



NCUA
National Credit Union Administration

Strategic Plan

2018–2022

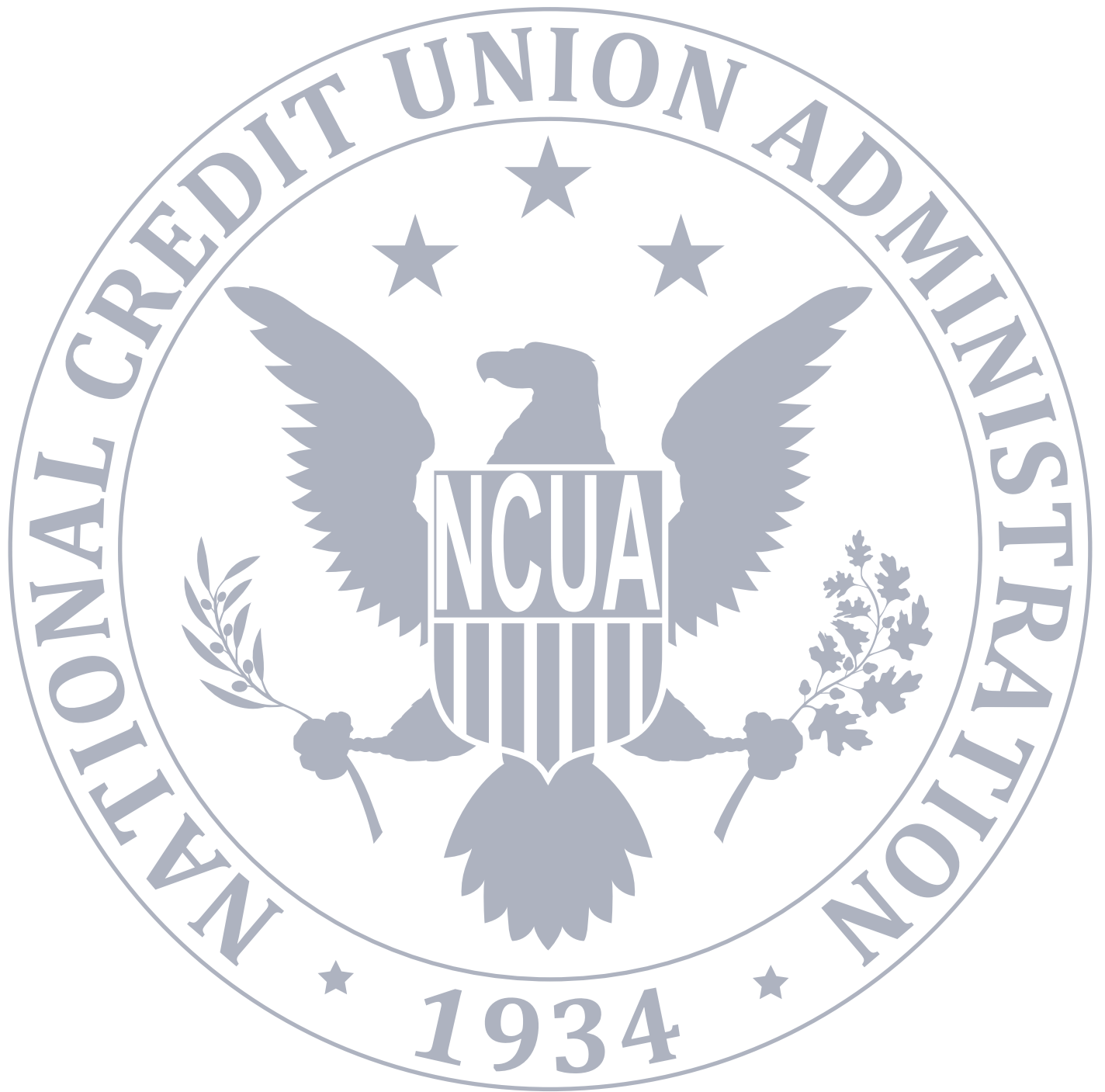


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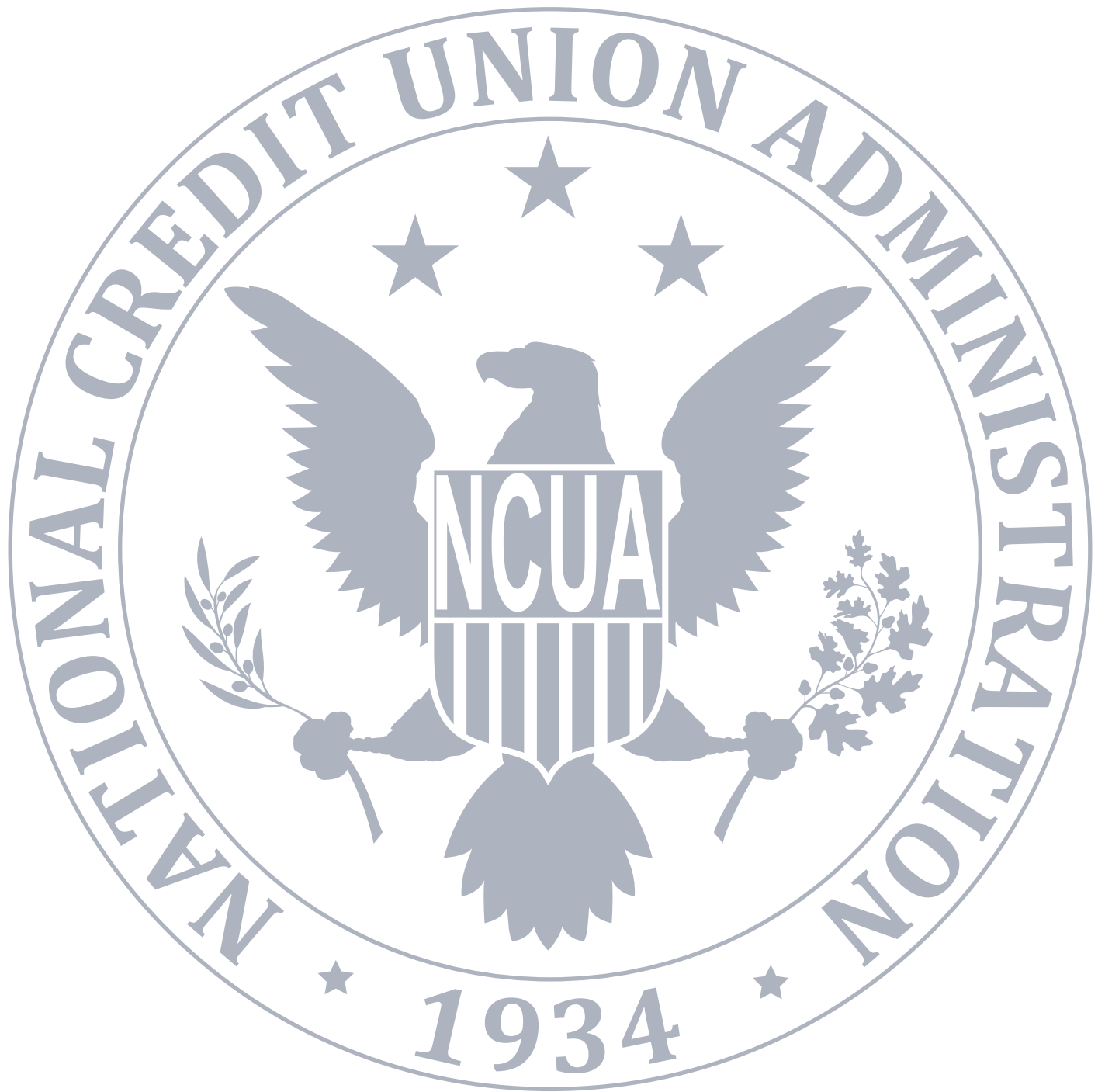
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Message from the Board

The U.S. financial sector is subject to continuing advancements and emerging risks, which necessitate changes in the way the National Credit Union Administration (NCUA) conducts its business so that it continues to effectively supervise and insure a growing and evolving credit union system. Future risks to credit unions include escalating cyber-security threats, interest rate and liquidity challenges, real estate and member business loan concentrations, and rapid changes in technology. Advancements in the type and quantity of data available also demands a fresh way of thinking about our business model. At the same time, the continuing reality of smaller credit unions merging while remaining units grow significantly in size and complexity requires an even more strategic, nimble and innovative way to carry out our responsibilities as established in the Federal Credit Union Act.

In response to the dynamic forces that continue to reshape the industry, the NCUA continues to adapt its approach to its mission. The NCUA initiated several significant reforms over the past two years, and many of these efforts continue in the NCUA Strategic Plan 2018-2022. These reforms include the Examination Flexibility Initiative adopted in 2016, the Agency Reform Plan adopted by the Board in July 2017, the publication of NCUA's Regulatory Reform Agenda in August 2017, closure of the Temporary Corporate Credit Union Stabilization Fund in September 2017, and the ongoing commitment to transparency in how the NCUA conducts its business.

The NCUA Strategic Plan 2018–2022 outlines how the agency will continue to adapt over the next five years. Over the course of this plan, the NCUA Board and program staff will continue to create an environment that allows credit unions to better serve their members while maintaining safety and soundness of the system. NCUA has developed a comprehensive agenda for reviewing and revising NCUA's Regulations. The effort examines all aspects of NCUA's regulations and proposes more significant regulatory relief amendments than have been embraced in the past.

The NCUA will continue to emphasize improving processes, tools, and technology to increase efficiency and effectiveness of its operations. Reliable, up-to-date, and secure data and information is essential to the NCUA's success. Technology facilitates and streamlines our day-to-day work and allows us to collaborate seamlessly and securely, both internally and with other agencies, the credit unions we supervise, and consumers. This Strategic Plan addresses the investment and upgrade of technology software systems. The NCUA will modernize examination systems and all associated applications, refresh needed hardware, such as laptops, and conduct a redesign of the NCUA.gov website.

The changing financial services environment is also driving a need for a greater diversity of NCUA employees' skills and knowledge. NCUA will continue to focus on workforce recruitment and development, to attract, train, and retain the best examiners and specialists. This includes individuals with specialized expertise in capital markets, business lending, investments, information technology, cyber-security, economics, statistics, and other relevant fields. NCUA staff are the agency's most important asset, and must have the skills, training, and tools necessary to do their jobs in this complex and dynamic financial environment.

By publishing the proposed NCUA Strategic Plan 2018–2022 in the Federal Register, as well as posting it on our website at www.ncua.gov, NCUA continues its ongoing commitment to transparency about the agency's priorities, plans and strategy.

The men and women of the NCUA will continue to work diligently to balance the NCUA's mission to ensure safety and soundness of the credit union system and protecting the Share Insurance Fund with the need to allow for innovation so that credit unions continue to deliver critical financial services to their 110 million members. The Strategic Plan 2018-2022 conveys a vision and direction for how the NCUA will to reshape its workforce and its approach to its work; it reflects a fresh way of thinking about how the NCUA's can best meet its mission. The NCUA stands ready to address these challenges head-on to ensure the continued safety and soundness of the credit union system, to the benefit of credit union members across America.



J. Mark McWatters
Chairman
January 25, 2018



Rick Metsger
Board Member
January 25, 2018

Agency Overview

The NCUA is the independent federal agency created by the U.S. Congress to regulate, charter, and supervise federal credit unions. With the backing of the full faith and credit of the U.S. Government, the NCUA operates and manages the National Credit Union Share Insurance Fund (NCUSIF), insuring the deposits of the account holders in all federal credit unions and the majority of state-chartered credit unions.

The NCUA, was created in 1934 with the passage of the Federal Credit Union Act. As the products and services provided to members changed over the years, the NCUA's supervision and regulation evolved as well. In 1970, this evolution included the addition of the NCUSIF providing the backing of the full faith and credit of the U.S. Government to credit union accounts. No credit union member has ever lost a penny of deposits insured by the NCUSIF.

The NCUA is responsible for the regulation and supervision of 5,642 federally insured credit unions with more than 110 million members and more than \$1.3 trillion in assets across all states and U.S. territories.

Mission Statement

Provide, through regulation and supervision, a safe and sound credit union system, which promotes confidence in the national system of cooperative credit.

Vision Statement

Protecting credit unions and the consumers who own them through effective supervision, regulation and insurance.

Values

Integrity

Adhere to the highest ethical and professional standards.

Accountability

Accept responsibilities and meet commitments.

Transparency

Be open, direct and frequent in communications.

Inclusion

Foster a workplace culture that values diverse backgrounds, experiences and perspectives.

Proficiency

Deploy a workforce with a high degree of skill, competence and expertise to maximize performance.

Economic Outlook

The U.S. economic environment is a key determinant of credit union performance. Over the horizon of the Strategic Plan, the consensus forecast for the U.S. economy is for moderate economic growth, an unemployment rate under 5 percent, and annual inflation around 2 percent (the Federal Reserve's target rate). Interest rates are expected to trend higher over the next few years, with short-term rates rising more than longer-term rates.¹ In particular, during 2018-2022:

The consensus forecast predicts real GDP growth will average around 2.2 percent per year. This is similar to the economy's average performance over the past few years and is roughly consistent with current estimates of its long-run potential.

- The unemployment rate is projected to decline further to around 3.8 percent in 2019 and edge steadily higher to a still-low 4.5 percent by 2022. This is roughly consistent with current estimates of the “full employment” unemployment rate.
- Consumer prices are projected to rise a little more than 2 percent annually, consistent with the Federal Reserve's inflation target. Falling oil prices have kept overall inflation low recently; inflation averaged 1.4 percent per year during the past five years. Average core inflation, which is consumer prices excluding food and energy, was closer to 2 percent.
- The 3-month Treasury bill rate is projected to rise from an average of 1.3 percent in December 2017 to 2.8 percent in 2022.
- The 10-year Treasury rate is projected to rise from 2.4 percent in December 2017 to 3.6 percent in 2022.
- The term spread declined from an average of 250 basis points in 2014 to around 150 basis points in 2016 and 2017. The interest rate forecasts imply continuing declines in the term spread to an average of around 80 basis points during the five-year period from 2018-2022.

Interest Rate Risk

The consensus forecast indicates that interest rates are expected to change more than other key economic indicators through 2022. In December 2017, the 10-year Treasury note rate averaged 108 basis points higher than the 3-month Treasury bill rate. Based on the forecasts for these interest rates, the term spread is expected to fall below 100 basis points in 2018. The last time the spread between the 10-year and 3-month Treasury rates was under 100 basis points was in 2007.

Recent trends suggest that credit unions have reduced interest rate risk on the asset side of their balance sheets. Credit unions' aggregate long-term assets share of total assets had risen from an average of 18 percent during 2000-2006 to a peak of 30 percent in 2013Q4. The net long-term assets share has since eased falling to 26 percent

¹ Blue Chip Economic Indicators, “Top Analysts’ Forecasts of the U.S. Economic Outlook for the Year Ahead,” Vol. 42, No. 10, October 10, 2017, and Vol 43, No. 1, January 10, 2018. The Blue Chip consensus forecasts reflect the views of roughly 50 forecasters providing quantitative economic forecasts for five and ten years into the future.

in 2016Q3, although it rose back to 28 percent in 2017Q3.² While the recent decline in aggregate exposure to long-term assets should reduce the risks associated with rising interest rates, the share of long-dated assets to total assets remains elevated relative to the average before the Great Recession.

The trends in credit union deposits are mixed. More than half of credit union deposits in 2017Q3 were in “core” accounts (regular shares and share drafts), the highest share in nearly 20 years and up from 37 percent in 2008Q4. At the same time, the composition of non-core deposits has shifted away from fixed-rate share certificates to variable-rate money market shares. Since money market shares have variable rates, funding these deposits may be more expensive if rates rise quickly.

In a rising rate environment, credit unions may face pressures to raise their deposit rates in order to retain shares, as regular and money market shares may be most sensitive to rates. Members may reallocate their savings to higher-yielding products within the credit union, or transfer their money to competitors offering higher rates. The increased prevalence of web-based and mobile banking may reduce the transition costs consumers face when changing accounts and make them more likely to move their funds even if rates at other institutions are only slightly higher.

If realized, the interest rate environment expected by forecasters could be challenging for some credit unions. If short-term rates rise more than long-term rates, the flatter yield curve could reduce net interest margins.

However, the consensus rate environment might also make it easier for some institutions to distinguish themselves from market competitors, either through lower rates on loans or higher rates on deposits.

While a rising rate environment is predicted by most forecasters, if the U.S. economy’s overall performance is worse than expected, rates may remain low for an extended period of time. A continuation of the current, very low interest rate environment also presents risks to credit unions. Credit unions that rely primarily on investment income may find their net income remaining low or falling. In addition, credit unions could “reach for yield,” by adding long-term and higher-risk assets to their portfolio. Finally, the sluggish economy that would likely be associated with continued low interest rates could raise credit risk for almost all types of private instruments.

Key Risk Areas for U.S. Growth

One major determinant of the likely path for interest rates is the path of economic growth. There is a variety of risks to the economic growth outlook. On the downside, slower growth overseas could restrain economic activity in the U.S. A stronger dollar relative to other foreign currencies or a renewed decline in oil prices could also hamper growth, particularly in manufacturing-intensive and oil-producing states. Slower economic growth would hold down job creation and inflation, and help keep interest rates low. This could dampen deposit and membership growth, reduce credit union loan demand, and lead to increased credit risk. If global economic conditions deteriorated before U.S. monetary policy had completed its adjustment to a more neutral policy position, policymakers would find it difficult to stimulate the domestic economy and the result could be an extended period of sluggish growth, and low inflation and interest rates.

² NCUA, 5300 Call Reports.

Alternatively, more rapid growth in the rest of the world would push U.S. growth higher. This might mean faster employment growth and falling unemployment, but higher inflation and faster interest rate increases. Other upside risks that could lead to faster-than-expected growth include unanticipated strength in consumer spending or a more robust housing recovery. Fiscal policy changes – beyond the just-enacted changes to the federal income tax – that have been discussed by the Administration, include increased infrastructure spending, which could also increase economic growth, if not offset by other policy changes. Stronger economic growth would support credit union lending activity, credit quality, and membership growth. However, with the U.S. economy already near full employment, U.S. inflation would likely rise as well, leading to higher-than-expected interest rates.

In December 2017 the Tax Cuts and Jobs Act was enacted, which made significant changes to the personal and business income tax code starting in 2018. While analysts are still sorting out the potential effects of specific changes on individuals and industries, it appears likely that credit unions and their members will benefit in the near term, mostly through the boost the Act is expected to give to the economy as a whole. Middle-income households are expected to see noticeable tax reductions. The additional income freed up by the tax cuts will likely translate into additional consumer spending and borrowing, increasing consumer loan demand at credit unions. Gains in after-tax income could also lead to improvement in loan quality measures, and boost credit union share balance accounts and credit union membership.

Still, there may be offsetting impacts. Some of the benefits to credit unions could be offset by higher interest rates. If short-term interest rates rise more than currently expected, credit unions would also face higher costs for deposits. Net interest margins could be preserved if rates rise across the maturity spectrum, allowing credit union lending rates also rise, but higher lending rates would offset some of the boost to consumer borrowing from the tax cuts. How much rates increase and whether short-term rates rise more or less than long-term rates will affect credit union net interest margins, growth of net income and net worth. Individual credit unions may be affected by the Act's new tax on compensation above \$1 million at not-for-profit businesses. With some provisions expiring in 2025 and many questions about how some provisions of the new law will be implemented, there is less certainty about the longer-term effects of the new tax law. Some sectors, like housing, may not benefit as much as other sectors, since the mortgage deduction cap on large mortgages has been reduced and the personal deductions for state and local taxes has been capped. In addition, the relatively large tax cuts for banks – reflecting the reduction in the top corporate tax rate from 35 percent to 21 percent and other changes – will improve their competitive position relative to credit unions.

A variety of other factors can also affect U.S. economic growth. It is important to recognize that while the consensus forecast is that the U.S. economy will continue to expand over the Strategic Plan period, a recession is nonetheless possible. A recession would likely lead to increased credit risk at credit unions—members may lose their jobs or see the value of their assets decline. Recessions can be caused by many different factors, and some industries and regions are always affected more than others. For example, depending on the cause of the recession, industries and states that were relatively unaffected by the Great Recession could find themselves bearing the brunt of the next one.

Credit Union System Key Risks

Economic, market, and demographic factors will likely influence how credit unions operate and grow. As these factors evolve over time, credit unions may face new risks and opportunities.

Credit Union Responses to Changing Environment: The economic environment has recently helped generate improving credit union fundamentals. Due to the structure of their portfolios, the decisions credit unions have made in the past few years will continue to affect their performance over the Strategic Plan horizon. Some of these decisions may create challenges as the economic and interest rate environments evolve. In addition, economic conditions can weaken in specific industries and regions, even if the overall economy is growing and generating jobs. Starting in 2014, for example, the sharp decline in oil prices weakened the economies of energy-producing states, such as West Virginia and North Dakota; activity in these states remains subdued compared with activity in 2010 through 2014. Very local factors may also be at work at some credit unions. For example, as the value of taxi medallions in New York and other cities has decreased, credit unions with large exposure to taxi medallion loans faced challenges and two relatively sizable credit unions have been placed in conservatorship.

Financial Landscape and Technology: The spread of communications technology is providing challenges and opportunities for financial institutions. New products are being developed, new ways for consumers to interact with their financial institution are becoming more prevalent, and consumers are able to make and implement financial decisions nearly instantaneously. For example, technology has made it possible for consumers to engage in direct peer-to-peer payment without drawing on the services of a traditional financial institution. To the extent that these new payment systems begin to provide more services, like maintaining deposits and making or brokering loans, the payment systems will pose competitive challenges to credit unions and banks alike. More generally, credit unions are likely to face a range of challenges from financial technology (fintech) companies in the areas of lending and the provision of other services. For example, underwriting and lending may be automated at a cost below levels associated with more traditional financial institutions, but may not be subject to the same regulations and safeguards that credit unions and other traditional financial institutions face. The emergence and the increasing importance of digital currencies predicted by many analysts may pose both risks and opportunities to consumers, credit unions, banks and financial regulators. Finally, credit unions' increasing use of technology is making the credit union system more vulnerable to cyber-attacks. The prevalence of malware, ransomware, distributed denial of service (DDOS) attacks, and other forms of cyber intrusion are causing challenges at credit unions of all sizes, and will require ongoing measures for containment. These trends are likely to continue, and even accelerate, through 2022.

Technological changes outside the financial sector may also have an impact on consumer behavior, which could indirectly affect credit unions. Some observers have noted that the increase in on-demand use of auto services and the potential for pay-as-you-go on-demand vehicle rental, would reduce purchases of consumer-owned vehicles. In turn, that would lead to a slowdown or reduction in the demand for vehicle loans, now slightly more than a third of the credit union system loan portfolio.

Competition and Consolidation: The number of credit unions and banks has been falling steadily for more than two decades. Analysts believe this mainly reflects two causes. First, economies of scale have encouraged mergers, reducing the number of active depository institutions. Second, non-depository institutions are

providing products and services that compete with what credit unions and banks offer. Combined, these trends mean credit unions face increased competition. The emergence of a robust and wide range of non-bank financial companies leveraging technology (fintech) have the potential to become market disruptors for the traditional financial markets and traditional depository institution business model. This is especially true for retail financial services.

Large banks are able to expand their presence beyond their existing branch networks. At the same time, the rise of deposit-like products such as prepaid cards, and alternative lending products such as peer-to-peer lending, have the potential to reduce members' demand for both the savings and lending products credit unions provide. According to NCUA reports, most credit unions that merge today cite "expanded services" for their members as the reason for merging. An increase in competition could lead to more "mergers of equals," a trend that could lead to consolidation among relatively large credit unions.

Aging Credit Union Membership: The U.S. Census Bureau forecasts that the share of the population reaching retirement age in the United States will continue to rise through the Strategic Plan period.³ As the population ages, credit unions may see shifts in growth trends and members' demand for certain products and services. For example, an aging population may increase the demand for savings and interest-bearing accounts, and lower the demand for auto loans and mortgages, but potentially increase the demand for reverse mortgages. Additionally, some credit unions with small fields of membership may find their potential membership declining, restricting their opportunities to grow. Internal credit union management may also be affected. For example, some credit unions rely on a few experienced individuals for management. As these employees reach retirement age, the credit unions may lose considerable institutional knowledge and have few replacement opportunities.

Population Diversity and Trends in Financial Access: The U.S. population is forecast to become more diverse through the Strategic Plan period. According to the FDIC's 2015 *National Survey of Unbanked and Underbanked Households*, more than one out of every four U.S. households is either unbanked (no account at a federally insured depository institution) or underbanked (has an account, but also recently relied on non-bank alternative financial services). With an increased array of financial services being provided by non-bank entities, depository institutions may face further pressures as they try to retain current consumers and reach out to new ones. As the U.S. population becomes more diverse, credit unions may need to adapt the products and services they offer to ensure they can communicate effectively with and serve the needs of potential new members.

The 2015 FDIC survey found that while more than three-quarters of households in the "White non-Black non-Hispanic" group were fully banked, less than half of Black and Hispanic households were fully banked. This division may be partly attributable to language barriers; the FDIC's 2013 survey found that just 38 percent of households that only speak Spanish were fully banked. In credit unions that lack diverse representation among the credit union employees and volunteer board members, additional challenges are created in identifying and providing appropriate services for diverse populations. While diverse populations are growing, the number of credit unions in diverse communities is shrinking. Losing the character and number of minority depository institutions may result in even greater challenges to reaching unbanked and underbanked populations.

Generational Shift in Consumer Preferences: Over the Strategic Plan period, today's millennial generation is a key source of potential members for many credit unions. Some analysts believe that millennials' approach to

³ U.S. Census Bureau, "An Aging Nation: The Older Population in the United States," Ortman et. al., May 2014

personal finances differs from those of previous generations in key ways and these differences will persist as they age. These analysts suggest that, for example, millennials may be less interested in ownership of big-ticket items like houses and vehicles. If true, this may undermine credit unions' current business models, which tend to be dominated by loans secured by these assets. New types of loans, new types of deposit accounts, and new types of member services may be required to meet millennials' needs. However, other analysts believe that the millennials' spending patterns reflect the relatively poor economic conditions that affected their employment and wage opportunities. They argue that, as the economy improves, millennial spending patterns may become more like previous generations. In that event, credit unions may be facing a surge in demand for loans to make big-ticket purchases.

Additionally, some analysts anticipate that millennials' familiarity with technology will make them less attached to conducting business at physical branches. The FDIC's 2015 *National Survey of Unbanked and Underbanked Households* found that roughly a third of households use a bank teller as their main banking method. This varied markedly by age group, though: about one in six households younger than 45 said their main banking method was a bank teller, while almost half of households older than 65 relied mostly on bank tellers. At the same time, less than 8 percent of households 45 or older rely primarily on mobile banking, compared to 25 percent of households between 15 and 24. If, over time, consumers conduct more of their business through electronic and mobile services, credit unions may need to find alternatives to the branch-based, in-person interactions with members that they are traditionally known for, in order to remain competitive.

Major Agency Programs

The NCUA employs a central office, an Asset Management and Assistance Center (AMAC) to liquidate credit unions and recover assets, and regional offices to perform all the tasks in the agency's major program areas and support functions.

Supervision

The supervision program contributes to the safety and soundness of the credit union system. A program priority includes identifying and resolving risk concerns such as interest rate risk, liquidity risk, credit risk, concentration risk, and operational risks including cyber-security and reputation risk. The NCUA supervises federally insured credit unions through examinations and regulatory enforcement including providing guidance through various publications, taking administrative actions and conserving or liquidating severely troubled institutions as necessary to manage risk.

Insurance

The NCUA manages the \$16 billion NCUSIF, which provides insurance to at least \$250,000 for deposits held at federally insured credit unions. The fund is capitalized by credit unions and through retained earnings. The NCUA manages the fund to the Board approved normal operating level.

Credit Union Development

Through training, partnerships and resource assistance, the NCUA fosters credit union development, particularly the expansion of services to eligible members provided by small, minority, and newly chartered and low-income designated credit unions. One source of assistance is the Community Development Revolving Loan Fund, which provides loans and technical assistance grants to credit unions serving low-income members. This support results in improved access to financial services, an opportunity for increased member savings, and improved employment opportunities in low-income communities. The NCUA charters new federal credit unions, as well as approves modifications to existing charters and fields of membership.

Consumer Financial Protection

The NCUA protects consumers' rights through effective enforcement of federal consumer financial protection laws, regulations, and requirements. The NCUA also develops and promotes financial education programs for credit unions to assist members in making smarter financial decisions.

Asset Management

The NCUA conducts credit union liquidations and performs management and recovery of assets through the Asset Management and Assistance Center (AMAC). AMAC effectively manages and disposes of assets acquired from liquidations. AMAC also assists the NCUA regional offices with reviews of large, complex loan portfolios and actual or potential bond claims. It also participates in the operational phases of conservatorships and

records reconstruction. The purpose of AMAC is to minimize credit union failure costs to the NCUSIF and credit union members and creditors.

Stakeholder Outreach

In order to clearly understand the needs of the credit union system, the NCUA seeks input from all of its stakeholders, including Congress, State Supervisory Authorities, credit union members, credit unions and their associations. Input is sought through the examination and supervision process, surveys, public webinars, working groups, rulemakings, and public and congressional dialogue. The views and input are assessed and properly considered during the developmental process. For this plan, this collective input may directly or indirectly influence the goals or objectives, the selection of measures of success, and the performance targets.

Cross-Agency Collaboration

The NCUA is involved in numerous cross-agency initiatives by collaborating with the other financial regulatory agencies through participation in several councils. Significant councils include the Financial Stability Oversight Council (FSOC), the Federal Financial Institutions Examination Council (FFIEC), the Financial and Banking Information Infrastructure Committee (FBIIC.) These councils and their many associated taskforces and working groups contribute to the success of the NCUA's mission.

Strategic Goals and Objectives

The chart below summarizes the NCUA’s strategic goals and objectives for 2018–2022. The objectives support and complement the strategic goals. Each strategic objective has performance goals with measurable indicators and targets.

Strategic Goals	Strategic Objectives
Goal 1: Ensure a safe and sound credit union system	<ul style="list-style-type: none"> 1.1 Maintain a strong Share Insurance Fund. 1.2 Provide high-quality and efficient supervision.
Goal 2: Provide a regulatory framework that is transparent, efficient and improves consumer access	<ul style="list-style-type: none"> 2.1 Deliver an effective and transparent regulatory framework. 2.2 Enforce federal consumer financial protection laws and regulations in federal credit unions. 2.3 Facilitate access to federally-insured credit union financial services.
Goal 3: Maximize organizational performance to enable mission success	<ul style="list-style-type: none"> 3.1 Attract, engage and retain a highly-skilled, diverse workforce and cultivate an inclusive environment. 3.2 Deliver an efficient organizational design supported by improved business processes and innovation. 3.3 Ensure sound corporate governance.

Strategic Goal 1

Ensure a safe and sound credit union system.

Strategic Goal Overview

The NCUA's primary function is to identify credit union system risks, determine the magnitude, and mitigate unacceptable levels through the examination and supervision program. The primary risks include interest rate risk, credit risk and operational risks, in particular cyber-security and fraud. The NCUA addresses emerging issues in order to minimize losses to the NCUSIF.

Performance Goals

The performance goals below will be pursued as a means to achieve our strategic goals and objectives. The performance goals, related measures and targets, are provided in the NCUA's Annual Performance Plan.

Strategic Objectives	
1.1 Maintain a strong Share Insurance Fund.	<ul style="list-style-type: none"> Fully and efficiently execute the requirements of the agency's examination and supervision program. Effectively manage losses to the NCUSIF.
1.2 Provide high-quality and efficient supervision.	<ul style="list-style-type: none"> Enable continuous risk analysis, identify key trends and target examinations where most needed. Effectively identify and evaluate risk in complex credit union portfolios. Improve the quality control and consistency of examinations.

Strategies

- Implement a flexible exam schedule that extends examination cycles up to 20 months; reducing the agency's presence in well-capitalized and well-managed credit unions and enabling resources to be focused towards higher risk credit unions.
- Develop a data-driven supervision model to assess and monitor risk in large and complex credit unions.
- Advance data analytics and remote monitoring capabilities to allow field staff more flexibility with completing exam procedures offsite; reducing our current footprint in credit unions.
- Study virtual examination procedures and leverage current and emerging technology to advance the examination, improve efficiency and reduce costs.

- Improve the quality of examination reports through enhanced quality review processes.
- Enhance training for specialized examiners.
- Review and update training plans to ensure examiner curriculum is current and reflects industry changes.
- Improve our capabilities to timely identify and detect fraudulent activity.
- Work with state regulators to strengthen and enhance the shared examination and supervision of federally insured, state-chartered credit unions.
- Strengthen cybersecurity through embedding knowledge and tools that will advance industry accepted practices in the credit union system.
- Study approaches to anonymize and share information with credit unions on threats and vulnerabilities to the financial sector.
- Improve internal systems and processes to ensure capabilities are in place to conduct conservatorships and liquidations of increasingly complex credit unions.
- Promptly pay members' confirmed insured shares upon involuntary liquidation of a credit union.
- Develop and implement training for credit unions on cyber threats, continuity of operations, and security issues.

External Factors

- Changes in economic conditions that cause credit unions to experience unusual financial stresses, including changes in the labor market and the interest rate environment.
- Increasing complexity of credit union products and services.
- Physical or financial damage to credit unions caused by natural hazards such as earthquakes, floods, hurricanes, droughts and cyclones.
- Changes in consumer preferences for products and services currently offered by credit unions.
- Consolidation across the financial services industry that leads to reduced services in diverse communities, greater challenges in reaching unbanked and underbanked populations.
- Increasingly sophisticated cyber-attacks that threaten consumers, credit unions, confidence in the credit union system and national economic security.
- Increasing competitive pressures from other financial service providers, including non-depository institutions and financial technology companies (fintech).
- Changes to credit union operations that affect balance sheet structure, credit risk, and concentration risk, including increasing reliance on third-party vendors.
- Changes in standards and practices adopted by other regulatory agencies that could affect credit unions.
- Changes in Federal and State laws.

Strategic Goal 2

Provide a regulatory framework that is transparent, efficient and improves consumer access.

Strategic Goal Overview

Strategic Goal 2 strives to effectively manage the balance between regulatory flexibility and responsible oversight. The NCUA's goal is to issue balanced, clear, and straightforward regulations while addressing emerging adverse trends in a timely manner. The goal also seeks to improve consumer access and ensure consumer compliance, financial protection and consumer education.

Performance Goals

The performance goals below will be pursued as a means to achieve our strategic goals and objectives. The performance goals, related measures and targets, are provided in the NCUA's Annual Performance Plan.

Strategic Objectives	
2.1 Deliver an effective and transparent regulatory framework.	<ul style="list-style-type: none">• Promulgate efficient, targeted regulation tailored to offer meaningful relief without undermining safety and soundness.• Increase awareness of regulatory activities.
2.2 Enforce federal consumer financial protection laws and regulations in federal credit unions.	<ul style="list-style-type: none">• Assess compliance with consumer lending and deposit laws and regulations.• Empower consumers with information to make independent and informed financial decisions.
2.3 Facilitate access to federally-insured credit union financial services.	<ul style="list-style-type: none">• Efficiently administer viable credit union charters and expansion requests.• Support small, low-income, minority and newly chartered credit unions.

Strategies

- Identify financial services industry risks and marketplace developments that may prompt regulatory changes.
- Increase the usability of contemporary information on MyCreditUnion.gov.
- Enhance the due process rights of credit unions that elect to appeal an administrative action by the NCUA.
- Work closely with other agencies, and standard setting boards to help ensure that the cooperative, not-for-profit attributes of the credit union community are considered in their rules, guidance, and enforcement actions.

- Identify additional opportunities for regulatory reform.
- Collaborate with other federal regulatory agencies and state regulators as appropriate to maintain a safe and sound regulatory environment.
- Enforce federal consumer financial protection laws.
- Perform fair lending examinations and offsite fair lending supervision contacts.
- Educate credit unions and consumers about federal consumer financial protection issues.
- Assist consumers in resolving disputes with credit unions and monitor consumer complaints to guide consumer compliance program development.
- Support credit unions in their efforts to offer essential products and services, including financial education programs to all eligible members.
- Promote the value of diversity and inclusive financial services in credit unions.
- Deliver effective regulations through the regulatory reform agenda.
- Provide sufficient comment periods when introducing new or revised regulations and consider public comments when finalizing regulations.
- Support the success of small credit unions through online training, grants and loans, partnership opportunities and resources.
- Issue information on new and changed regulations through multiple delivery channels.
- Engage congressional committees on priority issues.
- Enhance communication with consumers and credit unions on chartering, field of membership requests and consumer complaints.

External Factors

- Changes in economic conditions that cause credit unions to experience unusual financial stresses, including changes in the labor market and the interest rate environment.
- Changes in standards and practices adopted by other regulatory agencies that could affect credit unions.
- Changes in credit union membership growth or fields of membership.
- Changes in how the public views the benefits of credit union membership.
- Shifts in member needs associated with the changing demographics of membership.
- Credit union consolidation trends that increase the size of the typical credit union.
- Changes in the scope and complexity of products and services credit unions offer.
- Competitive pressures from other financial service providers, including non-depository institutions.
- Changes in standards and practices adopted by other regulatory agencies that could affect credit unions.
- Increased cyber-attacks against both credit unions and federal and state regulators.
- Changes in Federal and State laws.

Strategic Goal 3

Maximize organizational performance to enable mission success.

Strategic Goal Overview

The NCUA's most important resource is high quality, skilled staff. To maximize their contributions to the mission, they must be supported by efficient and effective processes, tools, and modern technology.

Performance Goals

The performance goals below will be pursued as a means to achieve our strategic goals and objectives. The performance goals, related measures and targets, are provided in the NCUA's Annual Performance Plan.

Strategic Objectives	
3.1 Attract, engage and retain a highly-skilled, diverse workforce and cultivate an inclusive environment.	<ul style="list-style-type: none">• Deliver timely and relevant training and leadership development programs for all staff.• Promote inclusive leadership that values diverse perspectives and maximizes employees' contributions.• Apply employee feedback that measures engagement to support continuous improvement of the workplace.
3.2 Deliver an efficient organizational design supported by improved business processes and innovation.	<ul style="list-style-type: none">• Implement a human capital plan to support strategic and business priorities.• Protect the NCUA staff, facilities and critical infrastructure.• Implement secure, reliable and innovative technology solutions.• Gain efficiencies through quality processes, systems, and project management.
3.3 Ensure sound corporate governance.	<ul style="list-style-type: none">• Foster an effective risk management and internal control environment.• Align the NCUA's resources to focus on executing and supporting the core mission.• Promote sound financial management and stewardship principles.

Strategies

- Develop policies and practices to minimize bias in human capital processes.
- Build agency-wide inclusion competencies, skills, and awareness.
- Develop and maintain the knowledge, skills, and abilities of the agency's workforce to consistently identify and meet emerging mission-related needs.
- Improve the quality of critical hiring decisions through the use of effective assessment tools.
- Maintain an effective plan of succession to ensure continuity of leadership throughout all levels of the organization.
- Expand diversity and inclusion curriculum and training materials, focusing on unconscious bias and inclusive leadership.
- Introduce emerging and secure technology that supports the agency's examination, data collection, and reporting efforts in a cost efficient and effective manner.
- Study the opportunity for consolidating all data management functions and governance into one office.
- Improve the records management program to fully comply with federal directives and integrate the records management function throughout the agency.
- Maintain a structured set of privacy controls to protect and ensure the proper handling of personally identifiable information.
- Implement sound business processes consistent with best practices and applicable standards.
- Promote efficient, transparent operations that support accountability, reporting, and decision making.
- Achieve favorable financial statement audit results through a robust system of internal controls.
- Promote a risk-aware culture where risk analysis is formally integrated into our decision-making process.
- Address control deficiencies and open audit recommendations.
- Modernize the NCUA's procurement program and practices.
- Promote cost-conscious buying practices and further integrate supplier diversity into the contracting process.
- Deliver exceptional quality security and safety training to improve preparedness and safeguard the NCUA staff.
- Develop and implement agile security countermeasures and emergency procedures to comply with federal standards for protecting the agency's employees, facilities and assets.

External Factors

- Changes in economic conditions that affect the availability of qualified candidates or external employment options of current agency staff.
- Changes in preferences of members of the workforce (including quality of life, travel burdens, and upward mobility) associated with a growing millennial, aging and diverse population.
- Changes in economic conditions or in credit union products and services that may require rapid adjustment of staff skills and resources.
- An unusually large number of staff retirements associated with the aging of the Baby Boomer population, without adequate transmission of institutional knowledge.
- Changes in national security conditions that affect the safety and security of the NCUA staff or facilities.
- Legislative changes.

Enterprise Risk Management

The NCUA is subject to a variety of risks that relate to its objectives, strategies, operations, reputation, and environment. To sustain success and continuity at the NCUA, an effective risk management approach requires a defined framework where specific risks, and broader organizational risks, are identified, measured and monitored by functional owners and consolidated by an independent risk management oversight function. Working collaboratively with functional owners, the risk management apparatus prioritizes and optimizes risk management and mitigation on a consistent and continuous basis to increase the NCUA's success at achieving stated strategic goals. Effective internal controls, combined with robust measurement and communication are central to effective decision making and risk optimization within the NCUA.

The NCUA established its Enterprise Risk Management (ERM) function to:

- Integrate and improve decision-making to aid in achievement of the agency's mission and strategic goals by weighing each recommendation and decision against the risk appetite levels established in this statement,
- Communicate, through the risk appetite statement, the amount of risk the agency is willing to accept in pursuit of its strategic goals and objectives, and
- Consistently evaluate risks across the NCUA through an established ERM process of identifying, assessing, prioritizing, responding to and monitoring risks and opportunities.

The NCUA ERM Council provides oversight of the agency's ERM activities including risk management prioritization and integrated decision-making. As part of the ERM function, the Risk Appetite Statement articulates the amount of risk the agency is willing to accept in pursuit of its strategic goals and objectives. It serves as the foundation for ERM at the NCUA, defining leadership's overarching risk management philosophy.

Enterprise Risk Appetite Statement

The NCUA is vigilant and has an overall judicious risk appetite. The NCUA's primary goal is to ensure the safety and soundness of the credit union system and the agency recognizes it is not desirable or practical to avoid all risk. Acceptance of some risk is often necessary to foster innovation and agility. This risk appetite will guide the NCUA's actions to achieve its strategic objectives in support of providing, through regulation and supervision, a safe and sound credit union system, which promotes confidence in the national system of cooperative credit.

This enterprise risk appetite statement is part of the NCUA's overall management approach and is supported by detailed risk appetite statements. The agency's risk appetite will help align risks with opportunities when making decisions and allocating resources to achieve the agency's strategic goals and objectives.

Risk Appetite in Practice

Risk is unavoidable and sometimes inherent in carrying out the agency's mandate. The NCUA is positioned to accept greater risks in some areas than in others; however, when consolidated, the risk appetite should be within the boundaries established for the entire agency. Cross-collaboration across programs and functions is a fundamental piece of ensuring the agency stays within its risk appetite boundaries. The NCUA will identify, assess, prioritize, respond to and monitor risks to an acceptable level.

Evaluations and Research

The NCUA uses program evaluations as an integral part of its effort to continuously improve and enhance mission performance. Both external and internal entities evaluate the NCUA's performance using a variety of tools. The principal external and internal evaluations are listed below.

Government Accountability Office (GAO) evaluations are performed as necessary. The GAO conducts program and program support related evaluations of the NCUA.

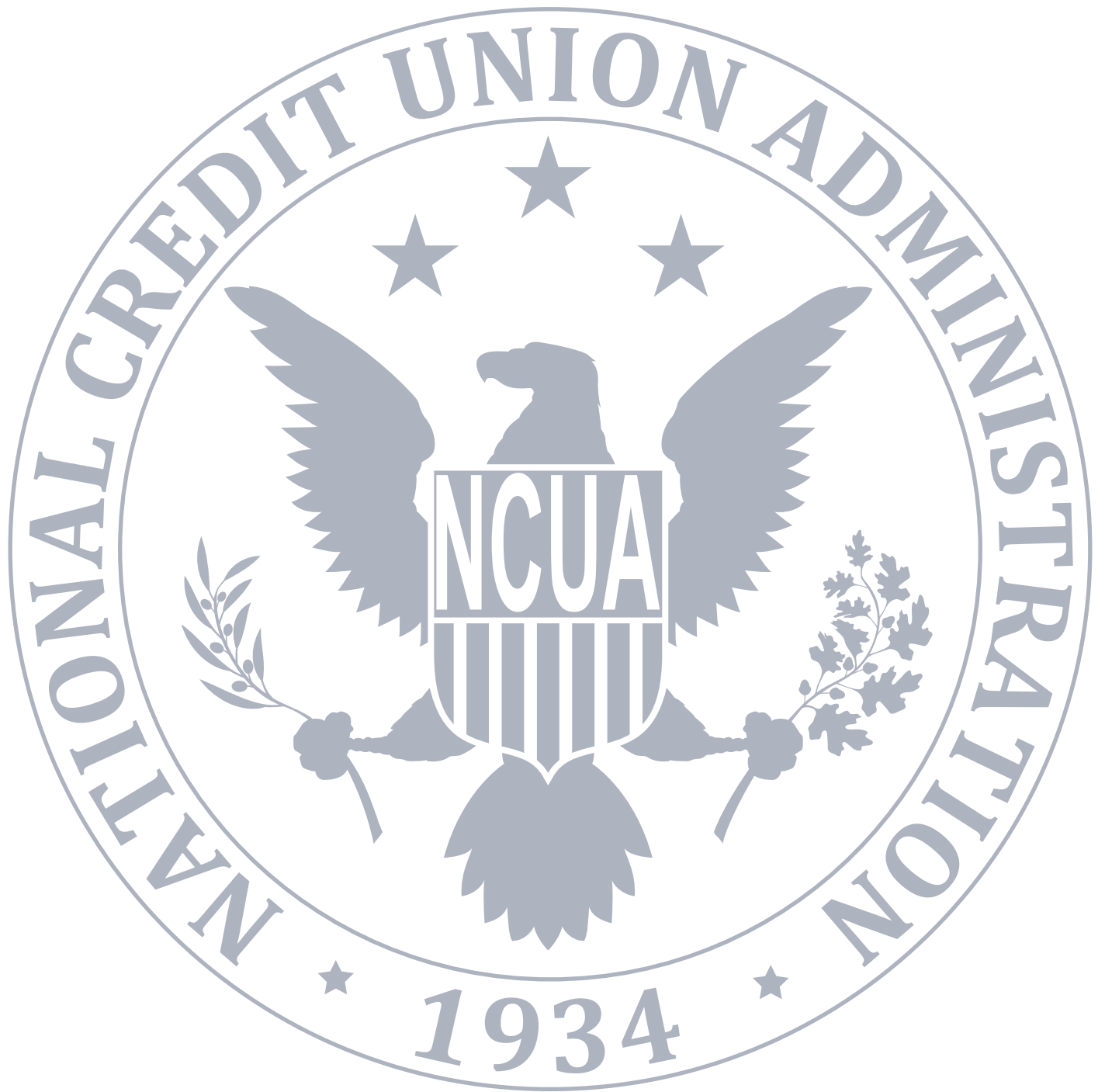
Financial audits are conducted annually by an outside audit firm contracted by the **Office of the Inspector General (OIG)**. The firm audits the NCUA Operating Fund, National Credit Union Share Insurance Fund, Temporary Corporate Credit Union Stabilization Fund, Central Liquidity Facility, and the Community Development Revolving Loan Fund.

The **Federal Information Security Modernization Act (FISMA)** of 2014 requires the ongoing evaluation of the effectiveness of NCUA's information security program. This includes the evaluation of specific IT controls that are also leveraged within the agency's financial and administrative management systems. The **Federal Managers Financial Integrity Act (FMFIA)** of 1950 requires ongoing evaluations and reporting of the adequacy of the systems of internal accounting and administrative control.

OIG evaluations and **Material Loss Reviews** are conducted throughout the year. These independent evaluations are performed in accordance with OIG procedures and include reviews of the NCUA programs and program support operations.

A federal **Employee Viewpoint Survey** is conducted annually by the Office of Personnel Management (OPM). The survey measures the opinions of the NCUA staff on a wide range of topics.

The **Office of the Chief Economist (OCE)** is responsible for enhancing the NCUA's understanding of emerging microeconomic and macroeconomic risks by producing meaningful and robust modeling and risk identification tools. Their economists and analysts compile data on the credit union system's financial performance; merger activity, changes in credit union chartering and fields of membership, as well as broader economic trends that can affect the health of credit unions.





National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314
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