") was created by the Federal Credit Union Act of 1934. The Fund was established as a revolving fund in the United States Treasury under the management of the National Credit Union Administration (NCUA) Board for the purpose of providing administration and service to the Federal credit union system.

A significant majority of the Fund's revenue is comprised of operating fees paid by Federal credit unions. Each Federal credit union is required to pay this fee based on its prior year asset balances and rates set by the NCUA Board.

## 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation –** The Fund has historically prepared its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), based on standards issued by the Financial Accounting Standards Board (FASB), the private sector standards setting body. The Federal Accounting Standards Advisory Board (FASAB) is the standards setting body for the establishment of GAAP with respect to the financial statements of Federal Government entities. FASAB has indicated that financial statements prepared based upon standards promulgated by FASB may also be regarded as in accordance with GAAP for Federal entities that have issued financial statements based upon FASB standards in the past.

**Basis of Accounting –** The Fund maintains its accounting records in accordance with the accrual basis of accounting. As such, the Fund recognizes income when earned and expenses when incurred. In addition, the Fund records investment transactions when they are executed and recognizes interest on investments when it is earned.

**Related Parties –** The Fund exists within NCUA and is one of five funds managed by the NCUA Board. The other funds managed by the Board, deemed related parties, are:

a) The National Credit Union Share Insurance Fund (NCUSIF),
b) The National Credit Union Administration Temporary Corporate Credit Union Stabilization Fund (TCCUSF),
c) The National Credit Union Administration Central Liquidity Facility (CLF), and
d) The National Credit Union Administration Community Development Revolving Loan Fund (CDRLF).

The Fund supports these related parties by providing office space, information technology services, and supplies, as well as paying employees' salaries and benefits. Certain types of support are reimbursed to the Fund by NCUSIF, TCCUSF, and CLF, while support of the CDRLF is not reimbursed as described in Note 7. Expenses included on the Statement of Revenues, Expenses, and Changes in Fund Balance are shown net of reimbursements from related parties. This may result in credit balances if expense activity for the Operating Fund is less than the reimbursements from related parties.

**Cash Equivalents –** Cash equivalents are highly liquid investments with original maturities of three months or less. The Federal Credit Union Act permits the Fund to invest in United States Government securities or securities with both principal and interest guaranteed by the United States Government. All investments in 2014 and 2013 were cash equivalents and are stated at cost, which approximates fair value.

**Fixed and Intangible Assets –** Buildings, furniture, equipment, computer software, and leasehold improvements are recorded at cost. Computer software includes the cost of labor incurred by both external and internal programmers and other personnel in the development of the software. Capital leases are recorded at the lower of the present value of the future minimum lease payments or the fair market value of the leased asset. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of buildings, furniture, equipment, and computer software, and the shorter of either the estimated useful life or lease term for leasehold improvements and capital leases. Estimated useful lives are 40 years for the building and two to ten years for the furniture, equipment, computer software, and leasehold improvements.

**Long-lived Assets/Impairments –** Fixed and intangible assets, subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying value of the long-lived asset or asset group is not recoverable, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third party independent appraisals, as considered necessary.

For impairments, the Fund's policy is to identify assets that are no longer in service, obsolete, or need to be written down, and perform an impairment analysis based on FASB Accounting Standards Codification (ASC) 360-10-35, *Property, Plant, and Equipment*, requirements. Subsequent adjustment to individual asset values are made to correspond with any identified changes in useful lives.

**Assets Held for Sale –** The Fund may hold certain real estate held for sale. Such held for sale assets are ready for immediate sale in their present condition. Real estate held for sale is recorded at the fair value less cost to sell. If an asset's fair value less cost to sell—based on a review of available financial information including but not limited to appraisals, markets analyses, etc.—is less than its carrying amount, the carrying value of the asset is adjusted to its fair value less costs to sell.

Gains on disposition of real estate are recognized upon sale of the underlying asset. The Fund evaluates each real estate transaction to determine if it qualifies for gain recognition under the full accrual method. If the transaction does not meet the criteria for the full accrual method, the appropriate deferral method is used.

**Accounts Receivable –** Receivables include employee advances, amounts due from the NCUSIF, and other accounts receivable.

**Accounts Payable and Accrued Other Liabilities –** The Fund incurs administrative expenses and liabilities for programs pertaining to related parties that are controlled by the NCUA Board. Accruals are made as expenses are incurred. Accrued other liabilities include contingent liabilities, as described in Note 11.

**Accrued Benefits –** The Fund incurs expenses for retirement plans, employment taxes, workers compensation, transportation subsidies, and other benefits mandated by law. Corresponding liabilities recorded contain both short-term and long-term liabilities, including liabilities under the Federal Employees' Compensation Act (FECA). This Act 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. The FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from NCUA for these paid claims. The DOL bills NCUA are paid, and the Fund in turn accrues a liability to recognize the future payments. The Fund records an estimate for the FECA actuarial liability using the DOL's FECA model. The model considers the average amount of benefit payments incurred by the agency for the past three fiscal years, multiplied by the medical and compensation liability to benefits paid ratio for the whole FECA program.

**Operating Fees –** Each federally chartered credit union is assessed an annual fee based on their assets as of the preceding 31st day of December. The fee is designed to cover the costs of providing administration and service to the Federal credit union system. The Fund recognizes this operating fee revenue ratably over the calendar year.

**Revenue Recognition –** Interest revenue and other revenue relating to Freedom of Information Act fees, sales of publications, parking income, and rental income is recognized when earned.

**Income Taxes –** NCUA, as a government entity, is not subject to federal, state, or local income taxes and, accordingly, no provision for income taxes is recorded for the Fund.

**Leases –** Operating leases are entered into for the acquisition of office space and equipment as part of administering NCUA's program. The cost of operating leases is recognized on the straight-line method over the life of the lease and includes, if applicable, any reductions resulting from incentives such as rent holidays. The same method is used to recognize income from operating leases. Certain office space for which NCUA is a lessee is subject to escalations in rent, as described in Note 8.

**Fair Value of Financial Instruments –** The following method and assumption was used in estimating the fair value disclosures for financial instruments:

Cash and cash equivalents, receivables from related parties, employee advances, other accounts receivable (net), obligations under capital leases, and notes payable to NCUSIF are recorded at book values, which approximate their respective fair values.

**Use of Estimates –** The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses incurred during the reporting period. Significant estimates include the determination of the FECA liability, certain intangible asset values, and if there is any determination of a long-lived asset impairment, the related measurement of the impairment charges.

**Commitments and Contingencies –** Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

## 3. CASH AND CASH EQUIVALENTS

The Fund's cash and cash equivalents as of December 31, 2014 and 2013 are as follows (in thousands):

| | **2014** | **2013** |
|---|---:|---:|
| Deposits with U.S. Treasury | $2,152 | $504 |
| U.S. Treasury Overnight Investments | 38,788 | 37,409 |
| Total | $40,940 | $37,913 |

The Operating Fund does not hold any cash or cash equivalents outside of the U.S. Department of the Treasury.

## 4. FIXED ASSETS

Fixed assets, including furniture and equipment, are comprised of the following as of December 31, 2014 and 2013 (in thousands):

| | **2014** | **2013** |
|---|---:|---:|
| Office building and land | $48,273 | $48,115 |
| Furniture and equipment | 8,850 | 10,713 |
| Leasehold improvements | 406 | 406 |
| Equipment under capital leases | 279 | 102 |
| Total | 57,808 | 59,336 |
| Less accumulated depreciation | (28,210) | (29,121) |
| Assets under construction | 681 | - |
| Fixed assets, net | $30,279 | $30,215 |

Depreciation expense for the years ended December 31, 2014 and 2013 totaled $3.1 and $2.7 million, respectively.

Assets under construction includes costs associated with improvements for NCUA headquarters that increases the future service potential of the capital asset (building) and does more than maintain existing level of service.

## 5. INTANGIBLE ASSETS

Intangible assets are comprised of the following as of December 31, 2014 and 2013 (in thousands):

| | 2014 | 2013 |
|---|---|---|
| Internal-use software | $17,954 | $16,945 |
| Less accumulated amortization | (15,844) | (13,134) |
| Total | 2,110 | 3,811 |
| Internal-use software under development | 794 | 452 |
| Intangible assets, net | $2,904 | $4,263 |

Internal-use software is computer software that is either acquired externally or developed internally. Amortization expense for the years ended December 31, 2014 and 2013 totaled $2.7 and $2.7 million, respectively.

Internal-use software under development represents costs incurred from the customization of software purchased from external vendors for internal use as well as the cost of software that is developed in-house.

## 6. ASSETS HELD FOR SALE

The net balance of real estate available for sale as of December 31, 2014 and 2013 was $643.5 thousand and $0, respectively, and includes impairment charges and costs to sell of $90.6 thousand and $0 as of December 31, 2014 and 2013, respectively. Real estate available for sale purchased by the Fund is from employees enrolled in the agency's home purchase program who are unable to sell their homes in a specified time period. It is the agency's intent to dispose of these properties as quickly as possible. Sales of homes are generally expected to occur within one year, pending market forces. Ongoing costs to maintain properties are expensed as incurred.

## 7. RELATED PARTY TRANSACTIONS

### (a) Transactions with NCUSIF

Certain administrative services are provided by the Fund to NCUSIF. The Fund charges NCUSIF for these services based upon an annual allocation factor approved by the NCUA Board and derived from a study of actual usage. In 2014, the allocation to NCUSIF was 69.2% of all expenses. In 2013, the allocation to NCUSIF was the entire cost of the Office of National

Examinations and Supervision (formerly called Office of Corporate Credit Unions) to the extent that they exceeded the actual operating fees paid by Federal corporate credit unions, plus 59.1% of all other expenses. The cost of the services allocated to NCUSIF, which totaled $175.6 and $146.0 million for 2014 and 2013, respectively, is reflected as a reduction of the expenses shown in the accompanying financial statements. These transactions are settled monthly. As of December 31, 2014 and 2013, amounts due from NCUSIF, under this allocation method, totaled $3.5 and $3.3 million, respectively.

In addition, the Fund charges NCUSIF for certain developmental costs related to development of internal-use intangible assets requiring the use of Operating Fund labor. As of December 31, 2014 and 2013, these amounts were $20.9 thousand and $0, respectively.

In 1992, the Fund entered into a commitment to borrow up to $42.0 million in a 30-year secured term note with NCUSIF. The monies were drawn as needed to fund the costs of constructing a building in 1993. Interest costs incurred were $228.6 and $248.8 thousand for 2014 and 2013, respectively. The notes payable balances as of December 31, 2014 and 2013 were $11.7 and $13.1 million, respectively. The current portion of the long-term debt is $1.3 million as of December 31, 2014. The variable rate on the note is equal to NCUSIF's prior-month yield on investments. The average interest rates during 2014 and 2013 were 1.85% and 1.82%, respectively. The interest rates as of December 31, 2014 and 2013 were 1.87% and 1.78%, respectively.

The secured term note requires principal repayments as of December 31, 2014, as follows (in thousands):

| **Years ending December 31** | **Secured Term Note** |
|---|---|
| 2015 | $1,341 |
| 2016 | 1,341 |
| 2017 | 1,341 |
| 2018 | 1,341 |
| 2019 | 1,341 |
| Thereafter | 5,028 |
| Total | $11,733 |

**(b) Transactions with CLF**

Certain administrative services are provided by the Fund to CLF. The Fund pays CLF's employee salaries and related benefits, as well as CLF's portion of building and operating costs. Reimbursements of these expenses are determined by applying a ratio of CLF full-time equivalent employees to the NCUA total, with settlement and payment occurring quarterly. All other CLF reimbursement expenses are paid annually. The costs of the services provided to CLF were $505.5 and $409.8 thousand for the years ending December 31, 2014 and 2013, respectively, and are reflected as a reduction of the expenses shown in the accompanying financial statements.

Other accounts receivable include $118.7 and $30.9 thousand of amounts due from the CLF as of December 31, 2014 and 2013, respectively.

**(c) Support of CDRLF**

The Fund supports the administration of programs under CDRLF by paying related personnel costs such as pay and benefits as well as other costs which include but are not limited to telecommunications, supplies, printing, and postage. For the years ending December 31, 2014 and 2013, unreimbursed administrative support to CDRLF is estimated at (in thousands):

| | 2014 | 2013 |
|---|---|---|
| Personnel | $307 | $310 |
| Other | 57 | 64 |
| Total | $364 | $374 |

**(d) Support of TCCUSF**

The Fund supports the administration of programs under TCCUSF by paying related personnel costs such as pay and benefits and other associated costs which include but are not limited to telecommunications, supplies, printing, and postage. For the years ending December 31, 2014 and 2013, unreimbursed administrative support to TCCUSF is estimated at (in thousands):

| | 2014 | 2013 |
|---|---|---|
| Personnel | $921 | $986 |
| Other | 28 | 29 |
| Total | $949 | $1,015 |

In addition, the Fund initially paid for and was reimbursed $782.7 and $589.1 thousand for the salaries and related benefits of TCCUSF employees for the year-ending December 31, 2014 and 2013, respectively. These reimbursements are reflected as a reduction of the corresponding expenses in the accompanying financial statements.

**(e) Federal Financial Institutions Examination Council (FFIEC)**

NCUA is one of the five Federal agencies that fund FFIEC operations. Under FFIEC's charter, NCUA's Chairman is appointed as a Member and served as its Chairman for a two-year term that ended on April 1, 2013. FFIEC was established on March 10, 1979, as a formal inter-agency body empowered to prescribe uniform principles, standards, and report forms for the Federal examination of financial institutions by NCUA, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Consumer Financial Protection Bureau, and the State Liaison Committee. FFIEC was also established to make recommendations to promote uniformity in the supervision of financial institutions. Additionally, FFIEC provides training to staff employed by Member agencies; the Member agencies are charged for these trainings based on use. For the years ended December 31, 2014 and 2013, FFIEC assessments totaled $1.1 million and $983.6 thousand, respectively. FFIEC's 2015 budgeted assessments to NCUA total $1.4 million (unaudited).

### (f) Real Estate Available for Sale

The Fund purchases homes from employees enrolled in the agency's home purchase program who are unable to sell their homes in a specified time period, as mentioned in Note 6.

## 8. LEASE COMMITMENTS

**Description of Leasing Agreements –** The Fund has entered into lease agreements with vendors for the rental of office space and office equipment, which includes copiers, laptops, and mail equipment.

**Operating Leases –** The Fund leases a portion of NCUA's office space under lease agreements that will continue through 2020. Office rental charges amounted to approximately $1.1 and $1.2 million, of which approximately $765.0 and $689.0 thousand were reimbursed by NCUSIF for 2014 and 2013, respectively. In addition, the Fund leases laptops and other office equipment under operating leases with lease terms that will continue through 2015.

**Capital Leases –** The Fund leases copiers, laptops, and mail equipment under lease agreements that run through 2019. Amounts presented in the table below include $74.3 thousand of imputed interest.

The future minimum lease payments to be paid over the next five years as of December 31, 2014, before reimbursements, are as follows (in thousands):

| **Years ending December 31** | **Operating Leases** | **Capital Leases** |
|---|---:|---:|
| 2015 | $1,083 | $73 |
| 2016 | 820 | 85 |
| 2017 | 837 | 76 |
| 2018 | 659 | 50 |
| 2019 | 675 | 3 |
| Thereafter | 609 | - |
| Total | $4,683 | $287 |

Based on the allocation factor approved by the NCUA Board, NCUSIF is expected to reimburse the Fund for approximately 71.80% of the 2015 operating lease payments.

The Fund, as a lessor, currently holds operating lease agreements with two tenants, each of whom rents a portion of the Fund's building for retail space. The leases carry six month to five year terms with escalating rent payments. The last of these leases is set to expire in 2020.

The future minimum lease payments to be received from these non-cancelable operating leases at December 31, 2014 are as follows (in thousands):

| **Years ending December 31** | **Scheduled Rent Payments** |
|---|---|
| 2015 | $309 |
| 2016 | 305 |
| 2017 | 312 |
| 2018 | 318 |
| 2019 | 324 |
| Thereafter | 81 |
| Total | $1,649 |

## 9. RETIREMENT PLANS

Eligible employees of the Fund are covered by Federal Government retirement plans—either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Both plans include components that are defined benefit plans. FERS is comprised of a Social Security Benefits Plan, a Basic Benefits Plan, and the Thrift Savings Plan. Contributions to the plans are based on a percentage of an employee's gross pay. Under the Thrift Savings Plan, employees may also elect additional contributions up to $17.5 thousand ($23.0 thousand for age 50 and above) in 2014, and the Fund will match up to 5% of the employee's gross pay. In 2014 and 2013, the Fund's contributions to the plans were approximately $21.5 and $19.8 million, respectively, of which approximately $14.9 and $11.7 million, respectively, was allocated to NCUSIF.

These defined benefit plans are administered by the U.S. Office of Personnel Management (OPM), which determines the required employer contribution level. The Fund does not account for the assets pertaining to the above plans, and does not have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported by OPM and are not allocated to individual employers.

The Fund established a voluntary defined contribution 401(k) Plan (NCUA Savings Plan), effective January 1, 2012. The NCUA Collective Bargaining Agreement (CBA) sets the rates of contribution required by the Fund, and the current agreement is in effect through the end of 2014, continuing each year thereafter until a new agreement is negotiated. As of December 31, 2014, no new agreement has been negotiated. The current CBA requires the Fund to contribute 3.0% of an employee's compensation as defined in Article 9 *Compensation and Benefits* of the CBA. In addition, the current CBA requires the Fund to match employee contributions up to 1.5% in 2014 and 1.5% in 2015 unless a new agreement changes the contribution rate. NCUA's contributions for 2014 and 2013 were $5.4 and $4.6 million, respectively. The operating expense associated with the NCUA Savings Plan in 2014 and 2013 were $64.1 and $63.0 thousand, respectively. A total of 69.2% of all costs of the NCUA Savings Plan was allocated to the NCUSIF in 2014. Matching, vesting, and additional information is published and made available in a Summary Plan Description.

## 10. FAIR VALUE MEASUREMENTS

The following disclosures of the estimated fair values are made in accordance with the requirements of FASB ASC 820, *Fair Value Measurements and Disclosures.* Fair value is the amount that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Fund has no financial instruments that are subject to fair value measurement on a recurring basis.

The related impairment charges for 2014 and 2013 were $122.3 and $27.0 thousand, respectively. Impairment charges are recorded within the statement of revenues, expenses and changes in fund balance and represent non-recurring fair value measures. The following table presents the carrying amounts and established fair values (in thousands) of the Fund's assets held for sale as of December 31, 2014 and 2013.

| Assets held for sale | Amortized Cost Basis | Aggregate Fair Value | Impairment at Year-End |
|---|---|---|---|
| 2014 | $644 | $644 | $91 |
| 2013 | - | - | - |

### (a) Non-recurring Fair Value Measures

Assets held for sale represents residences from relocating employees and is presented at aggregate fair value less cost to sell. The fair value measurement recorded during the period includes pending purchase contracts, the lower of list prices or appraisals if less than six months old (if no pending purchase contracts exist), or recent market analyses (if no recent list prices or appraisals are readily available). Additionally, the fair value incorporates estimated reductions in the fair value to recognize costs to sell the properties. The Fund believes that these measurements fairly reflect the most current valuation of the assets.

**(b) Summary Financial Instrument Fair Values**

The carrying values approximate the fair values of certain financial instruments as of December 31, 2014 and 2013, were as follows (in thousands):

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Estimated Fair Value** | **Carrying Amount** | **Estimated Fair Value** |
| Cash and cash equivalents | $40,940 | $40,940 | $37,913 | $37,913 |
| Due from NCUSIF | 3,509 | 3,509 | 3,313 | 3,313 |
| Employee advances | 62 | 62 | 38 | 38 |
| Other accounts receivable, net | 322 | 322 | 203 | 203 |
| Obligations under capital lease | 213 | 213 | 59 | 59 |
| Notes payable to NCUSIF | 11,733 | 11,733 | 13,074 | 13,074 |

**Cash and Cash Equivalents –** The carrying amounts for cash and cash equivalents financial instruments approximates fair value as the short-term nature of these instruments does not lead to significant fluctuations in value. Cash equivalents are U.S. Treasury overnight investments.

**Due from NCUSIF –** The carrying amounts for the due from NCUSIF financial instruments approximates fair value, as the amount is scheduled to be paid within the first quarter of fiscal year 2015.

**Employee Advances –** The carrying amounts for receivables from employees' financial instruments approximates fair value, as the amount is scheduled to be paid in fiscal year 2015.

**Other Accounts Receivable, Net –** The carrying amounts for other accounts receivable approximates fair value, as the original gross amounts together with a valuation allowance reflect the net amount that is deemed collectible. As of December 31, 2014 and 2013, the Fund's Other Accounts Receivable includes an allowance in the amount of $1.1 and $74.1 thousand, respectively.

**Obligation under Capital Lease –** The carrying amounts for the remaining obligations owed on capital leases financial instruments approximates fair value because the underlying interest rates approximates rates currently available to the Fund.

**Notes Payable to NCUSIF –** The carrying amounts for notes payable to NCUSIF financial instruments approximates fair value due to its variable rate nature.

## 11. CONTINGENCIES

NCUA recognizes contingent liabilities when a past event or transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable. NCUA is party to various routine administrative proceedings, legal actions, and claims brought against it, which has or may ultimately result in settlements or decisions against the agency. For those matters where an estimate is possible and the loss is probable, such amount has been accrued in other liabilities.

## 12. COLLECTIVE BARGAINING AGREEMENT

NCUA has a collective bargaining agreement (CBA) with the National Treasury Employees Union (NTEU). NTEU is the exclusive representative of approximately 80% of NCUA employees. The agreement currently in place became effective on November 1, 2011, and remains in effect. NCUA and NTEU are currently negotiating a new agreement.

## 13. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 13, 2015, which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.

NATIONAL CREDIT UNION ADMINISTRATION

# CENTRAL LIQUIDITY FACILITY

Financial Statements as of and for the Years Ended
December 31, 2014 and 2013, and
Independent Auditors' Report

**KPMG LLP**
Suite 12000
1801 K Street, NW
Washington, DC 20006

## Independent Auditors' Report

Inspector General, National Credit Union Administration and
the National Credit Union Administration Board:

### Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Administration Central Liquidity Facility (CLF), which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion on the Financial Statements*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Administration Central Liquidity Facility as of December 31, 2014 and 2013, and its operations, members' equity, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

**Other Reporting Required by *Government Auditing Standards***

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2014, we considered the CLF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CLF's internal control. Accordingly, we do not express an opinion on the effectiveness of the CLF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the CLF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 14-02.

***Purpose of the Other Reporting Required by* Government Auditing Standards**

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the CLF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

February 13, 2015

## NATIONAL CREDIT UNION ADMINISTRATION
## CENTRAL LIQUIDITY FACILITY

**BALANCE SHEETS**
**AS OF DECEMBER 31, 2014 AND 2013**
**(Dollars in thousands, except share data)**

| | 2014 | | 2013 | |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and Cash Equivalents (Notes 3 and 5) | $ | 35,269 | $ | 30,442 |
| Investments Held to Maturity (Net of $266 and $734 unamortized premium, fair value of $193,788 and $106,511 as of 2014 and 2013, respectively) (Notes 4 and 5) | | 193,737 | | 108,306 |
| Accrued Interest Receivable (Note 5) | | 514 | | 313 |
| TOTAL | $ | 229,520 | $ | 139,061 |
| **LIABILITIES AND MEMBERS' EQUITY** | | | | |
| LIABILITIES | | | | |
| Accounts Payable (Note 5) | $ | 179 | $ | 88 |
| Other Liabilities (Notes 5 and 6) | | - | | 3,123 |
| Dividends Payable (Note 5) | | 125 | | 26 |
| Member Deposits (Notes 5 and 8) | | 600 | | 252 |
| TOTAL LIABILITIES | | 904 | | 3,489 |
| MEMBERS' EQUITY | | | | |
| Capital Stock – Required ($50 per share par value authorized: 8,005,574 and 4,315,214 shares; issued and outstanding: 4,002,787 and 2,157,607 shares as of 2014 and 2013, respectively) (Notes 6 and 7) | | 200,139 | | 107,880 |
| Retained Earnings | | 28,477 | | 27,692 |
| TOTAL MEMBERS' EQUITY | | 228,616 | | 135,572 |
| TOTAL | $ | 229,520 | $ | 139,061 |

See accompanying notes to the financial statements.

# NATIONAL CREDIT UNION ADMINISTRATION
# CENTRAL LIQUIDITY FACILITY

## STATEMENTS OF OPERATIONS
## FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
## (Dollars in thousands)

| | 2014 | 2013 |
|---|---|---|
| **REVENUE** | | |
| Investment Income | $ 1,735 | $ 918 |
| Total Revenue | 1,735 | 918 |
| **EXPENSES** (Note 10) | | |
| Personnel Services | 338 | 284 |
| Personnel Benefits | 108 | 59 |
| Other General and Administrative Expenses | 67 | 60 |
| Total Operating Expenses | 513 | 403 |
| Interest – Liquidity Reserve | 1 | - |
| Total Expenses | 514 | 403 |
| **NET INCOME** | $ 1,221 | $ 515 |

See accompanying notes to the financial statements.

## NATIONAL CREDIT UNION ADMINISTRATION
## CENTRAL LIQUIDITY FACILITY

**STATEMENTS OF MEMBERS' EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**
**(Dollars in thousands, except share data)**

| | Capital Stock | | Retained | |
|---|---|---|---|---|
| | **Shares** | **Amount** | **Earnings** | **Total** |
| BALANCE – December 31, 2012 | 1,611,616 | $ 80,581 | $ 27,272 | $ 107,853 |
| Issuance of Required Capital Stock | 557,295 | 27,864 | | 27,864 |
| Redemption of Required Capital Stock (Note 6) | (11,304) | (565) | | (565) |
| Dividends Declared ($0.05/share) (Notes 7 and 8) | | | (95) | (95) |
| Net Income | | | 515 | 515 |
| BALANCE – December 31, 2013 | 2,157,607 | 107,880 | 27,692 | 135,572 |
| Issuance of Required Capital Stock | 1,857,120 | 92,856 | | 92,856 |
| Redemption of Required Capital Stock (Note 6) | (11,940) | (597) | | (597) |
| Dividends Declared ($0.125/share) (Notes 7 and 8) | | | (436) | (436) |
| Net Income | | | 1,221 | 1,221 |
| BALANCE – December 31, 2014 | 4,002,787 | $ 200,139 | $ 28,477 | $ 228,616 |

See accompanying notes to the financial statements.

## NATIONAL CREDIT UNION ADMINISTRATION
## CENTRAL LIQUIDITY FACILITY

### STATEMENTS OF CASH FLOWS
### FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
### (Dollars in thousands)

| | 2014 | 2013 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Income | $ 1,221 | $ 515 |
| Adjustments to Reconcile Net Income | | |
| to Net Cash Provided by Operating Activities: | | |
| Amortization of Investments | 88 | 157 |
| Increase in Accrued Interest Receivable | (201) | (117) |
| Increase in Accounts Payable | 91 | 12 |
| Decrease in Other Liabilities | - | (101) |
| Net Cash Provided by Operating Activities | 1,199 | 466 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of Investments | (93,519) | (37,356) |
| Proceeds from Maturing Investments | 8,000 | 1,000 |
| Net Cash Used in Investing Activities | (85,519) | (36,356) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Issuance of Required Capital Stock | 89,653 | 27,777 |
| Dividends Paid (Notes 7 and 8) | - | (40) |
| Redemption of Required Capital Stock | (502) | (562) |
| Withdrawal of Member Deposits | (4) | (11) |
| Net Cash Provided by Financing Activities | 89,147 | 27,164 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | 4,827 | (8,726) |
| CASH AND CASH EQUIVALENTS - Beginning of Year | 30,442 | 39,168 |
| CASH AND CASH EQUIVALENTS - End of Year | $ 35,269 | $ 30,442 |

See accompanying notes to the financial statements.

# NATIONAL CREDIT UNION ADMINISTRATION
# CENTRAL LIQUIDITY FACILITY

## NOTES TO FINANCIAL STATEMENTS
## AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

### 1. ORGANIZATION AND PURPOSE

The National Credit Union Administration (NCUA) Central Liquidity Facility (CLF) was created by the National Credit Union Central Liquidity Facility Act (the "Act"). CLF is designated as a mixed-ownership Government corporation under the Government Corporation Control Act. CLF exists within NCUA and is managed by the NCUA Board. CLF became operational on October 1, 1979.

CLF was created to improve the general financial stability of credit unions by serving as a liquidity lender to credit unions experiencing unusual or unexpected liquidity shortfalls. CLF accomplishes its purpose by lending funds, subject to certain statutory limitations, when a liquidity need arises.

CLF is subject to various Federal laws and regulations. CLF's operating budget requires Congressional approval, and CLF may not make loans to members for the purpose of expanding credit union loan portfolios. CLF's investments are restricted to obligations of the U.S. Government and its agencies, deposits in federally insured financial institutions, and shares and deposits in credit unions. Borrowing is limited by statute to 12 times the subscribed capital stock and surplus. See Notes 7 and 9 for further information about the capital stock and the CLF's borrowing authority.

### 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** – CLF has historically prepared its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), based on standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards-setting body. The Federal Accounting Standards Advisory Board (FASAB) is the standards-setting body for the establishment of GAAP with respect to the financial statements of Federal Government entities. FASAB has indicated that financial statements prepared based upon standards promulgated by FASB may also be regarded as in accordance with GAAP for those Federal entities, such as CLF, that have issued financial statements based upon FASB standards in the past.

**Basis of Accounting** – CLF maintains its accounting records on the accrual basis of accounting. CLF recognizes interest income on loans and investments when they are earned, and recognizes interest expense on borrowings when it is incurred. CLF recognizes expenses when incurred. CLF accrues and records dividends on capital stock monthly and pays dividends quarterly.

**Use of Estimates** – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

**Cash and Cash Equivalents** – CLF considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

**Investments** – By statute, CLF investments are restricted to obligations of the U.S. Government and its agencies, deposits in federally insured financial institutions, and shares and deposits in credit unions. All investments are classified as held-to-maturity under FASB Accounting Standards Codification (ASC) topic 320-10-25-1, *Classification of Investment Securities,* as CLF has the intent and ability to hold these investments until maturity. Accordingly, CLF reports investments at amortized cost. Amortized cost is the face value of the securities plus the unamortized premium or less the unamortized discount.

CLF evaluates investment securities that are in an unrealized loss position for other-than-temporary impairment (OTTI). An investment security is deemed impaired if the fair value of the investment is less than its amortized cost. Amortized cost includes adjustments (if any) made to the cost basis of an investment for accretion, amortization, and previous OTTI. To determine whether impairment is an OTTI, CLF takes into consideration whether it has the intent to sell the security.

Premiums and discounts are amortized or accreted over the life of the related held-to-maturity investment as an adjustment to yield using the effective interest method. Such amortization and accretion is included in the "investment income" line item in the Statement of Operations.

CLF records investment transactions when they are made.

**Loans and Allowance for Loan Losses** – Loans, when made to members, are on a short-term or long-term basis. Loans are recorded at the amount disbursed and bear interest at the higher of the Federal Financing Bank Advance Rate or the Federal Reserve Bank Discount Window Primary Credit Rate. By regulation, Member *Liquidity Needs* Loans are made on a fully secured basis. CLF obtains a security interest in the assets of the member equal to at least 110% of all amounts due. CLF does not currently charge additional fees for its lending activities. There was no lending activity during 2014 and 2013.

**Borrowings** – CLF's borrowings are recorded when they are received, do not hold premiums or discounts, and are carried at cost. Repayments are recorded when they are made.

**Tax-Exempt Status** – NCUA, as a government entity, is not subject to federal, state, or local income taxes and, accordingly, no provision for income taxes is recorded for CLF.

**Commitments and Contingencies –** Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

**Reclassifications** – Certain amounts in the financial statements have been reclassified to conform to the current year presentation.

**Related Parties** – CLF exists within NCUA and is managed by the NCUA Board. NCUA Operating Fund (OF) provides CLF with information technology, support services, and supplies, as well as paying employees' salaries and benefits. Certain types of support are reimbursed to OF by CLF. The allocation formula to calculate these expenses is based on the number of full-time employees of the respective entities and the estimated amount of time CLF employees spend performing CLF functions.

## 3. CASH AND CASH EQUIVALENTS

CLF's cash and cash equivalents consisted of the following:

| (Dollars in thousands) | As of December 31, 2014 | As of December 31, 2013 |
|---|---|---|
| U.S. Treasury Overnight Investments | $ 35,107 | $ 27,323 |
| Deposits with U.S. Treasury | 160 | 20 |
| SunTrust Bank | 2 | 3,099 |
| Total | $ 35,269 | $ 30,442 |

U.S. Treasury securities had an initial term of less than three months when purchased.

## 4. INVESTMENTS

The carrying amount, gross unrealized holding gains, gross unrealized holding losses, and the fair value of held-to-maturity debt securities as of December 31, 2014 and 2013 were as follows:

| (Dollars in thousands) | Carrying Amount | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Fair Value |
|---|---|---|---|---|
| **As of December 31, 2014** | | | | |
| U.S. Treasury Securities | $ 193,737 | $ 933 | $ (882) | $ 193,788 |
| **As of December 31, 2013** | | | | |
| U.S. Treasury Securities | $ 108,306 | $ 508 | $ (2,303) | $ 106,511 |

Maturities of debt securities classified as held-to-maturity were as follows:

| (Dollars in thousands) | As of December 31, 2014 Net Carrying Amount | As of December 31, 2014 Aggregate Fair Value | As of December 31, 2013 Net Carrying Amount | As of December 31, 2013 Aggregate Fair Value |
|---|---|---|---|---|
| Due in one year or less | $ 24,013 | $ 24,036 | $ 8,005 | $ 8,051 |
| Due after one year through five years | 140,877 | 140,910 | 69,729 | 69,342 |
| Due after five years through ten years | 28,847 | 28,842 | 30,572 | 29,118 |
| Total | $ 193,737 | $ 193,788 | $ 108,306 | $ 106,511 |

The following table includes gross unrealized losses on investment securities, for which OTTI has not been recognized, in addition to the fair values of those securities, aggregated by investment classification and length of time the investments have been in a loss position, at December 31, 2014 and 2013.

| | Losses Less than 12 months | | Losses 12 months or Greater | | Total | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value |
| As of December 31, 2014: | | | | | | |
| U.S. Treasury securities | $ (107) | $ 45,271 | $ (775) | $ 40,104 | $ (882) | $ 85,375 |
| As of December 31, 2013: | | | | | | |
| U.S. Treasury securities | $ (2,303) | $ 63,499 | $ - | $ - | $ (2,303) | $ 63,499 |

## 5. FAIR VALUE MEASUREMENTS

The fair value of an instrument is the amount that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants by the measurement date. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

*Cash and cash equivalents*– The carrying amounts for cash and cash equivalents approximate fair value.

*Investments held-to-maturity* – CLF's investments held-to-maturity are all comprised of U.S. Treasury Securities, for which a share price can be readily obtained. The fair value for investments is determined using the quoted market prices at the reporting date (observable inputs).

*Member Deposits* – Funds maintained with CLF in excess of required capital amounts are recorded as member deposits. These deposits are due upon demand; therefore, carrying amounts approximate the fair value.

*Other* – Accrued interest receivable, accounts payable, other liabilities, and dividends payable are recorded at book values, which approximate the respective fair values because of the short maturity of these instruments.

The following table presents the carrying amounts and established fair values of CLF's financial instruments as of December 31, 2014 and 2013. The carrying values and approximate fair values of financial instruments are as follows:

| | As of December 31, 2014 | | As of December 31, 2013 | |
|---|---|---|---|---|
| **Financial Instruments** (Dollars in thousands) | **Carrying Value** | **Fair Value** | **Carrying Value** | **Fair Value** |
| Cash and cash equivalents | $ 35,269 | $ 35,269 | $ 30,442 | $ 30,442 |
| Investments held-to-maturity | 193,737 | 193,788 | 108,306 | 106,511 |
| Accrued interest receivable | 514 | 514 | 313 | 313 |
| Accounts payable | 179 | 179 | 88 | 88 |
| Other liabilities | - | - | 3,123 | 3,123 |
| Dividends payable | 125 | 125 | 26 | 26 |
| Member deposits | 600 | 600 | 252 | 252 |

## 6. OTHER LIABILITIES

Other liabilities in 2013 include $3.1 million in advance deposits from credit unions that became members in 2014. There were no other liabilities as of December 31, 2014.

## 7. CAPITAL STOCK

Membership in CLF is open to all credit unions that purchase a prescribed amount of capital stock. CLF capital stock is non-voting and shares have a par value of $50. Currently, there is one subscribed form of membership—regular members which are natural person credit unions. Natural person credit unions may borrow from CLF directly as a regular member.

In October 2013, the NCUA Board issued a final rule 12 CFR Part 741, § 741.12 "Liquidity and Contingency Funding Plans," which requires federally insured credit unions with assets of $250 million or more to have access to a backup federal liquidity source for emergency situations. A credit union subject to this requirement may demonstrate access to a contingent federal liquidity source by maintaining membership in the Central Liquidity Facility, or establishing borrowing access at the Federal Reserve Discount Window.

The capital stock account represents subscriptions remitted to CLF by member credit unions. Regular members' required subscription amounts equal one-half of one percent of their paid-in and unimpaired capital and surplus, one-half of which is required to be remitted to CLF. Member credit unions are required to hold the remaining one-half in assets subject to call by the NCUA Board. These unremitted subscriptions are not reflected in CLF's financial statements. Subscriptions are adjusted annually to reflect changes in the member credit unions' paid-in and unimpaired capital and surplus. Dividends are non-cumulative, and are declared and paid on required capital stock.

A member of CLF whose capital stock account constitutes less than 5% of the total capital stock outstanding may withdraw from membership in CLF six months after notifying the NCUA Board of its intention. A member whose capital stock account constitutes 5% or more of the total capital stock outstanding may withdraw from membership in CLF two years after notifying the NCUA Board of its intention. As of December 31, 2014, CLF had no member withdrawal requests pending. As of December 31, 2013, CLF had no member withdrawal requests pending.

The required capital stock is redeemable upon demand by the members, subject to certain conditions as set out in the Act and NCUA regulations; however, the stock is not deemed "mandatorily redeemable" as defined in FASB ASC 480-10-25-7, *Mandatorily Redeemable Financial Instruments*; therefore capital stock is classified in permanent equity.

CLF's capital stock accounts were composed of the following as of December 31, 2014 and 2013:

| (Dollars in thousands, except share data) | **As of December 31, 2014** | | **As of December 31, 2013** | |
|---|---|---|---|---|
| | **Shares** | **Amount** | **Shares** | **Amount** |
| Regular members | 4,002,787 | $ 200,139 | 2,157,607 | $ 107,880 |

Dividends on capital stock are declared based on available earnings and the dividend policy set by the NCUA Board. Dividends are accrued monthly based on prior quarter-end balances and paid on the first business day after the quarter-end. The dividend rates paid on capital stock for regular members are subject to change quarterly.

## 8. MEMBER DEPOSITS

Member deposits represent amounts remitted by members over and above the amount required for membership. Interest is paid on member deposits at a rate equivalent to the dividend rate paid on required capital stock.

## 9. BORROWING AUTHORITY

CLF is authorized by statute to borrow, from any source, an amount not to exceed 12 times its subscribed capital stock and surplus. As of December 31, 2014 and 2013, CLF's statutory borrowing authority was $5.1 billion and $2.9 billion, respectively.

As described above, the borrowing authority amounts are referenced to subscribed capital stock and surplus of the CLF. The CLF borrowing arrangement is exclusively with the Federal Financing Bank (FFB). NCUA maintains a note purchase agreement with FFB on behalf of CLF with a current maximum principal amount of $2.0 billion. Under the terms of its agreement, CLF borrows from FFB as needed. Under terms prescribed by the note purchase agreement, CLF executes promissory notes in amounts as necessary, the aggregate amount of which may not exceed its statutory borrowing authority, and renews them annually. Advances made under the current promissory notes can be made no later than March 31, 2015.

## 10. RELATED PARTY TRANSACTIONS

NCUA OF pays the salaries and related benefits of CLF's employees, CLF's building and operating costs. Expenses are allocated by applying the ratio of CLF full-time equivalent employees to the NCUA total. These expenses are reimbursed to NCUA OF quarterly. All other CLF reimbursement expenses are paid annually. The total amount charged by NCUA was approximately $505.5 thousand and $409.8 thousand, respectively, for December 31, 2014 and 2013. Accounts payable includes approximately $118.7 thousand and $30.9 thousand, respectively, for December 31, 2014 and 2013, due to NCUA OF for services provided.

## 11. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 13, 2015, which is the date the financial statements were available to be issued, and management determined there are no other items to be disclosed.

NATIONAL CREDIT UNION ADMINISTRATION

# COMMUNITY DEVELOPEMENT REVOLVING LOAN FUND

Financial Statements as of and for the Years Ended
December 31, 2014 and 2013, and
Independent Auditors' Report

**KPMG LLP**
Suite 12000
1801 K Street, NW
Washington, DC 20006

# Independent Auditors' Report

Inspector General, National Credit Union Administration and
the National Credit Union Administration Board:

## Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Administration Community Development Revolving Loan Fund (CDRLF), which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of operations, changes in fund balance, and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion on the Financial Statements*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Administration Community Development Revolving Loan Fund as of December 31, 2014 and 2013, and its operations, changes in fund balance, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

## Other Reporting Required by *Government Auditing Standards*

### *Internal Control Over Financial Reporting*

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2014, we considered the CDRLF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CDRLF's internal control. Accordingly, we do not express an opinion on the effectiveness of the CDRLF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the CDRLF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 14-02.

### *Purpose of the Other Reporting Required by* Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the CDRLF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

February 13, 2015

## NATIONAL CREDIT UNION ADMINISTRATION
## COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

### BALANCE SHEETS
### AS OF DECEMBER 31, 2014 AND 2013

| | 2014 | 2013 |
|---|---|---|
| **ASSETS** | | |
| Cash and Cash Equivalents (Notes 3 and 8) | $ 8,839,092 | $ 12,967,509 |
| Loans Receivable (Notes 5, 7, and 8) | 8,089,686 | 3,917,909 |
| Interest Receivable (Note 8) | 5,208 | 3,882 |
| Total | $ 16,933,986 | $ 16,889,300 |
| **LIABILITIES AND FUND BALANCE** | | |
| Liabilities - Accrued Technical Assistance Grants (Note 8) | $ 1,028,047 | $ 852,010 |
| Fund Balance: | | |
| Fund Capital (Note 4) | 14,124,064 | 14,244,241 |
| Accumulated Earnings | 1,781,875 | 1,793,049 |
| Total Fund Balance | 15,905,939 | 16,037,290 |
| Total | $ 16,933,986 | $ 16,889,300 |

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION**
**COMMUNITY DEVELOPMENT REVOLVING LOAN FUND**

**STATEMENTS OF OPERATIONS**
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

| | 2014 | 2013 |
|---|---|---|
| SUPPORT AND REVENUES: | | |
| Interest on Cash Equivalents | $ 2,034 | $ 4,835 |
| Interest on Loans | 28,850 | 20,969 |
| Appropriation Revenue | | |
| Appropriations Expended (Note 4) | 1,569,740 | 1,002,963 |
| Cancelled Technical Assistance Grants (Note 6) | (253,093) | (223,832) |
| Total Support and Revenues | 1,347,531 | 804,935 |
| EXPENSES: | | |
| Technical Assistance Grants | 1,613,661 | 1,107,833 |
| Cancelled Technical Assistance Grants (Note 6) | (254,959) | (234,475) |
| Bad Debt Expense | 3 | - |
| Total Expenses | 1,358,705 | 873,358 |
| NET INCOME/(LOSS) | $ (11,174) | $ (68,423) |

See accompanying notes to the financial statements.

## NATIONAL CREDIT UNION ADMINISTRATION
## COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

### STATEMENTS OF CHANGES IN FUND BALANCE
### FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

| | Fund Capital | | | | |
|---|---|---|---|---|---|
| | For Loans | For Technical Assistance | Total Fund Capital | Accumulated Earnings | Total Fund Balance |
| December 31, 2012 | $ 13,387,777 | $ 391,089 | $ 13,778,866 | $ 1,861,472 | $ 15,640,338 |
| Appropriations Received (Note 4) | - | 1,247,000 | 1,247,000 | - | 1,247,000 |
| Appropriations Expended | - | (1,002,963) | (1,002,963) | - | (1,002,963) |
| Appropriations Rescinded | - | (2,494) | (2,494) | - | (2,494) |
| Cancelled Technical Assistance Grants (Note 6) | - | 223,832 | 223,832 | - | 223,832 |
| Net Income/(Loss) | - | - | - | (68,423) | (68,423) |
| December 31, 2013 | $ 13,387,777 | $ 856,464 | $ 14,244,241 | $ 1,793,049 | $ 16,037,290 |
| Appropriations Received (Note 4) | - | 1,200,000 | 1,200,000 | - | 1,200,000 |
| Appropriations Expended | - | (1,569,740) | (1,569,740) | - | (1,569,740) |
| Cancelled Appropriations - Remitted to Treasury (Note 4) | - | (3,530) | (3,530) | - | (3,530) |
| Cancelled Technical Assistance Grants (Note 6) | - | 253,093 | 253,093 | - | 253,093 |
| Net Income/(Loss) | - | - | - | (11,174) | (11,174) |
| December 31, 2014 | $ 13,387,777 | $ 736,287 | $ 14,124,064 | $ 1,781,875 | $ 15,905,939 |

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION**
**COMMUNITY DEVELOPMENT REVOLVING LOAN FUND**

**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

| | 2014 | 2013 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Income/(Loss) | $ (11,174) | $ (68,423) |
| Adjustments to Reconcile Net Income/(Loss) to Net Cash Used in Operating Activities: | | |
| Bad Debt Expense | 3 | - |
| Appropriations Expended | (1,569,740) | (1,002,963) |
| Cancelled Technical Assistance | 253,093 | 223,832 |
| Changes in Assets and Liabilities: | | |
| Increase in Interest Receivable | (1,326) | (599) |
| Increase/(Decrease) in Accrued Technical Assistance | 176,037 | (378,913) |
| Net Cash Used in Operating Activities | (1,153,107) | (1,227,066) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Loan Principal Repayments | 858,220 | 601,113 |
| Loan Disbursements | (5,030,000) | (570,000) |
| Net Cash Provided by/(Used in) Investing Activities | (4,171,780) | 31,113 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Appropriations Received 2014/2015 | 1,200,000 | - |
| Appropriations Received 2013/2014 | - | 1,247,000 |
| Appropriations Rescinded 2013/2014 | - | (2,494) |
| Cancelled Appropriations - Remitted to Treasury 2008/2009 | (3,530) | - |
| Net Cash Provided by Financing Activities | 1,196,470 | 1,244,506 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | (4,128,417) | 48,553 |
| CASH AND CASH EQUIVALENTS — Beginning of Year | 12,967,509 | 12,918,956 |
| CASH AND CASH EQUIVALENTS — End of Year | $ 8,839,092 | $ 12,967,509 |

See accompanying notes to the financial statements.

# NATIONAL CREDIT UNION ADMINISTRATION
# COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

**NOTES TO FINANCIAL STATEMENTS**
**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

## 1. NATURE OF ORGANIZATION

The Community Development Revolving Loan Fund (CDRLF) for credit unions was established by an act of Congress (Public Law 96-123, November 20, 1979) to stimulate economic development in low-income communities. The National Credit Union Administration (NCUA) and the Community Services Association (CSA) jointly adopted Part 705 of NCUA Rules and Regulations, governing administration of CDRLF, on February 28, 1980.

Upon the dissolution of CSA in 1983, administration of CDRLF was transferred to the Department of Health and Human Services (HHS). From 1983 through 1990, CDRLF was dormant.

The Community Development Credit Union Transfer Act (Public Law 99-609, November 6, 1986) transferred CDRLF administration back to NCUA. The NCUA Board adopted amendments to Part 705 of NCUA Rules and Regulations on September 16, 1987, and began making loans/deposits to participating credit unions in 1990.

The purpose of CDRLF is to stimulate economic activities in the communities served by low-income credit unions, which is expected to result in increased income, ownership, and employment opportunities for low-income residents, and other economic growth. The policy of NCUA is to revolve the loans to qualifying credit unions as often as practical in order to gain maximum impact on as many participating credit unions as possible.

## 2. SIGNIFICANT ACCOUNTING AND OPERATIONAL POLICIES

**Basis of Presentation –** CDRLF has historically prepared its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), based on standards issued by the Financial Accounting Standards Board (FASB), the private sector standards setting body. The Federal Accounting Standards Advisory Board (FASAB) is the standards setting body for the establishment of GAAP with respect to the financial statements of Federal Government entities. FASAB has indicated that financial statements prepared based upon standards promulgated by FASB may also be regarded as in accordance with GAAP for Federal entities that have issued financial statements based upon FASB standards in the past.

**Basis of Accounting –** CDRLF reports its financial statements on the accrual basis of accounting in conformity with GAAP.

**Cash Equivalents –** The Federal Credit Union Act permits CDRLF to make investments in United States Government Treasury securities. All investments in 2014 and 2013 were cash equivalents and were stated at cost, which approximates fair value. Cash equivalents are highly liquid investments with original maturities of three months or less.

**Loans Receivable and Allowance for Loan Losses** – Loans are generally limited to $300,000 per credit union, however, NCUA may make loans that exceed this amount in certain circumstances. NCUA Rules and Regulations do not provide a maximum limit on loan applications. The maximum loan term is five (5) years, and for loans issued prior to May 22, 2012, interest and principal are to be paid on a semi-annual basis beginning six months and one year, respectively, after the initial loan disbursement. For loans issued on or after May 22, 2012, interest is to be paid on a semi-annual basis beginning six months after the initial distribution of the loan and every six months thereafter until maturity. Principal is to be repaid on the maturity date of the loan. The rate of interest on loans is governed by the CDRLF Loan Interest Rate Policy. Effective May 1, 2014, the interest rate was set to 0.60%, reflecting an increase of 0.20% from the previous period interest rate of 0.40%.

Loans are initially recognized at their disbursed amount, and subsequently at amortized cost, net of the allowance for loan losses, if any.

A provision for loans considered to be uncollectible is charged to the income statement when such losses are probable and reasonably estimable. Provisions for significant uncollectible amounts are credited to an allowance for loan losses, while de minimis amounts are directly charged-off. Management continually evaluates the adequacy of the allowance for loan losses based upon prevailing circumstances and an assessment of collectability risk of the total loan portfolio as well as historical loss experience. On the basis of this analysis, no allowance for loan losses was necessary as of December 31, 2014 and 2013. Accrual of interest is discontinued on nonperforming loans when management believes collectability is doubtful.

**Accrued Technical Assistance Grants –** CDRLF issues technical assistance grants to low-income designated credit unions. CDRLF utilizes multiyear appropriated funds and income generated from the revolving fund to issue technical assistance grants. Grant income and expense is recognized when CDRLF makes a formal commitment to the recipient credit union for technical assistance grants. CDRLF performs a review of long term unspent technical assistance grant awards (e.g. outstanding awards past the period of eligibility) and then formal steps are taken to cancel identified technical assistance grants. The cancelled technical assistance grant funds are credited back to the original appropriated fund from which they are awarded.

**Related Party Transactions –** NCUA provides certain general and administrative support to CDRLF, including office space, salaries, and certain supplies. The value of these contributed services is not charged to CDRLF.

**Revenue Recognition –** Appropriation revenue is recognized as the related technical assistance grant expense is recognized. Total appropriation revenues will differ from total technical assistance grant expenses because not all technical assistance grants are funded by appropriations. Interest income on cash and cash equivalents and on loans is recognized when earned.

**Use of Estimates –** The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

**Income Taxes –** NCUA, as a government entity, is not subject to federal, state, or local income taxes and, accordingly, no provision for income taxes is recorded for CDRLF.

**Commitments and Contingencies –** Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

## 3. CASH AND CASH EQUIVALENTS

CDRLF's cash and cash equivalents as of December 31, 2014 and 2013 are as follows:

| | **2014** | **2013** |
|---|---|---|
| Deposits with U.S. Treasury | $ 2,239,092 | $ 3,967,509 |
| U.S. Treasury Overnight Securities | 6,600,000 | 9,000,000 |
| | $ 8,839,092 | $ 12,967,509 |

## 4. GOVERNMENT REGULATIONS

CDRLF is subject to various Federal laws and regulations. Assistance, which includes lending and technical assistance grants, is limited to the amount appropriated by Congress to date for CDRLF, which includes accumulated earnings. Federally-chartered and state-chartered credit unions with a low-income designation are eligible to participate in CDRLF's loan and technical assistance grant program.

Since inception, Congress has appropriated $13,387,777 for the revolving loan component of the program, and this component is governed by Part 705 of NCUA Rules and Regulations.

During the year ended December 31, 2014, CDRLF received an appropriation for technical assistance grants in the amount of $1,200,000 for the Federal fiscal year (FY) 2014. This is a multiyear appropriation that is available for obligation through September 30, 2015. Of this amount, $848,948 was expended for the year ended December 31, 2014. An additional $720,792 was expended from the FY 2013 appropriation.

During the year ended December 31, 2013, CDRLF received an appropriation for technical assistance grants in the amount of $1,247,000 for FY 2013. This was a multiyear appropriation that was available for obligation through September 30, 2014. Of this amount, $2,494 was rescinded, and $782,733 was expended for the year ended December 31, 2013. An additional $220,230 was expended from the FY 2012 appropriation.

Appropriated funds in the amount of $3,530 from the FY 2008 appropriation were remitted to the U.S. Treasury in 2014 upon cancellation.

These appropriations were designated to be used for technical assistance grants, and no amounts were designated to be used as revolving loans.

## 5. LOANS RECEIVABLE

Receivables consisted of the following as of December 31, 2014 and 2013.

| | 2014 | 2013 |
|---|---|---|
| Balance as of beginning of year | $ 3,917,909 | $ 3,949,022 |
| Add: Loans disbursed | 5,030,000 | 570,000 |
| Less: Loan repayments | (858,220) | (601,113) |
| Less: Bad Debt Expense | (3) | - |
| Loans receivable as of end of year | $ 8,089,686 | $ 3,917,909 |
| Changes in the allowance for loan losses consisted of the following: | | |
| Balance as of beginning of year | $ - | $ - |
| Decrease (increase) in allowance | - | - |
| Allowance for loan losses as of end of year | $ - | $ - |
| Loans receivable, net as of end of year | $ 8,089,686 | $ 3,917,909 |

Loans outstanding as of December 31, 2014, are scheduled to be repaid during the following subsequent years:

| | 2014 |
|---|---|
| 2015 | $ - |
| 2016 | - |
| 2017 | 2,599,688 |
| 2018 | 459,998 |
| 2019 | 5,030,000 |
| Loans Outstanding | 8,089,686 |
| Allowance for Loan Losses | - |
| Total Loans Receivable | $ 8,089,686 |

CDRLF has the intent and ability to hold its loans to maturity. CDRLF anticipates realizing the carrying amount in full.

## 6. CANCELLED TECHNICAL ASSISTANCE GRANTS

During 2014, CDRLF cancelled $1,866 of technical assistance grants awarded from the revolving fund and $253,093 of technical assistance grants awarded from multiyear funds. These amounts were recognized as Cancelled Technical Assistance Grants, decreasing expenses.

Cancelled technical assistance grants from the revolving fund are credited back to accumulated earnings. Cancelled technical assistance grants from previously expended multiyear funds are credited back to the original appropriated fund from which they are awarded. As a result, the $253,093 was also recognized as Cancelled Technical Assistance Grants, decreasing revenue, and resulting in no change to net income.

For the year ended December 31, 2013, CDRLF cancelled $10,643 of technical assistance grants awarded from the revolving fund and $223,832 of technical assistance grants awarded from multiyear funds.

Cancelled technical assistance grants awarded from appropriations from FY 2009 through 2013 will be remitted to the U.S. Treasury upon cancellation of the related appropriation.

## 7. CONCENTRATION OF CREDIT RISK

As discussed in Note 1, CDRLF provides loans to credit unions that serve predominantly low-income communities.

NCUA Rules and Regulations Section 705.5 permit the classification of the loan in the participating credit union's accounting records as a non-member deposit. As a non-member deposit, $250,000 per credit union is insured by the National Credit Union Share Insurance Fund (NCUSIF). The aggregate amount of uninsured loans totaled $3,049,723 and $799,723 as of December 31, 2014 and 2013, respectively. The increase in FY 2014 is due to the issuance of nine loans over $250,000.

## 8. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of an instrument is the amount that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants by the measurement date. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

**Loans Receivable** – Fair value is estimated using an income approach by separately discounting each individual loan's projected future cash flow. CDRLF believes that the discount rate reflects the pricing and is commensurate with the risk of the loans to CDRLF. Loans are valued annually on December 31.

**Other** – The carrying amounts for cash and cash equivalents, interest receivable, and accrued technical assistance grants approximate fair value.

The following table presents the carrying value amounts and established fair values of CDRLF's financial instruments as of December 31, 2014 and 2013.

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Assets: | | | | |
| Cash and cash equivalents | $ 8,839,092 | $ 8,039,000 | $ 12,967,509 | $ 12,968,000 |
| Loans receivable | 8,089,686 | 8,095,000 | 3,917,909 | 3,923,000 |
| Interest receivable | 5,208 | 5,000 | 3,882 | 4,000 |
| Liabilities: | | | | |
| Accrued technical assistance grants | 1,028,047 | 1,028,000 | 852,010 | 852,000 |

## 9. RELATED PARTY TRANSACTIONS

NCUA, in supporting the activities of CDRLF, provides for the administration of CDRLF. The administrative costs paid by NCUA's Operating Fund (OF) are directly related to the percentage of employee's time spent on CDRLF. The administrative cost calculation takes into account the employees' salary, benefits, travel, training, and certain "other" costs (e.g., telephone, supplies, online applications, printing, and postage).

For the years ending December 31, 2014 and 2013, NCUA, through the OF, paid the following overhead expenses on behalf of CDRLF:

| | 2014 | 2013 |
|---|---|---|
| Employee | $ 306,760 | $ 309,918 |
| Other | 56,789 | 63,829 |
| Total | $ 363,549 | $ 373,747 |

## 10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 13, 2015, which is the date the financial statements were available to be issued, and management determined there are no other items to be disclosed.

# STATISTICAL DATA

# 2014 Credit Union System Performance Results

In 2014, federally insured credit unions had a strong year in terms of financial performance. Improving economic conditions led to strong loan, net worth and membership growth during the year.

Membership at federally insured credit unions grew to 99.3 million members at the end of 2014, up from 96.3 million at the end of 2013. Total assets increased by $60 billion for the year, putting the system's total assets at $1.12 trillion. Overall share and deposit accounts at credit unions rose in 2014 to $951 billion, compared to $910 billion at the end of 2013.

Credit unions continued to be well-capitalized as a whole in 2014, with a net worth ratio of 10.97 percent, up 19 basis points from 10.78 percent in 2013. This year-end ratio is at its highest level since 2007. The return on average assets ratio for federally insured credit unions was 80 basis points, an improvement from 78 basis points at the end of 2013.

Thanks to an improving economic outlook, federally insured credit unions continued to see improvements in the number of delinquencies and charge-offs. The delinquency ratio in 2014 fell to 0.85 percent, a 16 basis point decline from 2013's level. Charge-offs declined to 0.49 percent, from 0.57 percent in 2013.

At the end of 2014, federally insured credit unions had $712.3 billion in outstanding loans of all types, a 10.4 percent increase over $645.2 billion in loans outstanding at the end of 2013. This was the largest year-over-year percentage increase in loans since 2005.

Loan growth among federally insured credit unions in the fourth quarter of 2014 outpaced the growth in deposits for the first time since the end of 2007, a reflection of improving economic conditions and loan demand.

Lending grew in all categories in 2014:

- Total first mortgage loans outstanding reached $292.2 billion, up 8.8 percent from the end of 2013. Fixed-rate first mortgage loans accounted for 59.6 percent of first mortgage loans outstanding at the end of 2014.
- Second mortgage loans reached $72 billion, up 2.3 percent from the end of 2013.
- New auto loans grew to $86.3 billion, up nearly 21 percent from 2013.
- Used auto loans increased to more than $143.7 billion, up 12.8 percent from 2013.
- Member business loan balances grew to $51.7 billion, up 12.4 percent from 2013.
- Non-federally guaranteed student loans grew to $3.1 billion, up 20.1 percent from 2013.
- Payday alternative loans outstanding grew to $37 million, up 36.2 percent from the fourth quarter of 2013.

This strong loan growth helped credit unions reduce their exposure to long-term investments, which had grown considerably since 2009. At the end of 2014, total investments dropped to $276 billion, a decline of 3.5 percent from the end of 2013. Investments declined in all categories except those with one- to three-year maturities, which increased 11.8 percent to $99.7 billion. Investments with maturities greater than 10 years dropped 21.6 percent from the end of 2013 to $5.6 billion.

Despite these declines, the credit union system continues to have elevated concentrations of long-term assets. As a share of assets, net long-term investments—defined as investments greater than three-year maturities—stood at 9.7 percent, which was lower than in 2013 when they were 11.8 percent. However, this level is still elevated when compared to 4.6 percent of assets at the end of 2008. Elevated levels of long-term assets increase a credit union's susceptibility to interest rate risk.

The low interest rate environment continues to put downward pressure on credit union net interest margins. At the end of 2014, the median credit union net interest margin was 2.99 percent, up slightly from the end of 2013, but below the median net interest margins for credit unions at the end of 2009, which was 3.59 percent.

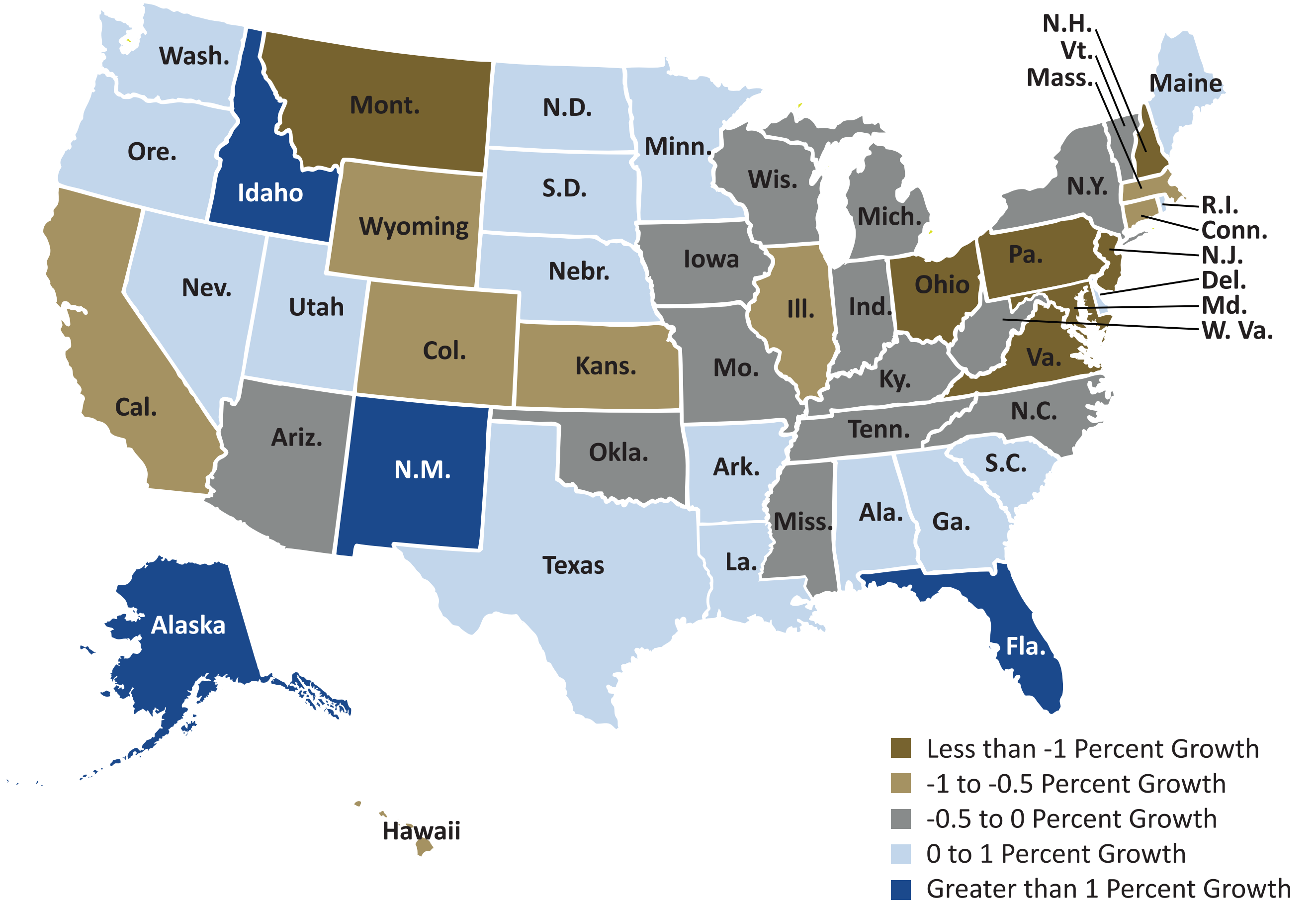
As in previous years, much of the system's growth in 2014 was attributed to the performance of the largest credit unions. Federally insured credit unions with $500 million or more in assets led the system and reported higher returns on average assets, better loan growth and stronger membership gains than the system as a whole. With nearly $781 billion in assets, up from $716 billion at the end of 2013, these 450 credit unions held nearly 70 percent of the system's total assets at the end of 2014.

The smallest of federally insured credit unions, those with less than $10 million in assets, generally had higher net worth ratios, but saw declines in net worth and membership for the year. Credit unions of less than $10 million in assets did see some growth in loans in 2014; however, this was less than the loan growth for credit unions above $10 million. The average return on assets for these credit unions was 4 basis points, well below the system average.

The number of federally insured credit unions continued to decline, falling from 6,554 institutions at the end of 2013 to 6,273 at the end of 2014. This decline is consistent with trends spanning the last four decades.

Despite improvements in the economy and the system overall, 15 federally insured credit unions failed in 2014, down from 17 failures in 2013. Ten of these institutions, with approximately $150.3 million in assets, were liquidated, and five were merged into other institutions.

## Median Annual Membership Growth




While overall membership in federally insured credit unions continued to grow in the year ending in the fourth quarter of 2014, the median growth rate was -0.3 percent, little changed from the previous year. Overall, 53 percent of federally insured credit unions had fewer members at the end of the fourth quarter of 2014 than a year earlier. Credit unions with falling membership tend to be small; more than 75 percent had less than $50 million in assets. Over the year ending in the fourth quarter of 2014, Alaska had the highest median membership growth rate (2.6 percent), followed by Idaho (2.2 percent).

## Credit Unions Continued to Perform Well in 2014

| | Above $500 million | $100 million to $500 million | $10 million to $100 million | Under $10 million |
|---|---|---|---|---|
| Number of Credit Unions | 450 | 1,039 | 2,797 | 1,987 |
| Net Worth Ratio | 10.8 percent | 10.9 percent | 11.8 percent | 14.8 percent |
| Net Worth Growth | ▲ 9.7 percent | ▲ 6.2 percent | ▲ 3.5 percent | ▲ 0.2 percent |
| Loan Growth | ▲ 12.6 percent | ▲ 8.1 percent | ▲ 4.4 percent | ▲ 2.1 percent |
| Membership Growth | ▲ 6.0 percent | ▲ 1.6 percent | ▼ 0.1 percent | ▼ 2.1 percent |
| Return on Average Assets | 93 basis points | 61 basis points | 37 basis points | 4 basis points |

# National Credit Union Share Insurance Fund Ten-Year Trends

| Fiscal year | 2005 | 2006 [3] | 2007 [3] | 2008 | 2009 | 2010 [4] | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Income (in thousands)** | | | | | | | | | | |
| Premium | — | — | — | — | $727,466 | $929,952 | — | — | — | — |
| Investment income [1] | $175,017 | $264,895 | $320,163 | $390,922 | $188,774 | $216,921 | $226,011 | $206,995 | $198,264 | $208,259 |
| Other income | $645 | $1,326 | $1,166 | $4,737 | $33,319 | $49,223 | $1,037 | $8,768 | $4,550 | $5,633 |
| Total income [5] | $175,662 | $266,221 | $321,329 | $395,659 | $949,559 | $1,196,096 | $227,048 | $215,763 | $202,814 | $213,892 |
| **Expenses (in thousands)** | | | | | | | | | | |
| Operating [5] | $80,473 | $82,056 | $79,218 | $81,516 | $134,624 | $165,830 | $132,358 | $141,237 | $148,312 | $179,818 |
| Insurance losses | $20,940 | $2,548 | $186,397 | $290,354 | $625,140 | $735,562 | $(532,408) | $(77,784) | $(48,638) | $(41,840) |
| Total expenses | $101,413 | $84,604 | $265,615 | $371,870 | $759,764 | $901,392 | $(400,050) | $63,453 | $99,674 | $137,978 |
| Net income (in thousands)[5] | $74,249 | 181,617 | $55,714 | $23,789 | $189,795 | $294,704 | $627,098 | $152,309 | $103,140 | $75,914 |
| **Data Highlights** | | | | | | | | | | |
| Total equity (in millions) [2] | $6,618 | $6,978 | $7,261 | $7,677 | $8,957 | $9,670 | $10,339 | $10,912 | $11,266 | $11,625 |
| Equity as a percentage of shares in insured credit unions | 1.28% | 1.30% | 1.29% | 1.26% | 1.23% | 1.28% | 1.30% | 1.30% | 1.30% | 1.29% |
| NCUSIF loss per $1,000 of insured shares | $0.04 | $0.00 | $0.33 | $0.47 | $0.86 | $0.97 | $(0.67) | $ (0.09) | $(0.06) | $(0.05) |
| **Operating Ratios** | | | | | | | | | | |
| Premium income | — | — | — | — | 76.6% | 77.8% | — | — | — | — |
| Investment income | 99.6% | 99.5% | 99.6% | 98.8% | 19.9% | 18.1% | 99.5% | 95.9% | 97.8% | 97.4% |
| Other Income | 0.4% | 0.5% | 0.4% | 1.2% | 3.5% | 4.1% | 0.5% | 4.1% | 2.2% | 2.6% |
| Operating expenses | 45.8% | 30.8% | 24.7% | 20.6% | 14.2% | 13.9% | 58.3% | 65.5% | 73.1% | 84.1% |
| Insurance losses | 11.9% | 1.0% | 58.0% | 73.4% | 65.8% | 61.5% | -234.5% | -36.1% | -24.0% | -19.6% |
| Total expenses | 57.7% | 31.8% | 82.7% | 94.0% | 80.0% | 75.4% | -176.2% | 29.4% | 49.1% | 64.5% |
| Net income | 42.3% | 68.2% | 17.3% | 6.0% | 20.0% | 24.6% | 276.2% | 70.6% | 50.9% | 35.5% |
| **Involuntary Liquidations Commenced** | | | | | | | | | | |
| Number | 10 | 12 | 7 | 15 | 16 | 18 | 15 | 14 | 13 | 10 |
| Share payouts (in thousands) | $27,137 | $19,799 | $195,325 | $648,620 | $713,112 | $701,145 | $586,852 | 667,814 | $125,621 | $150,111 |
| Share payouts as a percentage of total insured shares | 0.005% | 0.004% | 0.035% | 0.106% | 0.098% | 0.093% | 0.074% | 0.080% | 0.015% | 0.017% |
| Shares in liquidated credit unions (in thousands) | $32,513 | $23,768 | $578,880 | $916,822 | $990,931 | $870,435 | $459,403 | $728,746 | $105,378 | $140,581 |

[1] 2008 includes $106 million gain on sale of U.S. Treasury Securities.

[2] Equity does not include unrealized gain (loss) from U.S. Treasury securities held as “Available for Sale Securities” beginning in 2008.

[3] Amounts for 2006 and 2007 represent the carrying value of guarantees as determined under FIN 45, “Guarantor’s Accounting and Disclosure Requirements.”

[4] The National Credit Union Share Insurance Fund adopted Federal Accounting Standards Advisory Board (FASAB) accounting standards beginning in 2010. For the purpose of this table, total income includes both exchange and non-exchange revenue.

[5] 2009–2014 Total Income excludes Stabilization Income 2009–2011. Operating Expense excludes Stabilization Expense, and 2009–2014. Net Income excludes Stabilization Income and Expense.

| December 31 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Mergers** | | | | | | | | | | |
| Assisted | 5 | 4 | 5 | 3 | 12 | 10 | 1 | 8 | 4 | 5 |
| Unassisted | 260 | 281 | 237 | 253 | 207 | 193 | 212 | 265 | 236 | 234 |
| **Section 208 (Federal Credit Union Act) Assistance to Avoid Liquidation (in Thousands)** | | | | | | | | | | |
| Capital notes and other cash advances outstanding | $0 | $15,000 | $0 | $0 | $11,000,000 | - | $80,000 | $80,000 | $66,500 | $54,600 |
| Non-cash guaranty accounts | $4,798 | $679 | $233,088 | $126,340 | $7,451 | $108,046 | $199,945 | $32,132 | $5,533 | 4,720 |
| Number of active cases | 8 | 4 | 6 | 5 | 9 | 5 | 9 | 5 | 3 | 5 |
| **Number of Troubled, Insured Credit Unions (CAMELs 4 & 5)** | | | | | | | | | | |
| Number | 280 | 240 | 211 | 271 | 351 | 365 | 409 | 370 | 307 | 276 |
| Shares (millions) | $5,771 | $5,323 | $5,300 | $16,314 | $41,587 | $38,510 | $26,285 | $16,940 | $12,133 | $10,234 |
| Problem case shares as a percentage of insured shares | 1.12% | 0.96% | 0.94% | 2.33% | 5.35% | 4.74% | 3.31% | 2.0% | 1.40% | 1.13% |

[1] 2008 data updated to account for many Call Report corrections because of Stabilization Fund expense.

# Credit Union System Performance Five-Year Trends

| | | Prior Years | | | | | Each Quarter in 2014 | | | | Year-Over-Year | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| As of December 31 | Units | 2009 | 2010 | 2011 | 2012 | 2013 | Q1 2014 | Q2 2014 | Q3 2014 | Q4 2014 | Percent change | Change |
| **Summary Data** | | | | | | | | | | | | |
| Federally insured credit unions | Number | 7,554 | 7,339 | 7,094 | 6,819 | 6,554 | 6,491 | 6,429 | 6,350 | 6,273 | -4.3 | -281 |
| Federal credit unions | Number | 4,714 | 4,589 | 4,447 | 4,272 | 4,105 | 4,062 | 4,029 | 3,981 | 3,927 | -4.3 | -178 |
| Federally insured, state-chartered credit unions | Number | 2,840 | 2,750 | 2,647 | 2,547 | 2,449 | 2,429 | 2,400 | 2,369 | 2,346 | -4.2 | -103 |
| Credit unions with low-Income designation | Number | 1,085 | 1,111 | 1,119 | 1,895 | 1,989 | 2,016 | 2,074 | 2,098 | 2,113 | 6.2 | 124 |
| Number of members | Millions | 89.9 | 90.5 | 91.8 | 93.9 | 96.3 | 97.1 | 97.9 | 98.7 | 99.3 | 3.1 | 3.0 |
| Number of deposits | Millions | 166.3 | 168.3 | 170.4 | 175.4 | 180.8 | 183.4 | 183.6 | 185.2 | 186.4 | 3.1 | 5.7 |
| Number of loans outstanding | Millions | 45.8 | 45.3 | 45.8 | 47.6 | 50.4 | 50.4 | 51.7 | 52.9 | 53.9 | 7.0 | 3.5 |
| Total assets | $ Billions | 884.6 | 914.3 | 961.7 | 1,021.8 | 1,062.0 | 1,097.9 | 1,103.3 | 1,107.8 | 1,122.2 | 5.7 | 60 |
| Total assets, four quarter growth | Percent | 9.1 | 3.4 | 5.2 | 6.2 | 3.9 | 4.0 | 4.5 | 4.8 | 5.7 | | 1.7 |
| Total loans | $ Billions | 572.4 | 564.7 | 571.5 | 597.5 | 645.1 | 652.6 | 673.8 | 695.2 | 712.3 | 10.4 | 67 |
| Total loans, four quarter growth | Percent | 1.1 | -1.4 | 1.2 | 4.6 | 8.0 | 8.8 | 9.8 | 10.1 | 10.4 | | 2.4 |
| Average outstanding loan balance | Dollars | 12,487 | 12,463 | 12,483 | 12,565 | 12,793 | 12,949 | 13,040 | 13,138 | 13,203 | 3.2 | 410 |
| Total deposits | $ Billions | 752.7 | 786.4 | 827.4 | 877.9 | 910.1 | 943.1 | 940.4 | 939.1 | 950.8 | 4.5 | 41 |
| Total deposits, four quarter growth | Percent | 10.5 | 4.5 | 5.2 | 6.1 | 3.7 | 3.6 | 3.4 | 3.7 | 4.5 | | 0.8 |
| Average deposit balance | Dollars | 8,375 | 8,691 | 9,011 | 9,353 | 9,454 | 9,712 | 9,602 | 9,512 | 9,576 | 1.3 | 123 |
| **Key Ratios** | | | | | | | | | | | | |
| Net worth ratio | Percent | 9.89 | 10.06 | 10.21 | 10.43 | 10.77 | 10.61 | 10.76 | 10.93 | 10.97 | | 0.20 |
| Return on average assets | Percent | 0.18 | 0.50 | 0.67 | 0.85 | 0.78 | 0.78 | 0.81 | 0.83 | 0.80 | | 0.02 |
| Loan to share ratio | Percent | 76.1 | 71.8 | 69.1 | 68.1 | 70.9 | 69.2 | 71.7 | 74.0 | 74.9 | | 4.03 |
| Net long-term assets, % of assets | Percent | 31.5 | 33.0 | 32.4 | 32.9 | 35.9 | 35.5 | 35.3 | 35.0 | 33.6 | | -2.30 |
| Median credit union average cost of funds | Percent | 1.31 | 0.88 | 0.60 | 0.44 | 0.34 | 0.28 | 0.28 | 0.28 | 0.29 | | -0.05 |
| Median credit union average yield on loans | Percent | 6.93 | 6.76 | 6.52 | 6.22 | 5.84 | 5.65 | 5.58 | 5.56 | 5.56 | | -0.28 |
| Median credit union net interest margin | Percent | 3.59 | 3.49 | 3.37 | 3.17 | 3.01 | 2.93 | 2.93 | 2.98 | 2.99 | | -0.02 |
| Median credit union return on average assets | Percent | -0.02 | 0.10 | 0.22 | 0.31 | 0.25 | 0.27 | 0.30 | 0.34 | 0.32 | | 0.07 |

NCUA has revised the credit union performance and historical data sections of the *2014 Annual Report* to provide its stakeholders with a better measure of the system's financial performance. The previous data sets have been updated to include 2014 data and are only available electronically at http://go.usa.gov/3dmnW.

| | | Prior Years | | | | | Each Quarter in 2014 | | | | Year-Over-Year | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| As of December 31 | Units | 2009 | 2010 | 2011 | 2012 | 2013 | Q1 2014 | Q2 2014 | Q3 2014 | Q4 2014 | Percent change | Change |
| **Lending (Year-to-Date, Annual Rate)** | | | | | | | | | | | | |
| **Loans granted** | **$ Billions** | **267.1** | **248.7** | **259.5** | **326.3** | **345.7** | **292.3** | **338.0** | **346.5** | **354.3** | **2.5** | **9** |
| Real estate loans | $ Billions | 116.8 | 103.9 | 98.9 | 140.8 | 139.7 | 86.3 | 102.3 | 111.8 | 115.8 | -17.1 | -24 |
| Real estate, fixed rate, first loans | $ Billions | 80.6 | 70.8 | 67.4 | 107.2 | 99.4 | 49.5 | 59.2 | 65.2 | 68.3 | -31.3 | -31 |
| Member business loans | $ Billions | 10.8 | 12.1 | 13.2 | 15.9 | 18.6 | 17.6 | 17.5 | 17.4 | 18.0 | -3.1 | -1 |
| Payday alternative loans | $ Millions | 0.0 | 40.9 | 56.1 | 72.6 | 90.2 | 92.7 | 106.3 | 111.1 | 115.5 | 28.0 | 25 |
| **Delinquent loans** | **$ Billions** | **10.5** | **9.9** | **9.1** | **6.9** | **6.5** | **5.3** | **5.8** | **5.9** | **6.1** | **-7.1** | **-0.46** |
| Total delinquency rate | Percent | 1.84 | 1.76 | 1.60 | 1.16 | 1.01 | 0.81 | 0.85 | 0.85 | 0.85 | | -0.16 |
| Fixed real estate delinquency rate | Percent | 1.71 | 1.89 | 1.76 | 1.21 | 1.00 | 0.78 | 0.86 | 0.81 | 0.77 | | -0.23 |
| Credit card delinquency rate | Percent | 2.06 | 1.54 | 1.15 | 0.97 | 0.93 | 0.86 | 0.82 | 0.89 | 0.94 | | 0.01 |
| Member business loan delinquency rate | Percent | 3.75 | 4.06 | 3.81 | 2.17 | 1.54 | 1.40 | 1.32 | 1.13 | 0.85 | | -0.69 |
| **Net charge-offs** | **$ Billions** | **6.9** | **6.4** | **5.2** | **4.3** | **3.5** | **3.3** | **3.2** | **3.2** | **3.4** | **-4.6** | **-0.16** |
| Net charge offs, percent of average loans | Percent | 1.21 | 1.13 | 0.91 | 0.73 | 0.57 | 0.50 | 0.49 | 0.48 | 0.49 | | -0.07 |
| **Asset Distribution** | | | | | | | | | | | | |
| 25% of credit unions are smaller than | $ Millions | 4.6 | 5.0 | 5.5 | 6.0 | 6.4 | 6.7 | 6.8 | 6.9 | 7.0 | 8.9 | 0.57 |
| 50% of credit unions are smaller than | $ Millions | 16.5 | 17.6 | 19.2 | 21.1 | 22.7 | 23.8 | 23.9 | 24.0 | 24.4 | 7.7 | 1.75 |
| 75% of credit unions are smaller than | $ Millions | 60.7 | 64.4 | 70.1 | 77.7 | 83.7 | 87.3 | 88.4 | 89.1 | 92.0 | 9.9 | 8.27 |
| 90% of credit unions are smaller than | $ Millions | 219.9 | 233.5 | 251.2 | 281.1 | 310.4 | 323.3 | 328.0 | 333.4 | 340.6 | 9.7 | 30.21 |

| | | Prior Years | | | | | Each Quarter in 2014 | | | | Year-Over-Year | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| As of December 31 | Units | 2009 | 2010 | 2011 | 2012 | 2013 | Q1 2014 | Q2 2014 | Q3 2014 | Q4 2014 | Percent change | Change |
| **Income and Expenses (Year-to-Date, Annual rate)** | | | | | | | | | | | | |
| **Gross income** | **$ Billions** | **55.9** | **52.1** | **50.2** | **50.8** | **50.0** | **49.5** | **50.5** | **51.1** | **51.7** | **3.4** | **1.69** |
| **Total interest income** | **$ Billions** | **42.0** | **40.1** | **37.9** | **36.2** | **35.3** | **35.9** | **36.3** | **36.6** | **36.9** | **4.6** | **1.61** |
| Gross interest income | $ Billions | 35.8 | 34.5 | 32.8 | 31.7 | 31.2 | 31.5 | 31.8 | 32.2 | 32.6 | 4.4 | 1.38 |
| Less interest refunds | $ Billions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 41.2 | 0.02 |
| Investment income | $ Billions | 6.2 | 5.6 | 5.2 | 4.5 | 4.2 | 4.4 | 4.5 | 4.4 | 4.4 | 5.4 | 0.23 |
| Trading income | $ Billions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -153.0 | 0.02 |
| **Total non-interest income** | **$ Billions** | **13.9** | **12.0** | **12.3** | **14.6** | **14.7** | **13.6** | **14.2** | **14.5** | **14.7** | **0.5** | **0.08** |
| Fee income | $ Billions | 7.0 | 7.0 | 6.9 | 7.4 | 7.4 | 6.8 | 7.0 | 7.3 | 7.2 | -2.4 | -0.18 |
| Other operating income | $ Billions | 4.5 | 4.9 | 5.2 | 6.8 | 7.0 | 6.3 | 6.7 | 6.8 | 7.1 | 1.5 | 0.10 |
| Other (including gains/losses) | $ Billions | 2.4 | 0.0 | 0.1 | 0.4 | 0.3 | 0.5 | 0.5 | 0.4 | 0.5 | 51.5 | 0.15 |
| **Expenses** | | | | | | | | | | | | |
| **Total expenses (with provision for loan and lease losses)** | **$ Billions** | **54.4** | **47.5** | **43.9** | **42.4** | **41.9** | **41.1** | **41.7** | **42.1** | **42.9** | **2.5** | **1.04** |
| **Non-interest expenses** | **$ Billions** | **30.1** | **29.6** | **30.6** | **31.6** | **32.9** | **32.7** | **33.2** | **33.5** | **33.9** | **3.1** | **1.03** |
| Labor expense | $ Billions | 13.7 | 14.0 | 14.5 | 15.5 | 16.3 | 16.7 | 16.7 | 16.8 | 17.0 | 4.6 | 0.74 |
| Office expenses | $ Billions | 7.4 | 7.5 | 7.6 | 8.0 | 8.3 | 8.6 | 8.6 | 8.7 | 8.8 | 6.1 | 0.50 |
| Loan servicing expenses | $ Billions | 1.7 | 1.8 | 2.0 | 2.2 | 2.4 | 2.3 | 2.4 | 2.4 | 2.5 | 3.8 | 0.09 |
| Other non-interest expenses | $ Billions | 7.3 | 6.3 | 6.5 | 5.9 | 5.9 | 5.2 | 5.5 | 5.5 | 5.6 | -5.2 | -0.31 |
| **Total interest expense** | **$ Billions** | **14.8** | **10.9** | **8.7** | **7.2** | **6.2** | **5.7** | **5.7** | **5.8** | **5.9** | **-4.6** | **-0.29** |
| Loan servicing expenses | $ Billions | 1.3 | 1.0 | 0.9 | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 | 0.8 | 3.3 | 0.02 |
| Other interest expense | $ Billions | 0.3 | -0.1 | -0.5 | -0.4 | -0.3 | 0.0 | 0.0 | 0.0 | 0.0 | -110.1 | 0.33 |
| Share dividends | $ Billions | 11.7 | 8.6 | 6.8 | 5.6 | 4.8 | 4.4 | 4.4 | 4.5 | 4.6 | -5.2 | -0.25 |
| Interest on deposits | $ Billions | 1.8 | 1.2 | 0.9 | 0.8 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | -9.5 | -0.06 |
| **Provision for loan losses** | **$ Billions** | **9.6** | **7.0** | **4.7** | **3.6** | **2.7** | **2.7** | **2.7** | **2.9** | **3.0** | **10.9** | **0.30** |
| **Net income** | **$ Billions** | **1.5** | **4.5** | **6.3** | **8.5** | **8.1** | **8.4** | **8.8** | **9.0** | **8.8** | **8.0** | **0.65** |
| Net income, percent of average assets (annual rate) | Percent | 0.18 | 0.50 | 0.67 | 0.85 | 0.78 | 0.78 | 0.81 | 0.83 | 0.80 | | 0.02 |
| **Net interest margin** | **$ Billions** | **27.2** | **29.2** | **29.2** | **29.0** | **29.1** | **30.2** | **30.5** | **30.9** | **31.0** | **6.5** | **1.89** |
| Net interest margin, percent of average assets (annual rate) | Percent | 3.21 | 3.25 | 3.12 | 2.92 | 2.80 | 2.80 | 2.82 | 2.84 | 2.84 | | |
| **Average assets** | **$ Billions** | **847.8** | **899.5** | **938.0** | **991.7** | **1,041.9** | **1,079.9** | **1,082.6** | **1,084.9** | **1,092.1** | **4.8** | **50.20** |

| | | Prior Years | | | | | Each Quarter in 2014 | | | | Year-Over-Year | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| As of December 31 | Units | 2009 | 2010 | 2011 | 2012 | 2013 | Q1 2014 | Q2 2014 | Q3 2014 | Q4 2014 | Percent change | Change |
| **Income and Expenses (Percent of Average Assets)** | | | | | | | | | | | | |
| **Gross income** | **Percent** | **6.59** | **5.79** | **5.35** | **5.13** | **4.80** | **4.59** | **4.66** | **4.71** | **4.73** | | **-0.07** |
| **Total interest income** | **Percent** | **4.95** | **4.46** | **4.04** | **3.65** | **3.39** | **3.33** | **3.35** | **3.37** | **3.38** | | **-0.01** |
| Gross interest income | Percent | 4.22 | 3.84 | 3.49 | 3.20 | 2.99 | 2.92 | 2.93 | 2.97 | 2.98 | | -0.01 |
| Less interest refunds | Percent | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.01 | | 0.00 |
| Investment income | Percent | 0.74 | 0.62 | 0.56 | 0.46 | 0.40 | 0.41 | 0.41 | 0.41 | 0.41 | | 0.00 |
| Trading income | Percent | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | 0.00 |
| **Total non-interest income** | **Percent** | **1.64** | **1.33** | **1.31** | **1.48** | **1.41** | **1.26** | **1.31** | **1.33** | **1.35** | | **-0.06** |
| Fee income | Percent | 0.83 | 0.78 | 0.74 | 0.74 | 0.71 | 0.63 | 0.65 | 0.67 | 0.66 | | -0.05 |
| Other operating income | Percent | 0.53 | 0.55 | 0.56 | 0.69 | 0.67 | 0.59 | 0.61 | 0.63 | 0.65 | | -0.02 |
| Other (including gains/losses) | Percent | 0.28 | 0.00 | 0.01 | 0.04 | 0.03 | 0.04 | 0.05 | 0.04 | 0.04 | | 0.01 |
| **Total expenses (with provision for loan and Lease losses)** | **Percent** | **6.42** | **5.28** | **4.68** | **4.27** | **4.02** | **3.81** | **3.85** | **3.88** | **3.93** | | **-0.09** |
| **Non-interest expenses** | **Percent** | **3.55** | **3.29** | **3.26** | **3.18** | **3.16** | **3.03** | **3.07** | **3.09** | **3.11** | | **-0.05** |
| Labor expense | Percent | 1.61 | 1.56 | 1.54 | 1.56 | 1.56 | 1.54 | 1.54 | 1.55 | 1.56 | | 0.00 |
| Office expenses | Percent | 0.87 | 0.83 | 0.81 | 0.81 | 0.80 | 0.80 | 0.80 | 0.80 | 0.81 | | 0.01 |
| Loan servicing expenses | Percent | 0.20 | 0.20 | 0.21 | 0.22 | 0.23 | 0.21 | 0.22 | 0.22 | 0.23 | | 0.00 |
| Other non-interest expenses | Percent | 0.86 | 0.70 | 0.69 | 0.59 | 0.57 | 0.48 | 0.50 | 0.51 | 0.52 | | -0.05 |
| **Total interest expense** | **Percent** | **1.74** | **1.21** | **0.93** | **0.73** | **0.59** | **0.53** | **0.53** | **0.53** | **0.54** | | **-0.05** |
| Interest on borrowed money | Percent | 0.15 | 0.11 | 0.10 | 0.08 | 0.07 | 0.07 | 0.07 | 0.07 | 0.07 | | 0.00 |
| Other interest expense | Percent | 0.03 | -0.01 | -0.05 | -0.05 | -0.03 | 0.00 | 0.00 | 0.00 | 0.00 | | 0.03 |
| Share dividends | Percent | 1.38 | 0.96 | 0.73 | 0.57 | 0.46 | 0.41 | 0.41 | 0.41 | 0.42 | | -0.04 |
| Interest on deposits | Percent | 0.21 | 0.14 | 0.10 | 0.08 | 0.06 | 0.05 | 0.05 | 0.05 | 0.05 | | -0.01 |
| Provision for loan losses | Percent | 1.13 | 0.78 | 0.50 | 0.36 | 0.26 | 0.25 | 0.25 | 0.26 | 0.28 | | 0.02 |
| **Net income** | **Percent** | **0.18** | **0.50** | **0.67** | **0.85** | **0.78** | **0.78** | **0.81** | **0.83** | **0.80** | | **0.02** |
| **Net interest margin** | **Percent** | **3.21** | **3.25** | **3.12** | **2.92** | **2.80** | **2.80** | **2.82** | **2.84** | **2.84** | | **0.04** |

| | | Prior Years | | | | | Each Quarter in 2014 | | | | Year-Over-Year | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| As of December 31 | Units | 2009 | 2010 | 2011 | 2012 | 2013 | Q1 2014 | Q2 2014 | Q3 2014 | Q4 2014 | Percent change | Change |
| Federally Insured Credit Unions Balance Sheet | | | | | | | | | | | | |
| **Total assets** | **$ Billions** | **884.6** | **914.3** | **961.7** | **1,021.8** | **1,062.0** | **1,097.9** | **1,103.3** | **1,107.8** | **1,122.2** | **5.7** | **60.22** |
| **Cash and equivalents (less than 3 months)** | **$ Billions** | **67.6** | **74.4** | **95.2** | **100.9** | **87.4** | **108.2** | **91.0** | **75.8** | **85.8** | **-1.9** | **-1.66** |
| Cash on hand | $ Billions | 7.6 | 7.7 | 7.9 | 8.3 | 9.0 | 8.2 | 8.2 | 8.7 | 9.7 | 7.8 | 0.70 |
| Investments | | | | | | | | | | | | |
| Total investments (more than 3 months) | $ Billions | 210.8 | 238.9 | 256.9 | 280.4 | 285.8 | 291.1 | 291.1 | 288.5 | 275.9 | -3.5 | -9.89 |
| Investment less than 1 year | $ Billions | 81.1 | 72.8 | 71.2 | 77.8 | 70.5 | 70.0 | 68.9 | 69.0 | 67.3 | -4.5 | -3.20 |
| Investment 1–3 years | $ Billions | 79.1 | 94.0 | 106.0 | 106.9 | 89.2 | 89.2 | 93.4 | 96.3 | 99.7 | 11.8 | 10.56 |
| Investment 3–10 years | $ Billions | 46.2 | 66.9 | 73.8 | 89.3 | 118.9 | 124.4 | 122.1 | 117.0 | 103.2 | -13.2 | -15.70 |
| Investment 3–5 years | $ Billions | 33.2 | 46.8 | 54.4 | 64.6 | 79.4 | 84.3 | 85.7 | 85.9 | 75.5 | -4.8 | -3.81 |
| Investment 5–10 years | $ Billions | 13.0 | 20.2 | 19.4 | 24.7 | 39.6 | 40.1 | 36.4 | 31.1 | 27.7 | -30.0 | -11.89 |
| Investment more than 10 years | $ Billions | 4.4 | 5.2 | 6.0 | 6.4 | 7.2 | 7.4 | 6.8 | 6.1 | 5.6 | -21.6 | -1.55 |
| **Total loans** | **$ Billions** | **572.4** | **564.7** | **571.5** | **597.5** | **645.1** | **652.6** | **673.8** | **695.2** | **712.3** | **10.4** | **67.15** |
| Real estate loans | $ Billions | 309.6 | 309.6 | 313.0 | 320.2 | 338.8 | 342.4 | 349.8 | 357.9 | 364.2 | 7.5 | 25.36 |
| Real estate, fixed rate, first | $ Billions | 149.8 | 154.6 | 163.1 | 174.6 | 192.3 | 194.3 | 198.1 | 201.7 | 205.0 | 6.6 | 12.72 |
| Credit cards | $ Billions | 34.9 | 35.9 | 37.4 | 39.5 | 42.6 | 41.5 | 42.9 | 44.1 | 46.0 | 7.9 | 3.38 |
| Auto loans | $ Billions | 173.4 | 164.4 | 165.1 | 178.5 | 198.7 | 203.6 | 213.0 | 222.7 | 230.0 | 15.8 | 31.32 |
| New autos | $ Billions | 75.2 | 62.9 | 58.3 | 63.3 | 71.3 | 73.5 | 77.7 | 82.4 | 86.3 | 21.0 | 14.97 |
| Used autos | $ Billions | 98.2 | 101.5 | 106.8 | 115.2 | 127.4 | 130.1 | 135.3 | 140.3 | 143.7 | 12.8 | 16.35 |
| Non-federally guaranteed student loans | $ Billions | 0.0 | 0.0 | 1.5 | 2.0 | 2.6 | 2.8 | 2.9 | 3.1 | 3.1 | 20.1 | 0.53 |
| Other loans | $ Billions | 54.5 | 54.7 | 54.5 | 57.3 | 62.4 | 62.2 | 65.3 | 67.5 | 69.0 | 10.5 | 6.56 |
| Member business loans, including unfunded commitments. | $ Billions | 35.1 | 37.2 | 39.2 | 41.7 | 46.0 | 47.4 | 48.9 | 50.3 | 51.7 | 12.4 | 5.72 |
| **Other assets** | **$ Billions** | **33.8** | **36.3** | **38.1** | **42.9** | **43.7** | **46.1** | **47.3** | **48.3** | **48.3** | **10.6** | **4.62** |
| **Total liabilities and net worth** | **$ Billions** | **884.6** | **914.3** | **961.7** | **1,021.8** | **1,062.0** | **1,097.9** | **1,103.3** | **1,107.8** | **1,122.2** | **5.7** | **60.22** |
| **Total deposits** | **$ Billions** | **752.7** | **786.4** | **827.4** | **877.9** | **910.1** | **943.1** | **940.4** | **939.1** | **950.8** | **4.5** | **40.69** |
| Share drafts | $ Billions | 85.3 | 89.9 | 100.6 | 111.4 | 118.8 | 129.1 | 126.5 | 125.5 | 131.1 | 10.4 | 12.34 |
| Regular shares | $ Billions | 199.9 | 220.5 | 245.0 | 275.1 | 297.8 | 316.1 | 317.6 | 316.9 | 321.3 | 7.9 | 23.50 |
| Other deposits | $ Billions | 467.5 | 476.0 | 481.8 | 491.4 | 493.5 | 498.0 | 496.3 | 496.7 | 498.3 | 1.0 | 4.86 |
| Money market accounts | $ Billions | 158.3 | 175.8 | 189.1 | 203.4 | 212.3 | 217.3 | 217.6 | 218.1 | 219.3 | 3.3 | 6.98 |
| Share certificate accounts | $ Billions | 225.6 | 213.4 | 204.1 | 197.9 | 191.5 | 190.5 | 188.8 | 188.2 | 189.1 | -1.2 | -2.39 |
| IRA/Keogh accounts | $ Billions | 73.4 | 76.4 | 77.6 | 79.1 | 78.4 | 78.1 | 77.8 | 77.4 | 76.9 | -2.0 | -1.54 |
| Non-member deposits | $ Billions | 2.5 | 2.4 | 2.2 | 2.3 | 3.0 | 3.4 | 3.9 | 4.4 | 4.8 | 61.6 | 1.84 |
| All other shares | $ Billions | 7.7 | 8.0 | 8.7 | 8.7 | 8.2 | 8.5 | 8.3 | 8.6 | 8.2 | -0.4 | -0.03 |
| **Other liabilities** | **$ Billions** | **44.4** | **36.0** | **36.1** | **37.3** | **37.4** | **38.3** | **44.1** | **47.5** | **48.3** | **29.1** | **10.88** |
| **Net worth** | **$ Billions** | **87.5** | **92.0** | **98.2** | **106.6** | **114.5** | **116.5** | **118.8** | **121.1** | **123.1** | **7.6** | **8.64** |

| | | Prior Years | | | | | Each Quarter in 2014 | | | | Year-Over-Year | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| As of December 31 | Units | 2009 | 2010 | 2011 | 2012 | 2013 | Q1 2014 | Q2 2014 | Q3 2014 | Q4 2014 | Percent change | Change |
| Federally Insured Credit Unions Balance Sheet (Percent of Assets) | | | | | | | | | | | | |
| **Total assets** | **Percent** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | | |
| **Cash and equivalents (less than 3 months)** | **Percent** | **7.6** | **8.1** | **9.9** | **9.9** | **8.2** | **9.9** | **8.2** | **6.8** | **7.6** | | **-0.59** |
| Cash on hand | Percent | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.7 | 0.8 | 0.9 | | 0.02 |
| **Investments** | | | | | | | | | | | | |
| Total investments (more than 3 months) | Percent | 23.8 | 26.1 | 26.7 | 27.4 | 26.9 | 26.5 | 26.4 | 26.0 | 24.6 | | -2.33 |
| Investment less than 1 year | Percent | 9.2 | 8.0 | 7.4 | 7.6 | 6.6 | 6.4 | 6.2 | 6.2 | 6.0 | | -0.64 |
| Investment 1–3 years | Percent | 8.9 | 10.3 | 11.0 | 10.5 | 8.4 | 8.1 | 8.5 | 8.7 | 8.9 | | 0.49 |
| Investment 3–10 years | Percent | 5.2 | 7.3 | 7.7 | 8.7 | 11.2 | 11.3 | 11.1 | 10.6 | 9.2 | | -2.00 |
| Investment 3–5 years | Percent | 3.8 | 5.1 | 5.7 | 6.3 | 7.5 | 7.7 | 7.8 | 7.8 | 6.7 | | -0.74 |
| Investment 5–10 years | Percent | 1.5 | 2.2 | 2.0 | 2.4 | 3.7 | 3.7 | 3.3 | 2.8 | 2.5 | | -1.26 |
| Investment more than 10 years | Percent | 0.5 | 0.6 | 0.6 | 0.6 | 0.7 | 0.7 | 0.6 | 0.5 | 0.5 | | -0.17 |
| **Total loans** | **Percent** | **64.7** | **61.8** | **59.4** | **58.5** | **60.7** | **59.4** | **61.1** | **62.8** | **63.5** | | **2.72** |
| Real estate loans | Percent | 35.0 | 33.9 | 32.6 | 31.3 | 31.9 | 31.2 | 31.7 | 32.3 | 32.5 | | 0.55 |
| Real estate fixed rate, first | Percent | 16.9 | 16.9 | 17.0 | 17.1 | 18.1 | 17.7 | 18.0 | 18.2 | 18.3 | | 0.16 |
| Credit cards | Percent | 3.9 | 3.9 | 3.9 | 3.9 | 4.0 | 3.8 | 3.9 | 4.0 | 4.1 | | 0.09 |
| Auto loans | Percent | 19.6 | 18.0 | 17.2 | 17.5 | 18.7 | 18.5 | 19.3 | 20.1 | 20.5 | | 1.79 |
| New autos | Percent | 8.5 | 6.9 | 6.1 | 6.2 | 6.7 | 6.7 | 7.0 | 7.4 | 7.7 | | 0.97 |
| Used autos | Percent | 11.1 | 11.1 | 11.1 | 11.3 | 12.0 | 11.9 | 12.3 | 12.7 | 12.8 | | 0.81 |
| Non-federally guaranteed student loans | Percent | 0.0 | 0.0 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | | 0.03 |
| Other loans | Percent | 6.2 | 6.0 | 5.7 | 5.6 | 5.9 | 5.7 | 5.9 | 6.1 | 6.1 | | 0.27 |
| Member business loans, including unfunded commitments. | Percent | 4.0 | 4.1 | 4.1 | 4.1 | 4.3 | 4.3 | 4.4 | 4.5 | 4.6 | | 0.28 |
| Other assets | Percent | 3.8 | 4.0 | 4.0 | 4.2 | 4.1 | 4.2 | 4.3 | 4.4 | 4.3 | | 0.19 |
| Total liabilities and net worth | Percent | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | | |
| **Total deposits** | **Percent** | **85.1** | **86.0** | **86.0** | **85.9** | **85.7** | **85.9** | **85.2** | **84.8** | **84.7** | | **-0.97** |
| Share drafts | Percent | 9.6 | 9.8 | 10.5 | 10.9 | 11.2 | 11.8 | 11.5 | 11.3 | 11.7 | | 0.50 |
| Regular Shares | Percent | 22.6 | 24.1 | 25.5 | 26.9 | 28.0 | 28.8 | 28.8 | 28.6 | 28.6 | | 0.59 |
| Other deposits | Percent | 52.8 | 52.1 | 50.1 | 48.1 | 46.5 | 45.4 | 45.0 | 44.8 | 44.4 | | -2.06 |
| Money market accounts | Percent | 17.9 | 19.2 | 19.7 | 19.9 | 20.0 | 19.8 | 19.7 | 19.7 | 19.5 | | -0.45 |
| Share certificate accounts | Percent | 25.5 | 23.3 | 21.2 | 19.4 | 18.0 | 17.4 | 17.1 | 17.0 | 16.9 | | -1.18 |
| IRA/Keogh accounts | Percent | 8.3 | 8.4 | 8.1 | 7.7 | 7.4 | 7.1 | 7.0 | 7.0 | 6.9 | | -0.53 |
| Non-member deposits | Percent | 0.3 | 0.3 | 0.2 | 0.2 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | | 0.15 |
| All other shares | Percent | 0.9 | 0.9 | 0.9 | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 | 0.7 | | -0.04 |
| **Other Liabilities** | **Percent** | **5.0** | **3.9** | **3.7** | **3.6** | **3.5** | **3.5** | **4.0** | **4.3** | **4.3** | | **0.78** |
| **Net worth** | **Percent** | **9.89** | **10.06** | **10.21** | **10.43** | **10.77** | **10.61** | **10.76** | **10.93** | **10.97** | | **0.20** |

# Summary of Performance for Federally Insured Credit Unions

| | By Asset Categories | | | | | | By Type | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Less than $10 million | $10 – $50 million | $50 – $100 million | $100 – $500 million | $500 million – $1 billion | Greater than $1 billion | Federal Credit Unions | Federally Insured State Credit Unions | Low-Income Credit Unions | Small Credit Unions (Assets less than $50 million) |
| **As of December 31, 2014** | | | | | | | | | | |
| Number of credit unions | 1,987 | 2,063 | 734 | 1,039 | 223 | 227 | 3,927 | 2,346 | 2,113 | 4,050 |
| Number of members (in millions) | 1.7 | 6.9 | 6.1 | 23.4 | 14.2 | 46.9 | 53.4 | 45.9 | 25.4 | 8.6 |
| Total assets (in billions of dollars) | 8.1 | 51.0 | 52.5 | 229.7 | 157.6 | 623.3 | 596.1 | 526.0 | 238.0 | 59.1 |
| Total loans (in billions of dollars) | 3.9 | 25.4 | 28.7 | 141.4 | 102.6 | 410.2 | 373.4 | 338.9 | 157.1 | 29.3 |
| Total deposits (in billions of dollars) | 6.9 | 44.4 | 46.0 | 199.9 | 135.1 | 518.5 | 499.7 | 451.1 | 204.5 | 51.3 |
| **Key Ratios (in Percent)** | | | | | | | | | | |
| Return on average assets | 0.04 | 0.26 | 0.46 | 0.60 | 0.79 | 0.97 | 0.77 | 0.84 | 0.80 | 0.23 |
| Net worth ratio | 14.83 | 12.31 | 11.46 | 10.93 | 11.10 | 10.74 | 11.02 | 10.90 | 10.89 | 12.66 |
| Loan to share ratio | 57.3 | 57.2 | 62.4 | 70.7 | 75.9 | 79.1 | 74.7 | 75.1 | 76.8 | 57.2 |
| Net interest margin (median) | 3.19 | 2.89 | 2.99 | 3.01 | 2.96 | 2.72 | 2.96 | 3.03 | 3.22 | 3.01 |
| Net long-term asset ratio | 11.4 | 23.6 | 29.9 | 34.5 | 36.4 | 34.0 | 33.7 | 33.5 | 32.6 | 21.9 |
| Cost of funds / average assets (median) | 0.23 | 0.25 | 0.32 | 0.38 | 0.40 | 0.51 | 0.27 | 0.30 | 0.28 | 0.24 |
| Delinquency rate | 1.94 | 1.28 | 1.17 | 0.93 | 0.77 | 0.78 | 0.88 | 0.82 | 1.00 | 1.37 |
| Net charge-offs to average loans | 0.61 | 0.48 | 0.46 | 0.46 | 0.44 | 0.52 | 0.55 | 0.44 | 0.51 | 0.50 |
| **Year-over-Year Growth (in Percent)** | | | | | | | | | | |
| Shares (total deposits) | -7.7 | -3.8 | -4.7 | -0.6 | 2.1 | 9.2 | 2.9 | 6.2 | 5.1 | -4.4 |
| Total loans | -5.6 | -2.2 | -2.8 | 2.9 | 6.4 | 16.7 | 8.6 | 12.4 | 9.9 | -2.7 |
| Total assets | -7.4 | -3.6 | -4.2 | 0.0 | 2.7 | 10.8 | 4.3 | 7.2 | 6.1 | -4.2 |
| Members | -10.2 | -6.2 | -6.0 | -2.0 | 2.0 | 10.0 | 1.7 | 4.8 | 3.2 | -7.0 |
| Net worth | -6.3 | -2.8 | -1.9 | 1.4 | 5.4 | 13.1 | 5.9 | 9.6 | 8.0 | -3.4 |

| | By Asset Categories | | | | | | By Type | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Less than $10 million | $10 – $50 million | $50 – $100 million | $100 – $500 million | $500 million – $1 billion | Greater than $1 billion | Federal Credit Unions | Federally Insured State Credit Unions | Low-Income Credit Unions | Small Credit Unions (Assets less than $50 million) |
| Historical Data, Year-end | | | | | | | | | | |
| Return on Average Assets (in Percent) | | | | | | | | | | |
| 2014 | 0.04 | 0.26 | 0.46 | 0.60 | 0.79 | 0.97 | 0.77 | 0.84 | 0.80 | 0.23 |
| 2013 | -0.18 | 0.21 | 0.41 | 0.59 | 0.75 | 0.98 | 0.75 | 0.82 | 0.79 | 0.15 |
| 2012 | -0.03 | 0.27 | 0.47 | 0.67 | 0.82 | 1.07 | 0.85 | 0.86 | 0.88 | 0.23 |
| 2011 | -0.17 | 0.17 | 0.37 | 0.52 | 0.66 | 0.87 | 0.68 | 0.65 | 0.71 | 0.11 |
| 2010 | -0.30 | 0.00 | 0.16 | 0.33 | 0.53 | 0.73 | 0.50 | 0.51 | 0.47 | -0.05 |
| Net Worth Ratio (in Percent) | | | | | | | | | | |
| 2014 | 14.83 | 12.31 | 11.46 | 10.93 | 11.10 | 10.74 | 11.02 | 10.90 | 10.89 | 12.66 |
| 2013 | 14.65 | 12.21 | 11.20 | 10.78 | 10.81 | 10.53 | 10.86 | 10.67 | 10.70 | 12.55 |
| 2012 | 14.63 | 12.06 | 10.92 | 10.53 | 10.59 | 10.04 | 10.50 | 10.35 | 10.40 | 12.43 |
| 2011 | 14.65 | 12.07 | 10.91 | 10.36 | 10.38 | 9.69 | 10.29 | 10.11 | 10.22 | 12.46 |
| 2010 | 14.85 | 12.20 | 10.99 | 10.20 | 10.21 | 9.40 | 10.14 | 9.95 | 10.08 | 12.62 |
| Loan-to-Share Ratio (in Percent) | | | | | | | | | | |
| 2014 | 57.28 | 57.24 | 62.37 | 70.74 | 75.95 | 79.11 | 74.73 | 75.12 | 76.80 | 57.24 |
| 2013 | 56.03 | 56.29 | 61.13 | 68.30 | 72.91 | 74.06 | 70.80 | 70.99 | 73.49 | 56.26 |
| 2012 | 55.45 | 55.72 | 60.67 | 66.30 | 69.33 | 70.88 | 67.91 | 68.23 | 70.87 | 55.68 |
| 2011 | 56.50 | 57.64 | 62.25 | 67.32 | 69.44 | 72.32 | 68.74 | 69.47 | 71.60 | 57.48 |
| 2010 | 59.05 | 60.80 | 64.95 | 70.21 | 72.70 | 75.13 | 71.64 | 72.01 | 74.18 | 60.53 |
| Delinquency Rate (in Percent) | | | | | | | | | | |
| 2014 | 1.94 | 1.28 | 1.17 | 0.93 | 0.77 | 0.78 | 0.88 | 0.82 | 1.00 | 1.37 |
| 2013 | 2.26 | 1.42 | 1.23 | 1.06 | 0.91 | 0.95 | 1.02 | 1.00 | 1.17 | 1.53 |
| 2012 | 2.28 | 1.50 | 1.29 | 1.15 | 1.00 | 1.15 | 1.16 | 1.15 | 1.28 | 1.61 |
| 2011 | 2.40 | 1.65 | 1.44 | 1.49 | 1.34 | 1.73 | 1.52 | 1.69 | 1.58 | 1.76 |
| 2010 | 2.60 | 1.72 | 1.62 | 1.70 | 1.53 | 1.87 | 1.72 | 1.81 | 1.77 | 1.85 |
| Loan Growth (in Percent) | | | | | | | | | | |
| 2014 | -5.60 | -2.23 | -2.78 | 2.91 | 6.36 | 16.68 | 8.63 | 12.43 | 9.87 | -2.70 |
| 2013 | -4.96 | -3.14 | -0.89 | 2.78 | 7.99 | 12.15 | 6.57 | 9.62 | 8.77 | -3.39 |
| 2012 | -9.20 | -6.09 | -2.28 | 1.60 | 3.87 | 8.09 | 4.44 | 4.69 | 6.20 | -6.54 |
| 2011 | -10.56 | -6.44 | -4.54 | -2.85 | -2.35 | 6.11 | 0.84 | 1.63 | 2.47 | -7.06 |
| 2010 | -10.72 | -8.15 | 0.76 | -4.06 | -3.44 | 1.58 | -1.57 | -1.09 | 1.16 | -8.55 |

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| | | |
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| Credit Union Investments: | (800) 755-5999 | ocmpmail@ncua.gov |
| NCUA Consumer Assistance Center: | (800) 755-1030 | |
| Report Improper or Illegal Activities: | (800) 778-4806 | oigmail@ncua.gov |
| Share Insurance Hotline: | (877) 452-1463 | |
| Technical Support: | (800) 827-3255 | csdesk@ncua.gov |

Thank you for your interest in the *NCUA 2014 Annual Report*. Credit unions can secure electronic copies of the NCUA 2014 Annual Report at www.NCUA.gov in the tab on Regulations, Publications, and Reports. Please send any comments or suggestions about this report to pacamail@NCUA.gov.

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