2018 Annual Performance Plan

January 2018
2018 Annual Performance Plan

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Executive Summary

The National Credit Union Administration’s Annual Performance Plan, in concert with the budget, outlines the resources and strategies the NCUA will use to set priorities and improve performance.

This plan outlines how the agency will continue to effectively supervise and insure a growing and evolving credit union system. As the financial services and the credit union sector evolve, NCUA must adjust to meet the challenges and changes. For example, the NCUA is adopting new technology and analytical tools to improve the agency’s offsite monitoring capabilities. Additionally, the NCUA is recalibrating its examination approach to reflect a more stable economic environment. The agency is also revising its operations, priorities and structure to ensure objectives—aligned with our mandate prescribed in the Federal Credit Union Act—are achieved with greater efficiency, responsiveness and effectiveness.

This Annual Performance Plan strives to provide all interested parties, including NCUA employees, consumers, credit unions, other agencies, and Congress, with transparency and understanding of the NCUA’s performance goals. This plan draws a clear line from the agency’s mission to the strategic goals, strategic objectives, performance goals, performance indicators and targets.

The Annual Performance Plan includes three strategic goals supported by eight strategic objectives and 22 performance goals. The NCUA will use the performance indicators and targets in this plan to monitor progress in meeting established objectives and performance goals. This plan is guided by NCUA’s 2018–2022 Strategic Plan, which includes the following strategic goals:

1. Ensure a safe and sound credit union system;
2. Provide a regulatory framework that is transparent, efficient and improves consumer access; and

The Annual Performance Plan sets priorities and establishes performance indicators and complies with the Government Performance and Results Modernization Act of 2010 (GPRA Modernization Act) and the Office of Management and Budget’s (OMB) Circular A-11.
Mission and Values

Throughout 2018, the NCUA will implement initiatives to meet its mission to “provide, through regulation and supervision, a safe and sound credit union system which promotes confidence in the national system of cooperative credit,” and its vision of “protecting credit unions and the consumers who own them through effective supervision, regulation and insurance.”

Organizational Structure

Created by Congress, the NCUA is an independent federal agency with the unique role of insuring deposits up to the statutory maximum at all federal and most state-chartered credit unions, protecting the members who own credit unions, and regulating federally chartered credit unions. A three member, presidentially appointed Board of Directors oversees the NCUA’s operations by setting policy, approving budgets, and adopting rules.

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.¹

Through an effective examination and supervision program, the NCUA protects the safety and soundness of the credit union system by mitigating 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 up to at least $250,000 of insurance per individual depositor.

In addition to Share Insurance Fund, NCUA operates three other funds—the NCUA Operating Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund. The NCUA Operating Fund, in conjunction with the Share Insurance Fund, finances the agency’s operations. The NCUA Central Liquidity Facility is a contingent federal liquidity source, owned by its member credit unions and administered by the NCUA Board, which serves as a back-up lender to credit unions to meet unexpected needs when funds are unavailable from standard credit sources. The NCUA Community Development Revolving Loan Fund provides loans and grants to low-income designated credit unions.

Throughout the Annual Performance Plan’s period, the NCUA will rely upon its employees to perform all the tasks in NCUA’s major program areas and support functions. To perform all the tasks in the agency’s major program areas and support functions, NCUA employs staff in a central office, an Asset Management and Assistance Center (AMAC) to liquidate credit unions and recover assets, and regional offices. Reporting to its regional offices, NCUA has supervisory groups with examiners responsible for a portfolio of credit unions covering all 50 states, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands.

The examination, supervision, and insurance programs are the central focus for NCUA. These functions are the primary responsibility of the regions, the Office of National Examinations and Supervision (ONES), and the Office of Examination and Insurance (E&I). Examination field staff work in a remote environment and represent nearly two-thirds of our workforce.

¹ Credit Union data is as of September 30, 2017.
Because nearly two-thirds of the workforce does not report to a physical office on a daily basis, the NCUA is a decentralized organization. This structure requires creative methods to deliver the necessary administrative and office support to all staff. The support functions of the central offices are critical in providing the infrastructure for the success of the field program in the remote environment.

The NCUA organizational chart follows. An organizational chart and leadership description is also available on the NCUA’s website.
The Honorable J. Mark McWatters
Chairman

The Honorable Rick Metsger
Board Member

National Credit Union Administration
Organizational Chart

NCUA Board

Office of Minority & Women Inclusion

Office of Public & Congressional Affairs

Office of the Executive Director

Office of General Counsel

Office of Inspector General

Deputy Director

Office of Examination & Insurance

Ombudsman

Field Program Offices

Office of the Chief Economist

Office of the Chief Financial Officer

Office of Consumer Financial Protection

Office of National Examinations & Supervision

Region 1

Region 2

Region 3

Region 4 and the Asset Management & Assistance Center

Region 5

Office of Human Resources

Office of Credit Union Resources & Expansion

Office of Continuity & Security Management
Major Agency Programs

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 cybersecurity 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 Share Insurance Fund, which provides insurance up 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 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 Share Insurance Fund and credit union members and creditors.
Cross-Agency Priority Goals and 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), and 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.

Agency Priority Goals

OMB encourages all agencies to prioritize goals in their strategic and annual plans. An agency priority goal is a subset of the agency’s performance goals and represents the highest implementation priorities. An agency priority goal is a near-term result or achievement to accomplish within approximately 24 months. The NCUA identifies three performance goals as agency priority goals in this Annual Performance Plan.

- **Performance Goal 1.1.1**
  Fully and efficiently, execute the requirements of the agency’s examination and supervision program

- **Performance Goal 1.2.1**
  Enable continuous risk analysis, identify key trends and target examinations where most needed

- **Performance Goal 2.1.1**
  Promulgate efficient, targeted regulation tailored to offer meaningful relief without undermining safety and soundness
Summary of Strategic Goals and Objectives

The chart below summarizes NCUA’s 2018–2022 strategic goals and objectives. The objectives support and complement the strategic goals. Each strategic objective has performance goals with measurable indicators and targets. Performance indicators use available data to provide a way to evaluate whether the NCUA is meeting the goals and objectives in the proposed period. Targets serve to establish a level of performance the NCUA strives to achieve. The NCUA reviews performance indicators and targets to assess the effectiveness of programs and takes into account how risks and opportunities affect our ability to achieve strategic goals and objectives. This assessment allows the agency to make adjustments to improve performance throughout each year and the strategic plan timeframe.

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<thead>
<tr>
<th>Strategic Goals</th>
<th>Strategic Objectives</th>
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</thead>
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<tr>
<td>Goal 1: Ensure a safe and sound credit union system</td>
<td>1.1 Maintain a strong Share Insurance Fund</td>
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<tr>
<td></td>
<td>1.2 Provide high-quality and efficient supervision</td>
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<tr>
<td>Goal 2: Provide a regulatory framework that is transparent, efficient and improves consumer access</td>
<td>2.1 Deliver an effective and transparent regulatory framework</td>
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<tr>
<td></td>
<td>2.2 Enforce federal consumer financial protection laws and regulations in federal credit unions</td>
</tr>
<tr>
<td></td>
<td>2.3 Facilitate access to federally-insured credit union financial services</td>
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<tr>
<td>Goal 3: Maximize organizational performance to enable mission success</td>
<td>3.1 Attract, engage and retain a highly skilled, diverse workforce and cultivate an inclusive environment</td>
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<td></td>
<td>3.2 Deliver an efficient organizational design supported by improved business processes and innovation</td>
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<td></td>
<td>3.3 Ensure sound corporate governance</td>
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Strategic Goals, Objectives and Performance Goals

Strategic Goal 1: Ensure a Safe and Sound Credit Union System

<table>
<thead>
<tr>
<th>Strategic Objectives</th>
<th>Performance Goals</th>
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</thead>
<tbody>
<tr>
<td>1.1 Maintain a strong Share Insurance Fund</td>
<td>Fully and efficiently, execute the requirements of the agency’s examination and supervision program</td>
</tr>
<tr>
<td></td>
<td>Effectively manage losses to the Share Insurance Fund</td>
</tr>
<tr>
<td>1.2 Provide high-quality and efficient supervision</td>
<td>Enable continuous risk analysis, identify key trends and target examinations where most needed</td>
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<tr>
<td></td>
<td>Effectively identify and evaluate risk in complex credit union portfolios</td>
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<tr>
<td></td>
<td>Improve the quality control and consistency of examinations</td>
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</table>

The Federal Credit Union Act assigns statutory responsibility of the Share Insurance Fund and oversight of the credit union system to the NCUA. A stable credit union system is the foundation enabling credit unions to provide services to their members and introduce new services or products to meet member needs. The NCUA's primary function is to identify and assess credit union system risks, threats and vulnerabilities, determine the magnitude, and mitigate unacceptable levels through the examination and supervision program. Strategic Goal 1 objectives focus on minimizing unacceptable levels of current and future risk as early as possible and encouraging stability within the credit union system.

To maintain safety and soundness for credit unions, the NCUA monitors credit union performance, conducts credit union examinations, enforces regulations, and provides guidance to assist credit unions in understanding regulations and emerging risks. Onsite examinations and offsite supervision, and the collection of credit union Call Report data, provide information that helps to identify risks to the system and high-risk credit unions. Active risk management and early detection of problems is critical to preserving the system. Risks to the credit union system are typically addressed through the modernization of regulations, increased supervisory guidance, and administrative actions. Examiners also use administrative actions as necessary to mitigate risks before they escalate to costly problems for the system.

As the NCUA continues to evaluate and enhance the quality of the examination and supervision program, the agency will strengthen its forward-looking approach to supervising the industry and the exam program framework by reviewing the following:

1) The integration of data and modeling capabilities;
2) Workforce management needs;
3) Efficiency and continuity of quality control; and
4) Technology and techniques needed to improve the examination platform and make the exam process more efficient and effective.
The NCUA’s asset management program, administered by AMAC, ensures members are paid promptly after any necessary liquidation, and limits losses to the Share Insurance Fund and other creditors through effective liquidation of failed credit union assets. AMAC staff also provide expertise by conducting examinations of large complex loan portfolios and participating in operational phases of conservatorships.

These ongoing efforts will help the NCUA maintain a safe and sound credit union system.

**Strategic Objective 1.1**

*Maintain a Strong Share Insurance Fund*

In September 2017, the NCUA Board voted to close the Temporary Corporate Credit Union Stabilization Fund and to distribute its remaining assets to the Share Insurance Fund, as prescribed in the Federal Credit Union Act.

The Stabilization Fund was a vital tool for the NCUA to manage the losses associated with the collapse of five corporate credit unions during the financial crisis nearly a decade ago. With improvements in the value of legacy assets these corporate credit unions held, future assessments on credit unions will no longer be necessary. Further, with full repayment of Stabilization Fund borrowings from the U.S. Department of the Treasury in 2016, the Stabilization Fund’s purpose and utility ended.

In addition to closing the Stabilization Fund, the NCUA increased the normal operating level from 1.30 to 1.39 percent. Prior to the Stabilization Fund’s closure, the Share Insurance Fund’s equity ratio had declined for several quarters due to increased share growth, insurance related losses, and declining investment income from low-interest rates. The addition of Stabilization Fund assets and the increased normal operating level allows the NCUA carefully manage the potential risks associated with introducing the legacy assets into the Share Insurance Fund’s portfolio.

NCUA will maintain a strong Share Insurance Fund using the following means, strategies and initiatives:

- Produce robust modeling and risk identification tools that provide economic information on emerging microeconomic and macroeconomic risks;
- Ensure prompt and efficient resolution actions when appropriate;
- Effectively manage and recover assets in credit union liquidations;
- Improve the examination and supervision program to further align our resources further with risk;
- Enhance existing and develop additional risk management tools and reports to support the supervision program; and
- Provide staff training in identifying emerging risk areas to enhance examination effectiveness.

**Performance Goal 1.1.1**

Fully and efficiently, execute the requirements of the agency’s examination and supervision program
Indicators

1. Maintain the corporate credit union leverage ratio above five percent, annually
2. Resolve troubled credit unions within an average of 24 months of initial downgrade
3. At least 98 percent of the total number of credit unions are well capitalized according to Prompt Corrective Action

Performance Goal 1.1.2

Effectively manage losses to the Share Insurance Fund

Indicators

1. The equity ratio is the ratio of Share Insurance Fund equity to the amount of insured shares. The normal operating level is maintained between 1.33 percent and 1.39 percent
2. Following a credit union failure, within 3-business days, payments are issued to members for the balance of their verified insured funds or members have access to their funds.

Strategic Objective 1.2

Provide High-quality and Efficient Supervision

The NCUA works continuously to improve its supervision program and to operate more efficiently. In 2017, the NCUA moved to an extended examination cycle for well-managed, low-risk federal credit unions with assets of less than $1 billion. Additionally, NCUA examiners perform streamlined examination procedures for financially and operationally sound credit unions with assets less than $50 million while the agency’s ONES office is responsible for supervision and oversight of the largest and most complex credit unions. In 2018, the NCUA will pilot a review program for examination and supervision reports issued by examiners. The review program will provide increased assurance that the agency addresses all material issues effectively and consistently. Select regions will participate in the 2018 pilot, with full implementation planned for the new examination platform.

To keep pace with the growing complexities of the credit union system, the NCUA is investing in a number of critical technology upgrades and replacements. The NCUA’s multi-year Enterprise Solutions Modernization Program includes replacement of the primary program exam tool used to manage credit union supervision and examination functions. This system is a critical and primary information source for documenting the industry’s health, safety and soundness.

ONES will use a complete securities investment portfolio management system to monitor regulatory compliance, interest rate and credit risk in corporate credit unions. Additionally, the NCUA will implement an asset and liabilities management application to enhance internal analytics and stress testing. This initiative will allow the NCUA to reduce contractor support and deliver a complete solution that will focus on modernizing the NCUA’s supervision tools, identifying the material risks, tailoring resources to the risks and evaluating the feasibility of a more virtual exam process.

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2 As defined in Part 701.14 of NCUA’s Rules and Regulations.
The NCUA's Office of the Chief Economist (OCE) provides economic information and enhances the agency’s understanding of emerging microeconomic and macroeconomic risks. OCE also delivers insight to regional and industry specific economics and potential risk impacts. Future risks to credit unions include escalating cybersecurity threats, interest rate and liquidity challenges, real estate and member business loan concentrations, and rapid changes in technology. Each risk requires continual monitoring and, where prudent, risk-mitigation strategies to protect the overall credit union system from preventable losses or failures.

The NCUA will provide high quality and efficient supervision using the following means, strategies and initiatives:

- Effectively and efficiently manage the examination program by ensuring the following:
  - Allocated resources to credit unions and credit union activities posing the greatest risk;
  - Follow-up with CAMEL 3, 4, and 5 credit unions is effective regulatory violations and safety and soundness concerns are promptly resolved; and
  - Take prompt and effective supervisory and resolution actions, if warranted.

- Provide the credit union system and examiners with appropriate training and written guidance on significant regulatory changes at least 30 days prior to the effective date of the regulatory change;

- Institutionalize cybersecurity training and refine examination programs;

- Develop a standardized exam report pre-review and distribution system;

- Continue the field staffing reductions initiated in 2017 as part of the Examinations Flexibility Initiative;

- Advance specialization in areas such as capital markets, business lending, investments, information technology, cybersecurity, economics, statistics, and other relevant fields;

- Develop enhanced surveillance and data reports to identify critical correlations, risk and current and future data elements;

- Coordinate cyber threat intelligence and counterintelligence products with the Financial and Banking Information Infrastructure Committee, members of law enforcement, homeland security, and the intelligence community agencies to enable dissemination of this information to credit unions;

- Enhance fraud and anti-money laundering programs;

- Develop enhanced governance structure and key performance indicators for examination program risk monitoring and accountability;

- Evaluate emerging risks through qualitative and quantitative analysis;

- Work closely with the state supervisory authorities to ensure necessary action to mitigate risk within the state credit union program;

- Add two temporary employees to the Office of Examination and Insurance to research offsite examination procedures;
• Add an additional attorney in the General Counsel’s Enforcement and Litigation Division to support supervisory offices formal enforcement actions;

• Train examiners to ensure effective credit union supervision and examination;

• Coordinate with the U.S. Department of the Treasury and the Federal Emergency Management Agency to monitor the operational status of the credit union system during disasters; and

• Conduct at least one agency-wide continuity of operations exercise or training event on the use of the Incident Management System to improve operational response during emergencies.

Performance Goal 1.2.1

Enable continuous risk analysis, identify key trends and target examinations where most needed

Indicators

1. Acquire the full range of technical resources, services, and products for replacing NCUA's legacy AIRES solution through a competitive contract competition

2. Issue a request for proposals to secure the technological infrastructure for NCUA’s data driven supervision program for corporate credit unions.

3. Publish the Quarterly U.S Map Reviews on the NCUA website to assist with identifying regional and national risks

Performance Goal 1.2.2

Effectively identify and evaluate risk in complex credit union portfolios

Indicators

1. Review and assess all capital plans and stress tests for credit unions with assets greater than $10 billion within timelines outlined in regulation

2. Implement a collection tool and supervisory process for cybersecurity reviews

Performance Goal 1.2.3

Improve the quality control and consistency of examinations

Indicators

1. Improve eight examiner-training courses with enhanced specialist curriculum

2. Pilot an enhanced review program for examination and supervision reports issued by examiners
## Strategic Goal 1: Summary Performance Indicators and Targets

<table>
<thead>
<tr>
<th>Goal</th>
<th>Indicator</th>
<th>2015 Actual</th>
<th>2016 Actual</th>
<th>2017 Actual</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1.1</td>
<td>Maintain the average corporate credit union leverage ratio above five percent, annually</td>
<td>7.61%</td>
<td>5.6%</td>
<td>6.25%</td>
<td>Greater than 5 %</td>
</tr>
<tr>
<td>1.1.1</td>
<td>Resolve troubled credit unions within an average of 24 months of initial downgrade</td>
<td>19.0</td>
<td>28.7</td>
<td>21.1</td>
<td>24</td>
</tr>
<tr>
<td>1.1.1</td>
<td>At least 98 percent of the total number of credit unions are well capitalized according to Prompt Corrective Action</td>
<td>97.9%</td>
<td>97.8%</td>
<td>97.6%</td>
<td>98%</td>
</tr>
<tr>
<td>1.1.2</td>
<td>The equity ratio is the ratio of Share Insurance Fund equity to the amount of insured shares. The normal operating level is maintained between 1.33 percent and 1.39 percent</td>
<td>1.26%</td>
<td>1.24%</td>
<td>Data Unavailable at time of publication</td>
<td>Between 1.33% and 1.39%</td>
</tr>
<tr>
<td>1.1.2</td>
<td>Following a credit union failure, within 3-business days, payments are issued to members for the balance of their verified insured funds or members have access to their funds.</td>
<td>1.5</td>
<td>3.2</td>
<td>0³</td>
<td>Average 3 days</td>
</tr>
<tr>
<td>1.2.1</td>
<td>Acquire the full range of technical resources, services, and products for replacing NCUA’s legacy AIRES solution through a competitive contract competition</td>
<td>N/A</td>
<td>Delayed</td>
<td>Delayed</td>
<td>Second Quarter 2018</td>
</tr>
<tr>
<td>1.2.1</td>
<td>Issue a request for proposals to secure the technological infrastructure for NCUA’s data driven supervision program for corporate credit unions.</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Fourth Quarter 2018</td>
</tr>
<tr>
<td>1.2.1</td>
<td>Publish Quarterly U.S Map Reviews on the NCUA website to assist with identifying regional and national risks</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>

³ All 2017 liquidations had a purchase and assumption agreement and members had access to their funds immediately.
<table>
<thead>
<tr>
<th>Goal</th>
<th>Indicator</th>
<th>2015 Actual</th>
<th>2016 Actual</th>
<th>2017 Actual</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.2.2</td>
<td>Review and assess all capital plans and stress tests for credit unions with assets greater than $10 billion within timelines outlined in regulation</td>
<td>Achieved</td>
<td>Achieved</td>
<td>Achieved</td>
<td>Achieve</td>
</tr>
<tr>
<td></td>
<td>Implement a collection tool and supervisory process for cybersecurity reviews</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Fourth Quarter 2018</td>
</tr>
<tr>
<td>1.2.3</td>
<td>Improve eight examiner-training courses with enhanced specialist curriculum</td>
<td>N/A</td>
<td>N/A</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Pilot an enhanced review program for examination and supervision reports issued by examiners</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Third Quarter 2018</td>
</tr>
</tbody>
</table>
Strategic Goal 2: Provide a Regulatory Framework that is Transparent, Efficient and Improves Consumer Access

<table>
<thead>
<tr>
<th>Strategic Objectives</th>
<th>Performance Goals</th>
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<tbody>
<tr>
<td>2.1 Deliver an effective and transparent regulatory framework</td>
<td>Promulgate efficient, targeted regulation tailored to offer meaningful relief without undermining safety and soundness</td>
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<tr>
<td></td>
<td>Increase awareness of regulatory activities</td>
</tr>
<tr>
<td>2.2 Enforce federal consumer financial protection laws and regulations in federal credit unions</td>
<td>Assess compliance with consumer lending and deposit laws and regulations</td>
</tr>
<tr>
<td></td>
<td>Empower consumers with information to make independent and informed financial decisions</td>
</tr>
<tr>
<td>2.3 Facilitate access to federally insured credit union financial services</td>
<td>Efficiently administer viable credit union charters and expansion requests</td>
</tr>
<tr>
<td></td>
<td>Support small, low-income, minority and newly chartered credit unions</td>
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Strategic Goal 2 strives to manage the balance between regulatory flexibility and responsible oversight effectively. 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.

The NCUA has statutory responsibility for a wide variety of regulations that protect the credit union system, members, and the Share Insurance Fund. The NCUA Board and program staff continue to create an environment that allows credit unions to serve their members better while maintaining safety and soundness of the system.

It is the NCUA's objective to protect consumer rights and member deposits by establishing and enforcing appropriate regulations, enhancing consumer confidence, and providing financial literacy and education. The NCUA also strives to promote access to credit union services for consumers of all backgrounds and income levels. To support this endeavor, NCUA works to foster the preservation and growth of credit unions.

The following objectives, performance goals and strategies support the NCUA's goal of providing a regulatory framework that is transparent, efficient and improves consumer access.

**Strategic Objective 2.1**

*Deliver an Effective and Transparent Regulatory Framework*

In 2017, the NCUA established a Regulatory Reform Task Force to oversee the implementation of the agency’s regulatory reform agenda. The Task Force undertook an exhaustive review of the NCUA's regulations and developed a comprehensive agenda for reviewing and revising NCUA's Regulations. This initiative complements the NCUA's efforts related to the Economic Growth and Regulatory Paperwork Reduction Act and the rolling
The NCUA has undertaken a three-year regulatory review since 1987. The report outlines recommendations for the amendment or repeal of regulatory requirements that the Task Force believes are outdated, ineffective, or excessively burdensome. The agency has already taken steps towards reform in several areas, including field of membership, alternative capital, asset securitization, and appeals to the NCUA’s supervisory review committee.

The NCUA improves the effectiveness and transparency of its regulations by increasing communications with credit unions and examiners, as well as the means used to communicate, to ensure greater transparency and fair application of these regulations. New or revised rules and regulations are generally issued for a minimum of 30 days for public comment; with most issued for 60 days of public comment. The NCUA evaluates and considers comments received from stakeholders to understand the impact regulations may have on credit union operations.

The NCUA participates on various councils and interagency groups responsible for regulating the financial system. Participation in interagency groups better prepares NCUA and the credit union system to address emerging risks. Frequently, revised regulations and interagency guidance on current risk issues are developed by task forces and working groups, and issued to all insured financial institutions.

The NCUA will deliver an effective and transparent regulatory framework using the following means, strategies and initiatives:

- Participate in development of financial system regulations and guidance as applicable to credit unions;
- Participate in interagency meetings including FSOC, FFIEC Council, task forces, subcommittees and working groups. Actively participate in the development process on all applicable guidance. Develop and issue guidance through various program offices;
- Engage the Chair and Ranking Members of primary committees and subcommittees of jurisdiction on the NCUA’s legislative priorities, and conduct follow-up meetings with key congressional staff as warranted;
- Publish *The NCUA Report*, the agency’s quarterly flagship publication on rules, activities and priorities;
- Use available technologies such as webinars, websites, and social media to increase credit union access to regulatory information; and
- Maintain open communications between examiners and credit unions to help improve the understanding and implementation of regulations and NCUA initiatives.

**Performance Goal 2.1.1**

Promulgate efficient, targeted regulation tailored to offer meaningful relief without undermining safety and soundness.
Indicator

1. Implement tier1 amendments as recommended by the Regulatory Reform Task Force

Performance Goal 2.1.2

Increase awareness of regulatory activities

Indicator

1. Communicate updates on rule changes and regulatory activities to an increased digital audience through media coverage, share voice, online and social media engagement

Strategic Objective 2.2

Enforce Federal Consumer Financial Protection Laws and Regulations in Federal Credit Unions

NCUA’s assessment of compliance risk encompasses all of the federal consumer financial protection laws and regulations NCUA enforces, as well as other relevant laws and regulations that govern the operation of credit unions, such as the Bank Secrecy Act, the Flood Disaster Protection Act, the Secure and Fair Enforcement for Mortgage Licensing Act and, more broadly, NCUA’s regulations. The NCUA’s fair lending examination program is designed to ensure credit unions comply with the rules and regulations established to protect consumers. As part of the FFIEC Taskforce on Consumer Compliance and the Financial Literacy Education Commission, the NCUA also contributes to developing well-balanced regulations and policy statements related to consumer financial protection and financial literacy.

The NCUA will enforce federal consumer financial protection laws and regulations using the following means, strategies, and initiatives:

- Provide timely guidance to the credit union system and examiners related to changes in rules and regulations established to protect consumers;
- Collaborate with the other federal regulatory agencies as appropriate to protect consumers using credit union products and services;
- Maintain the consumer compliance regulatory resource page on Ncua.gov;
- Perform fair lending examinations and offsite fair lending supervision contacts;
- Complete quality control reviews on all fair lending examinations;
- Use offsite modeling to assist with the selection of fair lending examinations and offsite fair lending supervision contacts;
- Train field examination staff on federal consumer financial protection compliance regulations and their effective implementation;
- Actively participate in FFIEC working groups and in Financial Literacy Education Commission meetings;
• Promote access to financial services through its consumer education focused website MyCreditUnion.gov. This site, available in both English and Spanish, provides a one-stop financial information toolbox for consumers of all ages;

• Scope federal credit union examinations to include a review of consumer complaint data;

• Monitor consumer complaints and fair lending examination and offsite supervision contacts results to guide consumer compliance program development;

• Use available delivery channels to promote consumer financial protection education;

• Engage with the credit union industry about consumer financial protection compliance matters and the use of NCUA’s financial literacy tools; and

• Refer fair lending violations to the Department of Justice, as required.

Performance Goal 2.2.1

Assess compliance with consumer lending and deposit laws and regulations

Indicators

1. Complete 25 fair lending examinations, annually
2. Complete 40 offsite fair lending supervision contacts, annually
3. Conduct quarterly reviews of top ten consumer complaints to ensure existing and planned education programs align with complaint trends

Performance Goal 2.2.2

Empower consumers with information to make independent and informed financial decisions

Indicators

1. Produce events, videos, or materials related to consumer financial protection.
2. Increase the number of visitors to MyCreditUnion.gov
3. Conduct annual webinar with the credit union industry on consumer financial protection law matters

Strategic Objective 2.3

Facilitate Access to Federally Insured Credit Union Financial Services

In 2018, the NCUA created the Office of Credit Union Resources and Expansion. CURE’s primary mission is to assist credit unions through all the various stages of expansion and strategic development. The CURE office is comprised of three consumer access divisions to help credit unions grow. It has one operations unit that will develop online training, manage our minority depository preservation program, and administer our grants and loans program, the Community Development Financial Institutions (CDFI) certification streamlined application, as well as other initiatives. The consumer access divisions will provide support to any credit union, including low-income and minority credit unions, looking for assistance with chartering, charter conversions,
by-law amendments, field-of-membership expansions, and navigating the low-income designation process. Our access coordinators will work with credit unions as they encounter challenges in completing required information, such as budgets, financial projections, and marketing plans. Access coordinators will also match a credit union’s needs with the NCUA’s available resources that align with the credit union’s growth strategy.

CURE is also 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.

The NCUA will facilitate access to federally insured credit union financial services using the following means, strategies, and initiatives:

- Review credit union compliance with their community charter business and marketing plan;
- Encourage greater use of the Community Development Revolving Loan Fund and the CDFI certification to bolster services to low-income members;
- Enhance education and outreach services to credit union boards and management;
- Foster partnerships with organizations that offer programs focused on meeting the needs of the underserved community;
- Promote CURE programs to assist credit unions with providing access to financial services;
- Regularly update and expand the content of the NCUA’s consumer website;
- Release all consumer financial protection videos with Spanish subtitles;
- Structure the CDRLF to emphasize credit union outreach and financial services to low-income communities;
- Follow-up with federal credit unions on the implementation of their business and marketing plan every year for the first three years after receiving a new or expanded community charter;
- Communicate strategies to address critical risk issues, emerging technologies and related threats to NCUA staff and the credit union system;
- Implement a learning management system that offers an organized, user-friendly method for credit unions to access offsite training and resource materials, take tests and earn certificates; and
- Encourage resolution of failed credit unions to include member share assumption by another federally insured credit union.

**Performance Goal 2.3.1**

Efficiently administer viable credit union charters and expansion requests

**Indicators**

1. Make a determination on completed field-of-membership expansion applications within an average of 60 days
2. Modernize the Field of Membership Internet Application processing system to provide improved
communications on the status of pending applications

**Performance Goal 2.3.2**

Support small, low-income, minority and newly chartered credit unions

**Indicators**

1. Notify credit unions newly qualifying for low-income status of their eligibility, semi-annually
2. Award funds to 40 percent of the minority depository institutions applying for grants
3. Preserve the number of CDFI-certified credit unions to at least 28 percent of the total number of CDFIs
4. Increase the number of registered users of the Learning Management Service training tool by 25 percent
<table>
<thead>
<tr>
<th>Goal</th>
<th>Indicator</th>
<th>2015 Actual</th>
<th>2016 Actual</th>
<th>2017 Actual</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1.1</td>
<td>Implement tier1 amendments as recommended by the Regulatory Reform Task Force</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Fourth Quarter 2018</td>
</tr>
<tr>
<td>2.1.2</td>
<td>Communicate updates on rule changes and regulatory activities to an increased digital audience through media coverage, share voice, online and social media engagement</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Establish Baseline</td>
</tr>
<tr>
<td>2.2.1</td>
<td>Complete 25 fair lending examinations, annually</td>
<td>25</td>
<td>24</td>
<td>26</td>
<td>Greater than or Equal to 25</td>
</tr>
<tr>
<td></td>
<td>Complete 40 offsite fair lending supervision contacts, annually</td>
<td>50</td>
<td>50</td>
<td>49</td>
<td>Greater than or Equal to 40</td>
</tr>
<tr>
<td></td>
<td>Conduct quarterly reviews of top 10 consumer complaints to ensure existing and planned education programs align with complaint trends</td>
<td>N/A</td>
<td>Achieved</td>
<td>Achieved</td>
<td>Achieve</td>
</tr>
<tr>
<td>2.2.2</td>
<td>Produce events, videos, or materials related to consumer financial protection</td>
<td>7</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Increase the number of visitors to MyCreditUnion.gov</td>
<td>742,613</td>
<td>829,064</td>
<td>753,588</td>
<td>800,000</td>
</tr>
<tr>
<td></td>
<td>Conduct annual webinar with the credit union industry on consumer financial protection law matters</td>
<td>Achieved</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>2.3.1</td>
<td>Make a determination on completed field-of-membership expansion applications within an average of 60 days</td>
<td>42 days</td>
<td>40 days</td>
<td>54</td>
<td>Average 60 Days</td>
</tr>
<tr>
<td></td>
<td>Modernize the Field of Membership Internet Application processing system to provide improved communications on the status of pending applications</td>
<td>N/A</td>
<td>Delayed</td>
<td>Delayed</td>
<td>Third Quarter 2018</td>
</tr>
<tr>
<td>Goal</td>
<td>Indicator</td>
<td>2015 Actual</td>
<td>2016 Actual</td>
<td>2017 Actual</td>
<td>Target</td>
</tr>
<tr>
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<td>---------------------------------------------------------------------------</td>
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</tr>
<tr>
<td>2.3.2</td>
<td>Notify credit unions newly qualifying for low-income status of their eligibility, semi-annually</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Award funds to 40 percent of the minority depository institutions applying for grants</td>
<td>72%</td>
<td>40%</td>
<td>69%</td>
<td>40%</td>
</tr>
<tr>
<td></td>
<td>Preserve the number of CDFI-certified credit unions to at least 28 percent of the total number of CDFIs</td>
<td>N/A</td>
<td>27%</td>
<td>28%</td>
<td>28%</td>
</tr>
<tr>
<td></td>
<td>Increase the number of registered users of the Learning Management Service training tool by 25 percent</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>25%</td>
</tr>
</tbody>
</table>
Strategic Goal 3: Maximize Organizational Performance to Enable Mission Success

<table>
<thead>
<tr>
<th>Strategic Objectives</th>
<th>Performance Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1 Attract, engage and retain a highly skilled, diverse workforce and cultivate an inclusive environment</td>
<td>Deliver timely and relevant training and leadership development programs for all staff</td>
</tr>
<tr>
<td></td>
<td>Promote inclusive leadership that values diverse perspectives and maximizes employees’ contributions</td>
</tr>
<tr>
<td></td>
<td>Apply employee feedback that measures engagement to support continuous improvement of the workplace</td>
</tr>
<tr>
<td>3.2 Deliver an efficient organizational design supported by improved business processes and innovation</td>
<td>Implement a human capital plan to support strategic and business priorities</td>
</tr>
<tr>
<td></td>
<td>Protect NCUA staff, facilities and critical infrastructure</td>
</tr>
<tr>
<td></td>
<td>Implement secure, reliable and innovative technology solutions</td>
</tr>
<tr>
<td></td>
<td>Gain efficiencies through quality processes, systems, and project management</td>
</tr>
<tr>
<td>3.3 Ensure sound corporate governance</td>
<td>Foster an effective risk management and internal control environment</td>
</tr>
<tr>
<td></td>
<td>Align NCUA’s resources to focus on executing and supporting the core mission</td>
</tr>
<tr>
<td></td>
<td>Promote sound financial management and stewardship principles</td>
</tr>
</tbody>
</table>

Goal 3 is inherently collaborative, and primarily encompasses key management areas within the NCUA: human capital, security, information technology resources, finance, and employee engagement. The goal emphasizes staff effectiveness through hiring, training, diversity, and career development. It also focuses on reliable, innovative technology and business processes, strong security programs and financial stewardship.

Strategic Objective 3.1

Attract, Engage and Retain a Highly Skilled, Diverse Workforce and Cultivate an Inclusive Environment

Developing a well-diversified and highly qualified workforce begins during recruitment. The NCUA is committed to filling vacancies timely with the best-qualified applicants available. The NCUA incorporates the principles of diversity as one of its core values. These principles serve as the foundation for building an inclusive environment where the talents of all individuals are utilized fully. When applied effectively, these principles create a workforce where employees not only succeed, but also are provided the opportunity to reach their fullest potential. The NCUA has 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 diversity and inclusion related goals are met.

To supervise federally insured credit unions properly, staff must be trained to have the requisite skills and
abilities to identify and mitigate risk. Providing ongoing training in identified emerging risk areas is necessary to maintain an effective examination process. The NCUA also holds webinars and produces videos as necessary to highlight regulatory changes, and provide training on required examination processes. In 2018, NCUA will update its core training technology to accommodate the increase in courses being deployed and the growing need for users to have mobile access to training content. The NCUA will also provide more online learning options through a combination of in-house and vendor-supported initiatives. By utilizing a new virtual training delivery platform, a variety of in-house training can be offered with different delivery modes that include interactive web-based training, micro-learning and virtual instructor-led training.

The NCUA will attract, engage and retain a highly skilled, diverse workforce and cultivate an inclusive environment through the following means, strategies and initiatives:

- Provide training on a timely basis to help staff understand emerging risk areas and mitigation strategies;
- Incorporate staff feedback to improve future training;
- Develop and redesign several core training classes for examiners and training plans for subject matter examiners;
- Provide executive coaching to NCUA leadership;
- Offer leadership development programs annually and track the success of graduates from the leadership programs into leadership positions;
- Cultivate talent by providing training, mentoring, detail assignments, and other leadership development opportunities;
- Review leadership development programs to enhance employee engagement and support succession planning;
- Provide diversity training to all NCUA employees;
- Publish advertisements that target diverse communities;
- Improve the NCUA’s ratio of employees with targeted disabilities;
- Address and eliminate barriers to equal employment opportunity where low participation exists;
- Plan for succession to determine knowledge, skills, and abilities necessary to fill critical staff positions;
- Evaluate the results of the Employee Viewpoint Survey and implement changes as necessary to address lower scoring areas;
- Offer webinars, teleconferences, and timely emails to communicate with staff;
- Send regulatory and policy action briefings to staff prior to external release;
- Publish the Inside NCUA Weekly newsletter to keep staff apprised of changes and issues;
- Actively monitor and promptly respond to Ask NCUA questions from staff; and
- Foster a culture of labor-management collaboration at all levels of the organization.
Performance Goal 3.1.1
Deliver timely and relevant training and leadership development programs for all staff

Indicator
1. Obtain at least an 88 percent average satisfaction rating in training class evaluations

Performance Goal 3.1.2
Promote inclusive leadership that values diverse perspectives and maximizes employees’ contributions

Indicators
1. Improve NCUA’s score for the Partnership for Public Service's Support for Diversity Indicator (Employee Viewpoint Survey Questions 34, 45, and 55) by one percentage point. These questions measure the extent to which employees believe that actions and policies of leadership and management promote and respect diversity
2. Improve NCUA's score for OPM's Inclusion Quotient by one percentage point. The Inclusion Quotient identifies behaviors that help create an inclusive environment

Performance Goal 3.1.3
Apply employee feedback that measures engagement to support continuous improvement of the workplace

Indicators
1. Improve NCUA’s Federal Employee Viewpoint Survey Employee Engagement Index by 2 percentage points
2. Conduct post-program reviews of management and executive development programs in coordination with oversight committees and participant supervisors at the conclusion of each program

Strategic Objective 3.2

Deliver an Efficient Organizational Design Supported by Improved Business Processes and Innovation

On July 20, 2017, the Board approved a series of operational actions to improve the NCUA's efficiency and effectiveness, and to focus on core mission responsibilities. The NCUA's reform plan positions the agency to meet the ongoing changes in the industry it regulates and insures.

The U.S. financial sector is subject to continuing advancements and emerging risks, which necessitate changes in the way the NCUA conducts business. Advancements in the type and quantity of data available also demand a fresh way of thinking about our business model. At the same time, the continuing reality of smaller credit unions merging while remaining credit unions grow in size and complexity requires strategic, nimble and innovative ways to carry out our responsibilities as established in the Federal Credit Union Act. The primary actions approved by the Board include those that accomplish the following:
• Eliminate, consolidate and streamline offices with similar or overlapping functions;
• Restructure offices to improve the efficiency within the existing responsibilities;
• Enhance certain key functions necessary to ensure the NCUA’s compliance with governing laws; and
• Position the NCUA to meet the future needs of the evolving U.S. financial sector.

The reform plan positions the NCUA to meet ongoing and emerging challenges by reprioritizing resources to more impactful, mission-oriented initiatives. Improved operational efficiencies and refocusing on core mission responsibilities enables the NCUA to invest in critical skill areas to address changes in the industry and meet compliance requirements. Focus areas include ensuring (1) the agency’s resources support strategic and business priorities, (2) the NCUA staff, facilities and infrastructure are well protected, (3) technology solutions are secure and reliable; and (4) improvements are made to our processes, systems and project management.

NCUA’s employees are its most valuable asset. The NCUA’s Talent Management Council provides strategic direction for all facets of the agency’s human capital management, including the availability and level of resources with the knowledge, skills and abilities required to deliver the NCUA’s mandate and the agency’s ability to obtain and manage these resources. The council oversees the risks and opportunities related to the NCUA’s resources; turnover; employment and work culture; recruitment, retention and staffing processes and practices; succession planning; and employee development, training and capacity building.

Taking a systematic approach to managing the career growth of employees can help ensure that the agency has the right people ready for critical roles now and in the future. Sustained success and continuity at NCUA requires robust leadership bench strength that supports the agency’s succession planning for key positions and improved retention and engagement of high potential employees with critical skills and competencies.

The NCUA is dedicated to strengthening its security program and communications. The NCUA’s Office of Continuity and Security Management (OCSM) is responsible for continuity of operations and emergency management, physical security, personnel security, and national security and intelligence. OCSM provides an important link between the intelligence community and the credit union system, by establishing NCUA threat analysis processes and working with the Intelligence Community and other partners to provide context to reporting on threats to the credit union system. The NCUA participates on two critical interagency groups designed to promote awareness of and prepare the financial sector for critical risk issues and related threats—the FFIEC and FBIIC. Appendix C discusses cybersecurity threats and the actions the NCUA is taking to address these threats in more detail.

The NCUA’s Office of the Chief Information Officer (OCIO) is committed to delivering secure, innovative information technology services and solutions to the NCUA workforce, credit unions, and other stakeholders. Staff significantly relies upon technology to perform their duties and responsibilities associated with the agency’s mission. To create additional efficiencies, administrative tasks need to be streamlined through the use of new programs. The NCUA’s Information Technology Prioritization Council, which is comprised of office and regional directors, reviews and prioritizes software initiatives and aligns information technology investments with the NCUA’s mission.

The NCUA’s planned information technology modernization, the Enterprise Solutions Modernization program, will improve the examination process and ease burdens on credit unions and staff by reducing the amount
of examination and supervision time spent in credit unions. The program is a multi-year effort established to manage the modernization across the enterprise to include examination, workflow management, resource and time management, data integration and analytics, data governance, document management and customer relationship management.

This program will leverage commercially available tools rather than building and hosting customized systems. The NCUA expects an improved user experience and increased efficiencies when the new systems are in place.

The NCUA will also support an efficient organizational design supported by improved business processes and innovation through the following means, strategies and initiatives:

- Modernize NCUA’s examination and supervision solution, credit union call reporting system and field of membership application;
- Consolidate the agency’s five regional offices into three by closing the Albany, New York, and Atlanta, Georgia, offices and eliminating four of the agency’s five leased facilities;
- Create the Office of Credit Union Resources and Expansion by redefining and realigning the agency’s chartering and field-of-membership, credit union development, grants and loans, and minority depository institutions perseverance programs;
- Restructure the Office of Examination and Insurance into specialized working groups;
- Change the Asset Management and Assistance Center’s operations and reporting structure;
- Establish procedures to detect, deter, prevent and mitigate insider or external threats to the agency’s personnel, facilities, or sensitive information;
- Add four information systems security officers to support all offices with their information security responsibilities as information system owners;
- Modernize AMAC’s systems to support financial operations and create efficiencies in the prompt payment of members’ confirmed insured shares upon involuntary liquidation of a credit union;
- Redesign NCUA.gov to develop a more intuitive, functional and modern agency website;
- Add an information technology program manager to both lead special projects and to continue the agency’s project and portfolio management practices;
- Consolidate financial reporting and accounting functions for the Community Development Revolving Loan Fund and the AMAC; and increase staff to meet compliance requirements;
- Deploy new laptop computers and peripherals to all NCUA staff;
- Strengthen the agency’s cybersecurity and ensure compliance with the Federal Information System Management Act;
- Create new Information and Access Law Division to centralize records management responsibilities, privacy, Freedom of Information Act, and Paper Work Reduction Act compliance;
- Reduce solution delivery time and development costs through investments in enterprise architecture and expanded portfolio management support; and
• Deliver website enhancements to ensure content is accessible to people with disabilities and meets the growing demand of visitors with mobile devices.

The NCUA is committed to using resources smartly to accomplish its mission. This may require analyzing, re-engineering business processes, improving support systems and sharing resources or some combination of all of these. The NCUA is working to ensure it has sound business processes that comply with standards, promote efficiency in operations and support accountability, performance reporting, and decision making. The NCUA will continue to implement best practices into new and existing business processes with a specific focus on improving the procurement program, records management and examination reporting. In 2017, the Office of General Counsel added an additional attorney to work exclusively on procurement matters. The NCUA's acquisition requirements have grown in volume and complexity to comply with the new acquisition manual and sustain all of the agency contract requirements.

**Performance Goal 3.2.1**

Implement a human capital plan to support strategic and business priorities

**Indicator**

1. Develop a workforce and succession plan that will address the changing needs of the agency

**Performance Goal 3.2.2**

Protect NCUA staff, facilities and critical infrastructure

**Indicators**

1. Deliver relevant, quality security and continuity of operations training to all staff annually
2. Obtain a score of 70 percent or above on the NCUA's Federal Employee Viewpoint Survey Question 36: “My organization has prepared employees for potential security threats”

**Performance Goal 3.2.3**

Implement secure, reliable and innovative technology solutions

**Indicators**

1. Redesign and rebrand the NCUA.gov website
2. Deploy the Business Partner Gateway solution to enable secure access and sharing of information with external NCUA stakeholders
3. Replace AMAC’s legacy servicing system
4. Establish an Enterprise Data Management Strategy and preliminary architecture for the agency’s core mission and administrative data analytics requirements
Performance Goal 3.2.4

Gain efficiencies through quality processes, systems, and project management

Indicators

1. Baseline the customer experience for delivered information technology services and solutions against industry benchmark metrics
2. Modernize NCUA's procurement program with improved policies and procedures, controls and enhanced reporting

Strategic Objective 3.3

Ensure Sound Corporate Governance

The NCUA has reliable structures and processes to ensure sound management of its four permanent funds; sound management of investments, liquidity, liquidated and acquired assets, and other financial resources; prudent execution of the NCUA’s role as a fiduciary; and complies with financial management policies and standards. NCUA maximizes the use of agency resources by continually improving agency operations and strengthening internal controls.

The Office of the Chief Financial Officer (OCFO) is responsible for agency budget preparation and management, ongoing finance and accounting functions, the NCUA strategic planning process, developing the annual performance plan, administering the agency’s enterprise risk management function, facilities management, procurement and the administration of credit union operating fees and Share Insurance Fund capitalization deposits and operations. OCFO is vital to ensuring NCUA employees have the resources needed to perform their jobs. The office is also responsible for the daily operations of the NCUA Operating Fund, capital investments and the Share Insurance Fund. OCFO provides these services to the NCUA Board and leadership team so they can make informed decisions, achieve objectives and operate efficiently and effectively.

In 2017, the NCUA issued Instruction 1770—Acquisition Policy Manual. The purpose of the Acquisition Policy Manual is to provide internal guiding principles and instruction for NCUA acquisitions. The Acquisition Policy Manual incorporates clarified policies, enhanced control procedures and practical templates and checklists to address several preliminary observations and findings from the 2016 Office of Inspector General review of NCUA’s procurement program. The manual is part of the continuous effort within OCFO to improve the service and support provided to program offices within a framework that ensures NCUA has effective processes and sound internal controls. The issuance of the manual substantially improves our internal control environment for acquisitions, but work remains. OCFO continues to make progress towards further improvements identified to address the known remaining program challenges.

The NCUA conducts an annual assessment of the effectiveness of internal controls. The agency will further its internal control program and enhance cross-organizational processes to support office-management assurance statements. OCFO is partnered with management across the agency to improve the quality of risk and control assessments and management self-identification and resolution of improvement opportunities.
The NCUA will ensure sound corporate governance through the following means, strategies and initiatives:

- Operate and maintain accounting and financial management systems using efficient, cost-effective and appropriate technology for agency use;
- Implement sound business processes that promote efficiency in operations, and support accountability and decision making;
- Strengthen the NCUA’s enterprise risk-management foundation;
- Modernize the agency’s fiscal processes to promote efficiency and continuous improvement and strengthen internal controls;
- Provide financial management expertise and support to external and internal customers;
- Formally integrate risk analysis into our decision-making process;
- Identify and analyze accounting and financial issues and recommend and/or implement appropriate action for resolution;
- Partner with the OMWI to develop tools and resources for increasing opportunities to minority- and women-owned businesses;
- Compete procurement actions to allow for competitive market pricing, stronger proposal submissions, and a distributed vendor base in support of the NCUA; and
- Improve presentation of budget and performance information to stakeholders.

**Performance Goal 3.3.1**

Foster an effective risk-management and internal-control environment

**Indicators**

1. Evaluate and prioritize risks across NCUA and the credit union system through an established Enterprise Risk Management (ERM) process
2. Complete at least 90 percent of corrective actions on OIG and Government Accountability Office (GAO) audit recommendations within established timeframes

**Performance Goal 3.3.2**

Align NCUA’s resources to focus on executing and supporting the core mission

**Indicators**

1. Baseline total NCUA costs relative to credit union insured shares regulated
2. Integrate ERM, performance and budget activities and direct resources towards the highest priority areas

**Performance Goal 3.3.3**

Promote sound financial management and stewardship principles
Indicators

1. Receive an unmodified opinion on the NCUA financial statement audit of all four funds
2. Award at least 70 percent of total eligible contract dollars as competitive actions

### Strategic Goal 3: Summary Performance Indicators and Targets

<table>
<thead>
<tr>
<th>Goal</th>
<th>Indicator</th>
<th>2015 Actual</th>
<th>2016 Actual</th>
<th>2017 Actual</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1.1</td>
<td>Obtain at least an 88 percent average satisfaction rating in training class evaluations</td>
<td>88%</td>
<td>88%</td>
<td>85%</td>
<td>88%</td>
</tr>
<tr>
<td>3.1.2</td>
<td>Improve NCUA’s score for the Partnership for Public Service’s Support for Diversity Indicator (Employee Viewpoint Survey Questions 34, 45, and 55) by one percentage point. These questions measure the extent to which employees believe that actions and policies of leadership and management promote and respect diversity</td>
<td>68</td>
<td>67.3</td>
<td>65.7</td>
<td>66.7</td>
</tr>
<tr>
<td></td>
<td>Improve NCUA’s score for OPM’s Inclusion Quotient by one percentage point. The Inclusion Quotient identifies behaviors that help create an inclusive environment</td>
<td>67</td>
<td>67</td>
<td>65</td>
<td>66</td>
</tr>
<tr>
<td>3.1.3</td>
<td>Improve NCUA’s Federal Employee Viewpoint Survey Employee Engagement Index by 2 percentage points</td>
<td>72%</td>
<td>73%</td>
<td>69%</td>
<td>Greater than or Equal to 71%</td>
</tr>
<tr>
<td></td>
<td>Conduct post-program reviews of management and executive development programs in coordination with oversight committees and participant supervisors at the conclusion of each program</td>
<td>Achieved</td>
<td>Achieved</td>
<td>Achieved</td>
<td>Fourth Quarter 2018</td>
</tr>
<tr>
<td>3.2.1</td>
<td>Develop a workforce and succession plan that will address the changing needs of the agency</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Second Quarter 2018</td>
</tr>
<tr>
<td>Goal</td>
<td>Indicator</td>
<td>2015 Actual</td>
<td>2016 Actual</td>
<td>2017 Actual</td>
<td>Target</td>
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<td>-----------------------------------------</td>
</tr>
<tr>
<td></td>
<td>Deliver relevant, quality security and continuity of operations trainings</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>to all staff annually. Measured in percent of staff trained</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.2.2</td>
<td>Obtain a score of 70 percent or above on the NCUA’s Federal Employee</td>
<td>76%</td>
<td>82%</td>
<td>76%</td>
<td>Greater than or Equal to 70%</td>
</tr>
<tr>
<td></td>
<td>Viewpoint Survey Question 36 “My organization has prepared employees for potential security threats”</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Redesign and rebrand the NCUA.gov website</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Fourth Quarter 2018</td>
</tr>
<tr>
<td></td>
<td>Deploy the Business Partner Gateway solution to enable secure access and</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Second Quarter 2018</td>
</tr>
<tr>
<td></td>
<td>sharing of information with external NCUA stakeholders</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.2.3</td>
<td>Replace AMAC’s legacy servicing system</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Fourth Quarter 2018</td>
</tr>
<tr>
<td></td>
<td>Establish an Enterprise Data Management Strategy and Preliminary</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Fourth Quarter 2018</td>
</tr>
<tr>
<td></td>
<td>Architecture for the agency’s core mission and administrative data</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>analytics requirements</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.2.4</td>
<td>Baseline the customer experience for delivered IT services and solutions</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Establish Baseline</td>
</tr>
<tr>
<td></td>
<td>against industry benchmark metrics</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Modernize NCUA’s procurement program with improved policies and procedures,</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Fourth Quarter 2018</td>
</tr>
<tr>
<td></td>
<td>controls and enhanced reporting</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goal</td>
<td>Indicator</td>
<td>2015 Actual</td>
<td>2016 Actual</td>
<td>2017 Actual</td>
<td>Target</td>
</tr>
<tr>
<td>------</td>
<td>-----------</td>
<td>-------------</td>
<td>-------------</td>
<td>-------------</td>
<td>--------</td>
</tr>
<tr>
<td>3.3.1</td>
<td>Evaluate and prioritize risks across NCUA and the credit union system through an established ERM process.</td>
<td>N/A</td>
<td>N/A</td>
<td>---</td>
<td>Fourth Quarter 2018</td>
</tr>
<tr>
<td>3.3.2</td>
<td>Integrate ERM, performance and budget activities and direct resources towards the highest priority areas</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Establish Baseline</td>
</tr>
<tr>
<td>3.3.3</td>
<td>Receive an unmodified opinion on the NCUA financial statement audit of all four funds</td>
<td>Achieved</td>
<td>Achieved</td>
<td>Achieved</td>
<td>Achieve</td>
</tr>
<tr>
<td></td>
<td>Award at least 70 percent of total eligible contract dollars as competitive actions</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>70%</td>
</tr>
</tbody>
</table>
Management Review

NCUA develops performance measures through its strategic planning process. The agency holds program managers accountable to set meaningful and realistic targets that also challenge the agency to leverage its resources. Each designated program manager is responsible for the progress in meeting the goals, reporting the results, and making operational adjustments. Further, when appropriate, program managers are required to explain how they will improve performance when targets are not met.

NCUA uses a quarterly data driven review process. This process includes substantiating results reported whenever those results reveal significant discrepancies or variances from the target. The Office of the Chief Financial Officer coordinates these reviews.

Program Evaluation and Research

The NCUA periodically reviews its performance framework and focuses on tracking and reporting the most appropriate and meaningful outcome performance goals to show effectiveness, efficiency, and results. The NCUA has not developed outcome performance goals in all cases, and uses input and output measures that support outcomes, lead to outcomes, or otherwise provide valuable indicators of how the agency is progressing toward achieving its strategic goals and objectives. The NCUA will use the results of the quarterly reviews and its annual performance report as a data point for future development of the strategies, goals, measures, and targets. For this performance plan, each office provided their analysis and support for each performance goals.

Several performance goal indicators in this Plan are new for 2018; therefore, historical data is not available. These indicators are marked as “N/A” in the Summary Performance Indicator and Target tables. The results from the quarterly reviews and these evaluations will be included as some of the factors considered in determining the NCUA’s Annual Performance Plan.

Data Management and Reliability

Data management and data reliability are important in determining performance outcomes. Currently, the data is reviewed by OEI, ONES, OCE and the regions. These offices monitor and maintain automated systems and databases that collect, track, and store performance data, with support provided by the NCUA’s OCIO. In addition to the general controls the NCUA has in place, which ensure only authorized staff can access key systems, each application or system incorporates internal validation edits to ensure the accuracy of data contained therein. These application edits include checks for reasonableness, consistency, and accuracy. Crosschecks between other internal automated systems also provide assurances of data accuracy and consistency.

In 2018, the NCUA has budgeted for improvements to its data management system including the development of business intelligence tools. Combined with an enterprise data-integrity program, data storage will be expanded and analysis and reporting strengthened.

Data provided by the NCUA during the financial statement audits provides another level of assurance. The
NCUA Board deems the data as current, reliable and accurate to support the NCUA's performance results and the annual plans.

**Enterprise Risk Management**

Through NCUA’s enterprise risk management program, the agency is proactively managing risks to achieving its mission, as well as maximizing opportunities across the agency. Enterprise risk management looks at the full spectrum of the agency’s risks related to achieving our strategic objectives and provides agency leadership with a portfolio view of risk to help inform decision-making.

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 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’s risk-management framework helps leadership identify and evaluate specific risks, and to prioritize and mitigate risks on a continuous basis. The enterprise risk management program requires close collaboration across all agency functions and is intended to improve mission delivery.

The NCUA's ERM Council provides oversight of the agency’s enterprise risk management activities. Foundational elements of the program have been established since its start in 2015 to include an enterprise-risk-appetite statement and risk taxonomy. In 2018, NCUA will continue to progress its risk profile and assign roles and responsibilities for risk monitoring activities.

**Hyperlinks**

2018–2022 Strategic Plan

NCUA Budget Documents

Cybersecurity Resources

Consumer Compliance Regulatory Resources
## Appendix A – Budgetary Requirements by Strategic Goal

### FY 2018 Budgeted Dollars by Strategic Goal (in Millions)

<table>
<thead>
<tr>
<th>Strategic Goal 1</th>
<th>Strategic Goal 2</th>
<th>Strategic Goal 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dollars</td>
<td>Percent</td>
<td>Dollars</td>
<td>Percent</td>
</tr>
<tr>
<td>$220.8</td>
<td>68.8%</td>
<td>$31.4</td>
<td>9.8%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$68.6</td>
<td>21.4%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>$320.9</td>
</tr>
</tbody>
</table>

### FY 2018 Projected FTE by Strategic Goal

<table>
<thead>
<tr>
<th>Strategic Goal 1</th>
<th>Strategic Goal 2</th>
<th>Strategic Goal 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTE</td>
<td>Percent</td>
<td>FTE</td>
<td>Percent</td>
</tr>
<tr>
<td>957.4</td>
<td>80.6%</td>
<td>113.0</td>
<td>9.5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>117.6</td>
<td>9.9%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1188.0</td>
</tr>
</tbody>
</table>

The budgets for the offices of Board, OED, OIG and OCFO are allocated across all strategic goals.

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4 NCUA’s 2018 positions are funded by three different sources: the Central Liquidity Facility funds three full-time equivalents, the Share Insurance Fund funds five full-time equivalents and NCUA’s Operating Fund funds the remaining 1,180 full-time equivalents.
Appendix B – Performance-Management Programs Process

The NCUA’s performance management programs process begins with the agency’s strategic plan that provides long-term strategic goals for the agency and serves as the cornerstone of the performance-management process. It outlines the NCUA’s annual (short-term) objectives, strategies, and corresponding performance goals that contribute to accomplishing the established strategic goals. Goal accomplishment is evaluated through the use of performance indicators each quarter. At the end of each performance plan period, a formal analysis of performance is documented in the Performance Results Summary of the Annual Report, which includes performance indicator results, an analysis of agency program performance and factors that may have affected goal achievement. OMB also evaluates the effectiveness of the NCUA’s programs and performance management process.

The NCUA continues to strengthen planning and budget processes. The performance goals outlined in the strategic plan provide a framework for both the Annual Performance Plan and the budget request. The NCUA’s 2018–2019 Budget Submission supports the 2018-2022 Strategic Plan to achieve agency priorities and improve agency performance. The budget supports the NCUA’s three strategic goals and enables the NCUA’s plans to address key challenges and leverage agency strengths.

The President’s Budget identifies the lower-priority program activities, as required under the Government Performance and Results Modernization Act, 31 U.S.C. 1115(b)(10). The public can access the volume at http://www.whitehouse.gov/omb/budget.
Appendix C – External Factors 2018

The economic environment will remain a major influence on credit union performance over the Annual Performance Plan’s horizon. Current forecasts call for continued moderate economic growth and improvement in the labor and housing markets. Improving economic conditions will increase members’ income and wealth, which will help support credit union lending activity and credit quality. However, the improving economy will also likely put upward pressure on interest rates. In an environment of normalizing interest rates, credit unions’ ability to manage and mitigate interest rate risk will become increasingly important to their success.

As always, there are risks to the forecast. On the upside, stronger-than-anticipated economic growth -- perhaps resulting from recently-enacted income tax cuts -- would support credit union lending activity and member credit quality, though it would also likely result in higher-than-forecast interest rates. On the downside, renewed weakness in the global economy, a stronger dollar relative to other foreign currencies, or a drop in oil prices could restrain economic activity in the U.S. Although these factors are unlikely to derail U.S. growth, they could cause economic activity to decline in areas with strong ties to the manufacturing and oil industries. Credit unions with members in these regions could see reduced membership and deposit growth, lower loan demand, and increased credit risk. Further, credit unions will need to understand their increasing exposure to and address risks associated with the increased use of technology, as the threat of cyber-attacks and other operational risks has continued to rise. Over the longer-term, increased concentration of loan portfolios, development of alternative loan and deposit products, technology-driven changes in the financial landscape, continued industry consolidation, and ongoing demographic changes will continue to shape the environment facing credit unions.

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5 Based on the latest forecasts available at the time of this report’s release: Federal Reserve’s December 2017 economic forecast.
Economy and Credit Unions

The U.S. economy is expected to grow at a moderate pace over the next two years, supported in part by robust consumer spending and further improvement in the housing market. Employment is forecasted to rise and the unemployment rate—already below the level associated with full employment—is expected to remain low. Tight labor market conditions are projected to push inflation up towards the Federal Reserve’s 2-percent target. Continued improvement in economic conditions will be a positive for credit union lending, membership growth, and credit quality. However, tight labor market conditions and higher inflation will likely give rise to higher interest rates.

The latest projections from Federal Reserve policymakers indicate that the federal funds rate could move considerably higher over the next three years. The median midpoint of the federal funds target range across policymakers suggests the rate will rise to 2.1 percent by the end of 2018 and reach 3.1 percent by the end of 2020. For some credit unions, rising interest rates might result in reduced earnings, lower asset valuations, and liquidity stress.

Interest Rate Risk

Credit unions’ ability to manage interest rate risk appropriately will likely be a key element in their financial performance in coming years. In the consensus forecast, interest rates will continue to rise towards more normal levels in 2018, affecting both the level of interest rates and the shape of the yield curve. If realized, this transition will occur at a time when members have many financial alternatives and can move funds quickly across institutions. Of the nearly 20 percent of households that use a credit union as their primary financial institution,
60 percent also use a bank for some type of financial service. This makes credit unions’ preparedness and response to rising rates vital to their success.

Credit Union Deposit Rates and Three Month Treasury Bill Rate, Quarter 4

The low interest rate environment of the past decade has led some credit unions to “reach for yield.” The share of investments with greater than three years’ maturity increased dramatically from 2006 to 2013, as some credit unions used their portfolios to boost earnings by lengthening the term of investments. The share of longer-term investments has declined in recent years, but the exposure remains elevated compared to the pre-recession levels, especially for securities with more than three years maturity. The higher share of longer-term investments potentially makes the transition to a higher interest rate environment more difficult for affected credit unions.

Investments by Maturity as a Percent of Total Assets

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6 Federal Reserve Board, 2016 Survey of Consumer Finances.
Credit unions that have sizable portfolios of fixed-rate assets and rate-sensitive deposits will likely also find the transition to a more normal interest rate environment to be difficult, especially if shorter-term rates rise more than longer-term rates. Both the share of fixed-rate assets and the share of interest-sensitive deposits have grown substantially in recent years, and studies show that consumers tend to demand higher rates on deposits as rates begin to rise. In a rising rate environment, credit unions with high concentrations of long-term investments, fixed-rate assets, and rate-sensitive deposits may face multiple challenges as deposit rates rise, fixed-rate assets lose value, liquidity decreases, and earnings are compressed by lower net interest margins.

While most forecasters predict a rising rate environment, if the U.S. economy’s overall performance is worse than expected, rates may remain low or retreat for an extended period of time. A continuation of the 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 resume their “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.

**Risks to the U.S. Forecast**

While forecasters generally believe the U.S. economy will grow at a moderate pace over the next few years, there are risks on the horizon that bear monitoring. On the downside, slower growth overseas could restrain economic activity in the U.S. A rise in the value of the dollar or a renewed decline in oil prices could also hamper growth, particularly in manufacturing-intensive and oil-producing states. Slower economic growth could dampen deposit and membership growth, reduce credit union loan demand, and lead to increased credit risk. These effects would be magnified in states with strong ties to energy and manufacturing if conditions in those two sectors weaken. If global economic conditions began to worsen before the Federal Reserve had raised rates to a level more consistent with a neutral policy stance, policymakers might find it difficult to cut rates enough
to stimulate the domestic economy. The result could be another extended period of sluggish growth and low inflation and interest rates.

- **Weakness overseas:** Economic growth overseas has strengthened in the past year and is expected to pick up slightly further in the coming year. However, the durability of the pickup is uncertain. Growth is still weak in several emerging market and developing economies. Commodity exporters in particular are still struggling to adjust to lower commodity revenues. In addition, the European banking system remains fragile. Heightened uncertainty about the post-Brexit future of the European Union and the United Kingdom could lead to financial market turbulence and greater risk aversion, intensifying bank distress and tightening financial conditions. Increased financial stress could trigger a sharp slowdown in European growth that would affect the U.S. directly through a reduction in exports and indirectly through financial channels, including lower long-term interest rates, a stronger dollar relative to other currencies and declining commodity prices.

- **Diminishing, but still present risks in the oil and manufacturing sectors:** Although lower oil prices are generally positive for non-oil producers and consumers, not everybody benefits from falling prices. The steep drop in oil prices from mid-2014 through early 2016 was negative for oil-producing states and oil-related industries, reducing economic growth and employment. Oil prices stabilized in mid-2016 and conditions in the energy sector have improved. Oil and gas extraction has been on the upswing and employment in the industry is rising again, but the level of drilling and employment is still well below early 2014 levels. Conditions in the oil sector and in oil-intensive states will likely remain fragile until oil producers have used up their spare capacity; it could take some time for this to occur as oil prices are not expected to climb significantly higher over the next two years.

Between July 2014 and January 2017, the U.S. dollar increased in value by about 28 percent against the currencies of our major trading partners. A stronger dollar makes U.S. exports more expensive and puts U.S. producers at a disadvantage when competing against importers and producers of similar goods in other
countries. The jump in the value of the dollar along with relatively slow growth overseas had a notable effect on U.S. manufacturing activity, contributing to a drop in factory output and job losses in the manufacturing sector. Since the start of 2017, the dollar has depreciated by 8 percent and foreign economic growth has strengthened. Manufacturing production has picked up in response, factory employment has increased, and the risks for manufacturing-intensive states have started to diminish. However, the value of the dollar in late December was still about 17 percent higher than in July 2014. A stronger dollar, weaker growth in the rest of the world, or both would likely put the U.S. manufacturing sector at a disadvantage and cut into both growth and employment in manufacturing-intensive states.

### Trade-Weighted Value of the Dollar, Major Currency Index, 1973 = 100

![Trade-Weighted Value of the Dollar, Major Currency Index](image)

Source: U.S. Board of Governors of the Federal Reserve System

The risks to the U.S. economy are not all to the downside. There are also upside risks that could lead to faster-than-expected growth in the U.S., including unanticipated strength in consumer spending, a more robust housing recovery, faster growth overseas, and fiscal policy changes such as lower taxes or increased government spending. 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.

- **Expansionary fiscal policies:** The Administration has argued for a more expansionary fiscal policy. In late 2017, Congress passed and the President signed a law that made significant changes to the personal and business income tax code taxes starting in 2018. While analysts are still sorting out the potential effects, it appears middle income households are likely to see noticeable tax reductions in the near-term, though analysts are divided about the overall longer term effects and some sectors, like housing, may not benefit as much as other sectors. The Administration has also signaled that it supports increased infrastructure spending. Each of these policies, if not offset by other policy changes, would likely lead to stronger economic growth, at least temporarily, boosting employment and lowering unemployment.

- **Stronger consumer spending:** The consensus forecast for continued moderate economic growth assumes
that consumer spending will grow at solid pace over the next two years. However, consumers may have more power and desire to spend than forecasters expect. The unemployment rate recently dropped to a 17-year low, income is rising, consumer confidence is at its highest level in over a decade and household net worth is at a record high level thanks to rising home prices and equity market gains. Low interest rates are helping consumers keep their debt payments near a historically low level as a share of income even as they continue to borrow. Unexpected strength in consumer spending, which accounts for about 70 percent of all economic activity in the U.S., could translate into a faster pace of economic growth than currently projected.

- **More robust housing market**: Most forecasters are expecting the pace of improvement in the housing sector to slow as interest rates move higher over the next few years. If interest rates remain low for longer than currently anticipated, the housing recovery could pick up speed as continued low rates unleash stronger demand for housing, pushing home construction and sales higher than currently projected.

- **Faster-than-expected foreign growth**: When the economies of our major trading partners strengthen, demand for American goods and services typically increases. If growth in the rest of the world is stronger than currently expected, economic activity in the U.S. could expand more rapidly than forecast, boosting employment and pushing unemployment lower.

**Cybersecurity**

Cyberattacks on the financial sector are increasing in frequency, scale, sophistication, and severity of impact. In 2017, private security companies reported that the financial sector was attacked more than twice as often as any other sector. Specifically, ransomware, cyber fraud and ATM skimming continued to pose the greatest cyber threat to credit unions.

Even more importantly, and more rapidly, development of new technologies and new demands by members for credit unions to adopt those technologies will increase the cyber risk to the credit union system. Increased demand for mobile technologies, cloud services and the internet of things are some examples of those trends today.

Compounding the problem, cyber criminals and other attackers continued to develop new threat vectors. For example, the increasing availability of sophisticated tools available to the average cyber actor via online forums has advanced the risk from advanced persistent threats, a set of stealthy and continuous hacking processes. Many cyberattacks in 2017 incorporated exploits that allowed malware, such as the “WannaCrypt” virus, to spread from peer-to-peer without human interaction. Attackers used exploits exposed by advanced persistent threat actors to impact even larger numbers of machines.

Although more sophisticated tools or zero-day attacks, which exploit unknown software vulnerabilities, are on the rise, the most successful attacks have exploited well-known vulnerabilities. Strong cyber-hygiene practices such as patch management, vulnerability and risk assessments, ongoing awareness training, governance and business continuity planning can mitigate or even prevent most of the attacks on the credit union system.

The Financial Stability Oversight Council (FSOC), of which the NCUA Chairman is a member, continues to highlight the importance of improving cybersecurity to combat both the growing risks to individual institutions, financial market infrastructure, and financial stability. Several sophisticated attacks aimed at stealing sensitive consumer data, including healthcare and financial services data, were launched in 2016 and 2017. In light of the
growing importance of cyber threats credit unions will need to devote resources to enhance their cybersecurity systems and develop plans that allow for the orderly response to and recovery from a significant cyber incident.

In its 2017 Annual Report, the FSOC emphasizes the ongoing importance of information sharing between industry and government to reduce the impact of cybersecurity incidents. The report highlights the need for government agencies and the financial sector to improve baseline protections (such as network monitoring and security controls) to protect against cyber threats, and to develop strategies to respond to and recover from major cyber incidents.

To improve and standardize supervision related to cybersecurity, the NCUA is implementing an Automated Cybersecurity Examination Tool (ACET). The NCUA is continuing to refine the ACET to ensure it scales properly with the size, complexity and risk of particular institutions. The ACET will provide the NCUA with a repeatable, measurable and transparent process for assessing the level of cyber preparedness across federally insured institutions. The ACET incorporates appropriate standards and practices established for financial services and across the cybersecurity discipline, and will help credit unions more fully evaluate the evolution of their cyber preparedness.

The NCUA also continued to evolve the Cyber Threat Working Group in 2017 to coordinate cybersecurity initiatives such as detecting emerging threats, enhancing information sharing, identifying mitigation measures and improving response and resiliency efforts. In addition, NCUA is developing protocols to receive and share intelligence reports on cyber threats, which NCUA receives directly from the Intelligence Community, the Department of the Treasury, the Federal Bureau of Investigation, and the Department of Homeland Security.

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Other Emerging Risk Areas for Credit Unions

Lending trends: Increasing concentrations in new types of lending, including member business loans and private student loans, emphasize the need for long-term risk diversification and effective risk management tools and practices, along with expertise to manage increasing concentrations of risk properly.

Alternative loan/depository institutions and products: New financial products that mimic deposit and loan accounts, such as Apple Pay, Walmart pre-paid cards and peer-to-peer lending are emerging. These new products pose a competitive challenge to credit unions and banks alike. Credit unions also face a range of challenges in the areas of lending and the provision of other services from financial technology companies, or “fintech” as they are more commonly known. 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 increasing importance of digital currencies may pose both risks and opportunities for credit unions. As these institutions and products gain popularity, credit unions may have to be more active in marketing and rethink their business models.

Membership trends: While overall credit union membership continues to grow strongly, half of federally insured

Median Annual Membership Growth

U.S. = 0.0 percent
credit unions had fewer members at the end of the third quarter of 2017 than a year earlier. Demographic and field of membership changes are likely to continue to result in declining membership at many credit unions. All credit unions need to consider whether their product mix is consistent with their members’ needs and demographic profile. For example, in some areas, to be effective, credit unions may need to explore how to meet the needs of an aging population or of a growing Hispanic population.

**Smaller credit unions’ challenges and industry consolidation:** Small credit unions face challenges to their long-term viability for a variety of reasons, including weak earnings, declining membership, high loan delinquencies, and elevated non-interest expenses. If current consolidation trends persist, there will be fewer credit unions in operation and those that remain will be considerably larger and more complex. Increasingly complex institutions will pose management challenges for the institutions themselves, as well as the NCUA.