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Executive Summary

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

In this second year implementing its current strategic plan, the Annual Performance Plan supports the agency’s goal of becoming even more efficient, effective, transparent and accountable while protecting America’s credit union community, the financial stability of the credit union system and the safety and soundness of the National Credit Union Share Insurance Fund. This plan outlines how the agency will continue to effectively supervise and insure a growing and evolving credit union system. As financial services and the credit union sector continue to change, the NCUA must adjust to meet the challenges and developments. In 2019, the NCUA will begin implementing new technology and analytical tools to improve the agency’s financial monitoring capabilities and examination process. The agency also continues the progress made in 2018 by ensuring priorities and objectives align with the mandates prescribed in the Federal Credit Union Act and they are achieved with greater efficiency, responsiveness and effectiveness.

This Annual Performance Plan strives to provide all interested parties, including the NCUA’s 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, and performance indicators and targets.

The Annual Performance Plan supports the agency’s three strategic goals, eight strategic objectives and 22 performance goals. The NCUA will use the performance indicators and targets discussed in this plan to monitor progress in meeting established objectives and performance goals.

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 2019, 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 5,436 federally insured credit unions with more than 115 million members and more than $1.4 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 (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 the Share Insurance Fund, the 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

¹ Credit union data is as of September 30, 2018.
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 the NCUA’s major program areas and support functions. The NCUA employs staff in a central office, an Asset Management and Assistance Center (AMAC) to manage the assets of failed credit unions, and regional offices. At the start of 2019, the NCUA reduced the number of regional offices from five to three. Reporting to its regional offices, the 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 mission for the 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 the workforce.

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 to ensure the success of the field program in remote environments.

The NCUA organizational chart follows. Additional information about the NCUA’s executive leadership is also available on the NCUA’s [website](http://www.ncua.gov).
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 Credit Union Resources & Expansion
- Office of Human Resources
- Office of Business Innovation
- Eastern Region
- Southern Region/AMAC
- Western Region
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, compliance risk, and operational risks, including cybersecurity and reputation risk. The NCUA supervises federally insured credit unions through examinations and regulatory enforcement by 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 nearly $16 billion Share Insurance Fund, which provides insurance up to at least $250,000 for deposits held at federally insured credit unions. The Share Insurance Fund is capitalized by credit unions and through retained earnings. The NCUA manages the Share Insurance Fund to the Board approved normal operating level.

Credit Union Development
Through chartering and field of membership services, training, and resource assistance, the NCUA fosters credit union development, particularly the expansion of services to eligible members provided by small, minority, 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 more informed financial decisions.

Asset Management
The NCUA conducts liquidations of failed credit unions and performs management and recovery of assets through the Asset Management and Assistance Center (AMAC). This office effectively manages and resolves assets acquired from liquidated credit unions.
AMAC provides specialized resources to 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 stakeholders.

Cross-Agency Priority Goals and Collaboration

The NCUA is involved in numerous cross-agency initiatives by collaborating with 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 (FBIIIC). 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 and is meant to demonstrate near-term results or achievements 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 2.1.1**
  Promulgate efficient, targeted regulation tailored to offer meaningful relief without undermining safety and soundness

- **Performance Goal 3.2.3**
  Implement secure, reliable and innovative technology solutions.
Summary of Strategic Goals and Objectives

The chart below summarizes the 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.

<table>
<thead>
<tr>
<th>Strategic Goals</th>
<th>Strategic Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goal 1: Ensure a safe and sound credit union system</td>
<td>1.1 Maintain a strong Share Insurance Fund</td>
</tr>
<tr>
<td></td>
<td>1.2 Provide high-quality and efficient supervision</td>
</tr>
<tr>
<td>Goal 2: Provide a regulatory framework that is</td>
<td>2.1 Deliver an effective and transparent regulatory framework</td>
</tr>
<tr>
<td>transparent, efficient and improves consumer access</td>
<td>2.2 Enforce federal consumer financial protection laws and regulations in federal</td>
</tr>
<tr>
<td></td>
<td>credit unions</td>
</tr>
<tr>
<td></td>
<td>2.3 Facilitate access to federally-insured credit union financial services</td>
</tr>
<tr>
<td>Goal 3: Maximize organizational performance to enable</td>
<td>3.1 Attract, engage and retain a highly skilled, diverse workforce and cultivate</td>
</tr>
<tr>
<td>mission success</td>
<td>an inclusive environment</td>
</tr>
<tr>
<td></td>
<td>3.2 Deliver an efficient organizational design supported by improved business</td>
</tr>
<tr>
<td></td>
<td>processes and innovation</td>
</tr>
<tr>
<td></td>
<td>3.3 Ensure sound corporate governance</td>
</tr>
</tbody>
</table>
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>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 Maintain a strong Share Insurance Fund</td>
<td>1.1.1 Fully and efficiently, execute the requirements of the agency’s examination and supervision program</td>
</tr>
<tr>
<td></td>
<td>1.1.2 Effectively manage losses to the Share Insurance Fund</td>
</tr>
<tr>
<td>1.2 Provide high-quality and efficient supervision</td>
<td>1.2.1 Enable continuous risk analysis, identify key trends and target examinations where most needed</td>
</tr>
<tr>
<td></td>
<td>1.2.2 Effectively identify and evaluate risk in complex credit union portfolios</td>
</tr>
<tr>
<td></td>
<td>1.2.3 Improve the quality control and consistency of examinations</td>
</tr>
</tbody>
</table>

The Federal Credit Union Act assigns statutory responsibility of the Share Insurance Fund and oversight of the credit union system to the NCUA. The NCUA’s primary function is to identify and assess credit union system risks, threats and vulnerabilities, determine their 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 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 implementing the following:

1. Enhanced data collection, business intelligence tools and analytical capabilities
2. Consolidated regional structure to efficiently manage resources and coordinate examination efforts
3. 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, manages and resolves assets acquired from liquidated credit unions. AMAC ensures members are paid promptly after any necessary liquidation, and limits losses to the Share Insurance Fund and credit union stakeholders through effective liquidation of failed credit union assets. AMAC staff also provide expertise by conducting examinations of large complex loan portfolios, reviewing bond claims 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 2018, the NCUA Board approved a $735.7 million Share Insurance Fund distribution to eligible financial institutions. The distribution was possible after the NCUA closed the Temporary Corporate Credit Union Stabilization Fund (the Stabilization Fund) and distributed 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 failure of five corporate credit unions during the financial crisis a decade ago.

In December 2018, the NCUA lowered the Share Insurance Fund normal operating level to 1.38 percent from the 1.39 percent level established in 2017. The NCUA reviews the normal operating level annually and sets the level based on forecasted needs. The addition of Stabilization Fund assets and the current normal operating level allows the NCUA to manage the potential risks associated with introducing the legacy assets into the Share Insurance Fund’s portfolio. As 2021 approaches, the NCUA will carefully monitor the value of the legacy assets to ensure the agency satisfies its remaining obligations and maintains the health of the Share Insurance Fund.
The agency will continue to make significant investments in new technology and systems in 2019. These investments will improve agency data collection efforts, reduce the examination footprint, and provide better tools and data to analyze potential risks and emerging trends within the credit union system. Planned capital investments will allow agency staff to better identify and address risk, effectively managing losses to the Share Insurance Fund.

The NCUA will maintain a strong Share Insurance Fund in 2019 through the following strategies and initiatives:

- Modernize technology and processes to improve analytic capabilities
- 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 to minimize failure costs and expenses to the Share Insurance Fund and credit union members and creditors
- Execute the examination and supervision program
- Develop additional and enhance existing risk management tools and reports to support the supervision program
- Provide training for NCUA and state examiners in higher and emerging risk areas to enhance examination effectiveness
- Identify merger or purchase and assumption partners for credit union failures to ensure credit union members retain services, reduce costs and increase efficiency
- Enhance AMAC’s legacy systems to improve management of credit union liquidations while increasing asset recovery
- Develop educational materials to credit union governance leaders and staff on regulatory and industry specific information

**Performance Goal 1.1.1**

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

1. Maintain the average corporate credit union leverage ratio above five percent
2. Resolve troubled credit unions\(^2\) within an average of 24 months of initial CAMEL 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. Maintain the National Credit Union Share Insurance Fund’s equity ratio between 1.3 percent and the normal operating level\(^3\)
2. Issue payments or provide access to members for the balance of their verified insured funds within three business days following a credit union failure
3. Seek to resolve credit union failures at the least cost to the Share Insurance Fund, by successfully identifying a merger or purchase and assumption partner for at least 85 percent of credit union failures (including emergency and supervisory mergers)

**Strategic Objective 1.2**

*Provide High-quality and Efficient Supervision*

Credit unions are becoming larger and more complex and seek to provide their members with more and improved products and services. The growth and innovation raises risk to the Share Insurance Fund. It is imperative the NCUA’s examination and supervision program continues to evolve with the credit union system. The NCUA must acquire and deploy resources to maintain safety and soundness. In 2019, the NCUA intends to implement technology and data solutions to enhance its oversight capabilities.

In 2018, the NCUA established a blockchain working group to take a deeper look at the impact of cryptocurrencies and their underlying technologies on the credit union system. The agency’s blockchain working group briefed the NCUA Board in December 2018 about opportunities and risks represented by these technologies and identified challenges

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\(^2\) As defined in Part 701.14 of the NCUA’s Rules and Regulations.

\(^3\) The equity ratio is the ratio of Share Insurance Fund equity to the amount of insured shares.
around their use, including safety and soundness and regulatory compliance. The NCUA is seeking comments on the use of emerging financial technologies, such as blockchain and cryptocurrencies, and the NCUA’s role in safeguarding the credit union system.

The NCUA uses 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. The agency’s ONES office is responsible for supervision and oversight of the largest and most complex credit unions.

In 2019, the NCUA will advance its review program for examination and supervision reports issued by examiners. The review program provides increased assurance that the agency addresses all material issues effectively and consistently. Full implementation is planned with the new examination platform.

The NCUA and six state regulators will also pilot an alternating-year examination program for federally insured state-chartered credit unions in 2019. The pilot program, based on recommendations in the 2016 Exam Flexibility Initiative Report, will run for one full alternating cycle, approximately three years. It will help the NCUA and state regulators determine how an alternating examination program could improve coordination and make the best use of federal and state resources.

To keep pace with the growing complexities of the credit union system, the NCUA continues to develop and implement a number of critical technology upgrades and replacements. The NCUA’s multi-year Enterprise Solutions Modernization Program includes the 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 and safety and soundness.

ONES’ adoption of a data driven supervision approach supports the agency’s mission by identifying changing risks early in large, systemically important credit unions. This data driven supervision approach also allows ONES staff to demonstrate efficiencies that can be gained in the supervision process.

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 in 2019 through the following strategies and initiatives:

- Effectively and efficiently manage the examination program by ensuring the following:
  - Allocate 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
  - Take prompt and effective supervisory and resolution actions, if warranted
  - Complete eligible exams for an extended cycle within 14 to 20 months
- 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
- Advance and train field staff on the agency’s quality assurance program, including a standardized exam report pre-review and distribution system
- Develop enhanced surveillance and data reports to identify critical correlations, risks 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
- Produce models and tools to aid in risk identification and support quantitative analyses
- 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
- Develop a data governance framework and support the development of a central data repository
- Facilitate the centralization, organization and storage of agency data so analysis is more accurate, simple and easily distributed across the agency to improve the NCUA’s overall reporting and data analysis capabilities
- 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
• Conduct at least one agency-wide continuity of operations exercise or training event on the use of the agency’s Incident Management System to improve operational response during emergencies

• Promote awareness of external forces that can affect credit union and Share Insurance Fund performance, allowing for early identification of and timely response to developments that threaten performance

• Increase the transparency and accessibility of credit union data and analyses, and related economic data and analyses for external stakeholders

• Consolidate information collected by ONES in a central standardized data warehouse through the business intelligence tool

• Acquire vendor models that will allow for in-house validation of credit union stress testing and quantitative risk assessment capabilities

• Pilot the Alternating State Exam Program to improve the efficiency of exams and reduce the burdens on credit unions

• Implement the offsite examination program nationally as a means to promote exam efficiency and reduce regulatory burden

Performance Goal 1.2.1

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

**Indicators**

1. Publish the Quarterly U.S Map Reviews and Credit Union Data Summary on the NCUA website to assist with identifying regional and national trends and trends in credit union performance

2. Provide examiners with quarterly risk reports to identify trends in fraud, anti-money laundering and cyber threats

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. Evaluate cybersecurity risk in all federally insured credit unions with assets greater than $250 million using the Automated Cybersecurity Examination
Toolbox (ACET) by December 31, 2023. By December 31, 2019, finish cyber reviews in all federally insured credit unions greater than $1 billion and 38 percent of federally insured credit unions with assets between $250 million and $1 billion

Performance Goal 1.2.3

Improve the quality control and consistency of examinations

Indicators

1. Develop new or revise existing training courses to meet the needs of all field staff

2. Finalize the agency’s quality assurance program, including the pre-release secondary review process, and train all field staff in advance of full implementation with the release of the Modern Examination and Risk Identification Tool (MERIT) in 2020

3. Test and release the enhanced credit union Automated Cybersecurity Examination Toolbox
## Strategic Goal 1: Summary Performance Indicators and Targets

<table>
<thead>
<tr>
<th>Goal</th>
<th>Indicator</th>
<th>2016 Actual</th>
<th>2017 Actual</th>
<th>2018 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</td>
<td>5.6%</td>
<td>7.13%</td>
<td>8.54% as of Third Quarter</td>
<td>Greater Than 5%</td>
</tr>
<tr>
<td></td>
<td>Resolve troubled credit unions within an average of 24 months of initial downgrade</td>
<td>28.7</td>
<td>22</td>
<td>19.3 as of Third Quarter</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>At least 98 percent of the total number of credit unions are well capitalized according to Prompt Corrective Action</td>
<td>97.8%</td>
<td>97.7%</td>
<td>98.3% as of Third Quarter</td>
<td>At Least 98%</td>
</tr>
<tr>
<td></td>
<td>Maintain the National Credit Union Share Insurance Fund’s equity ratio between 1.3 percent and the normal operating level</td>
<td>1.24%</td>
<td>1.46%</td>
<td>Data Unavailable at Time of Publication</td>
<td>Between 1.33% and 1.38%</td>
</tr>
<tr>
<td></td>
<td>Issue payments or provide access to members for the balance of their verified insured funds within 3 business days following a credit union failure</td>
<td>3.2</td>
<td>0(^4)</td>
<td>3</td>
<td>Average 3 Days</td>
</tr>
<tr>
<td></td>
<td>Seek to resolve credit union failures at the least cost to the Share Insurance Fund, by successfully identifying a merger or purchase and assumption partner for at least 85 percent of incidents (including emergency and supervisory mergers)</td>
<td>57%</td>
<td>100%</td>
<td>91%</td>
<td>At Least 85%</td>
</tr>
<tr>
<td>1.2.1</td>
<td>Publish quarterly U.S. Map Reviews and Credit Union Data Summary on the NCUA website to assist with identifying regional and national trends and trends in credit union performance indicators</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Provide examiners with quarterly risk reports to identify trends in fraud, anti-money laundering and cyber threats</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>4</td>
</tr>
</tbody>
</table>

\(^4\) 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>2016 Actual</th>
<th>2017 Actual</th>
<th>2018 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>Evaluate cybersecurity risk in all federally insured credit unions with assets greater than $250 million using the using the Automated Cybersecurity Examination Toolbox (ACET) by December 31, 2023. By December 31, 2019, finish cyber reviews in all federally insured credit unions greater than $1 billion and 38 percent of federally insured credit unions with assets between $250 million and $1 billion</td>
<td>N/A</td>
<td>56 Credit Unions as part of Initial Pilot</td>
<td>86% of Credit Unions Greater than $1 Billion</td>
<td>100% of Credit Unions Greater than $1 Billion and 38% of Credit Unions between $250 Million and $1 Billion</td>
</tr>
<tr>
<td>1.2.3</td>
<td>Develop new or revise existing training courses to meet the needs of all field staff</td>
<td>N/A</td>
<td>9</td>
<td>13</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Finalize the agency’s quality assurance program, including the pre-release secondary review process, and train all field staff in advance of full implementation with the release of MERIT in 2020</td>
<td>N/A</td>
<td>N/A</td>
<td>Initiated Pilot</td>
<td>December 31, 2019</td>
</tr>
<tr>
<td></td>
<td>Test and release the enhanced credit union Automated Cybersecurity Examination Toolbox</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>December 31, 2019</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>
</tr>
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<tbody>
<tr>
<td>2.1 Deliver an effective and transparent regulatory framework</td>
<td>2.1.1 Promulgate efficient, targeted regulation tailored to offer meaningful relief without undermining safety and soundness</td>
</tr>
<tr>
<td></td>
<td>2.1.2 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>2.2.1 Assess compliance with consumer lending and deposit laws and regulations</td>
</tr>
<tr>
<td></td>
<td>2.2.2 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>2.3.1 Efficiently administer viable credit union charters and expansion requests</td>
</tr>
<tr>
<td></td>
<td>2.3.2 Support small, low-income, minority and newly chartered credit unions</td>
</tr>
</tbody>
</table>

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 variety of regulations that protect the credit union system, members, and the Share Insurance Fund. As the financial services landscape evolves, the NCUA must evolve with it to promote continued financial stability within the credit union system. The NCUA aims to reduce, streamline, or eliminate outdated or overly burdensome regulations where possible, so credit unions can simultaneously stay competitive in the changing environment and continue to provide financial services to their members and communities.

It is the NCUA’s objective to protect consumer rights and member deposits by establishing and enforcing appropriate regulations, enhancing consumer confidence, and improving 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, the 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*

Targeted regulation, accompanied by a thoughtfully tailored supervisory and examination program, will help the credit union community grow, thrive, and prosper. With the goal of empowering innovation and growth within the federally insured credit union system, the NCUA will implement meaningful regulatory relief for credit unions through an extensive review of our existing rules and regulations, and further reforms and enhancements to our supervision and examination programs.

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.

In 2018, the NCUA’s Regulatory Reform Task Force released its second and final report providing an updated blueprint for the agency’s regulatory agenda. The report outlines updated recommendations and prioritizations for the amendment or repeal of regulatory requirements the Task Force believes are outdated, ineffective, or excessively burdensome. In 2018, the agency made progress advancing its regulatory reform agenda by issuing ten final rules implementing recommendations made by the Task Force, including final rules addressing risk-based capital and field of membership requirements. The agency also issued proposed regulations as part of its reform agenda including proposals addressing payday alternative loans and real estate appraisals. To furthering the regulatory reform agenda in 2019, the NCUA will also return to its former practice of conducting three-year rolling reviews of its regulations and will post progress reports on its reform efforts on the agency’s website.

The NCUA participates on various councils and interagency groups responsible for regulating the financial system. Participation in interagency groups better prepares the 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 in 2019 through the following strategies and initiatives:

- Finish initiating the implementation of Tier 1 amendments and begin the implementation of Tier 2 amendments recommended by the [Regulatory Reform Task Force’s final report](#).
- Participate in development of financial system regulations and guidance as applicable to credit unions.
- Participate in interagency meetings including FSOC, FFIEC and FBIIC, and their related 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.
- Provide live streaming of open Board meetings and social media coverage of open Board meetings and webinars to increase awareness of agency activities in real time.
- Use available technologies such as webinars, websites, and social media integration to increase the digital reach of the NCUA’s regulatory activities and initiatives and raise awareness among credit unions of important regulatory information.
- 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.

**Indicators**

1. Initiate implementation of all remaining Tier 1 amendments recommended by the [Regulatory Reform Task Force](#).
2. Review one-third of all regulations, annually.
Performance Goal 2.1.2

Increase awareness of regulatory activities

Indicator

1. Increase web traffic to regulatory information on NCUA.gov by five percent

Strategic Objective 2.2

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

The NCUA’s assessment of compliance risk encompasses all of the federal consumer financial protection laws and regulations the agency 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, the NCUA’s established regulations. The NCUA’s fair lending examination program is designed to ensure credit unions comply with the rules and regulations established to protect consumers. Targeted consumer compliance reviews are also a consideration during risk-focused examinations.

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 in 2019 through the following strategies and initiatives:

- Provide timely guidance to the credit union system and examiners related to changes in rules and regulations established to protect consumers
- 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
- Develop scoping for targeted consumer compliance reviews during 2019 risk-focused examinations and provide tools and resource materials to examination staff
- Train field examination staff on federal consumer financial protection compliance regulations and their effective implementation
Monitor consumer complaints and fair lending examination and offsite supervision contacts results to guide consumer compliance program development

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

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

Collaborate with other federal regulatory agencies as appropriate to protect consumers using credit union products and services

Actively participate in FFIEC working groups and in Financial Literacy Education Commission meetings

Maintain the consumer compliance regulatory resource page on NCUA.gov

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

Use available delivery channels to promote consumer financial protection education

Conduct a webinar with the credit union industry on consumer financial protection law matters

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

Performance Goal 2.2.2

Empower consumers with information to make independent and informed financial decisions

Indicators

1. Develop and maintain direct to consumer financial literacy public awareness initiatives such as events, videos, or materials focused on current consumer financial protection and financial literacy matters
2. Expand the NCUA’s digital consumer financial literacy outreach efforts through the agency’s consumer-facing website MyCreditUnion.gov, including espanol.mycreditunion.gov

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). CURE’s primary mission is to assist credit unions through all the various stages of expansion and strategic development. CURE develops online training, manages the minority depository preservation program, and administers the grants and loans program, the Community Development Financial Institutions (CDFI) certification streamlined application, as well as other initiatives. The office provides support to credit unions looking for assistance with chartering, charter conversions, by-law amendments, field-of-membership expansions, and navigating the low-income designation process.

CURE is also responsible for chartering new credit unions, and providing guidance and advice on the effectiveness of policies and procedures related to the operations of new and developing credit unions.

The NCUA will facilitate access to federally insured credit union financial services in 2019 through the following strategies and initiatives:

- 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
- Promote programs to assist credit unions with providing access to financial services
- Structure the CDRLF grant initiatives to assist credit union outreach and financial services efforts in 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
- Increase usage of CURE’s learning management system, which offers an organized, user-friendly method for credit unions to access offsite training and resource materials.
- Promote the value of diversity and inclusive financial services in credit unions
- Develop educational materials for organizing groups on how to charter new credit unions
- Notify credit unions newly qualifying for low-income status of their eligibility, semi-annually
- Develop training courses specific to minority depository institutions
- Regularly update and expand the content of the NCUA’s consumer website
- Release all consumer financial protection videos with Spanish subtitles

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. Perform 30 reviews of approved community expansion plans.

Performance Goal 2.3.2

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

**Indicators**

1. Award funds to 40 percent of the minority depository institutions applying for grants
2. Preserve the number of CDFI-certified credit unions to at least 28 percent of the total number of CDFIs
3. Increase the number of registered credit union users of the Learning Management Service training tool by 30 percent
## Strategic Goal 2: Summary Performance Indicators and Targets

<table>
<thead>
<tr>
<th>Goal</th>
<th>Indicator</th>
<th>2016 Actual</th>
<th>2017 Actual</th>
<th>2018 Actual</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1.1</td>
<td>Initiate implementation of all remaining Tier 1 amendments recommended by the Regulatory Reform Task Force</td>
<td>N/A</td>
<td>N/A</td>
<td>Tier 1 Amendments Began</td>
<td>Third Quarter 2019</td>
</tr>
<tr>
<td></td>
<td>Review one-third of all regulations, annually</td>
<td>1/3</td>
<td>1/3</td>
<td>N/A</td>
<td>1/3</td>
</tr>
<tr>
<td>2.1.2</td>
<td>Increase web traffic to regulatory information on NCUA.gov by five percent</td>
<td>4,228,672</td>
<td>4,559,630</td>
<td>4,229,857</td>
<td>Greater than or Equal to 5% Increase</td>
</tr>
<tr>
<td>2.2.1</td>
<td>Complete 25 fair lending examinations, annually</td>
<td>24</td>
<td>26</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>49</td>
<td>40</td>
<td>Greater than or Equal to 40</td>
</tr>
<tr>
<td>2.2.2</td>
<td>Develop and maintain direct to consumer financial literacy public awareness initiatives such as events, videos, or materials, focused on current consumer financial protection and financial literacy issues</td>
<td>2</td>
<td>2</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Expand the NCUA’s digital consumer financial literacy outreach efforts through the agency's consumer-facing website, MyCreditUnion.gov, including espanol.mycreditunion.gov</td>
<td>829,064</td>
<td>753,588</td>
<td>865,195</td>
<td>850,000</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>40</td>
<td>54</td>
<td>51</td>
<td>Average 60 Days</td>
</tr>
<tr>
<td></td>
<td>Perform 30 reviews of approved community expansion plans</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>30</td>
</tr>
<tr>
<td>2.3.2</td>
<td>Award funds to 40 percent of the minority depository institutions applying for grants</td>
<td>40%</td>
<td>69%</td>
<td>91%</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>27%</td>
<td>28%</td>
<td>27%</td>
<td>28%</td>
</tr>
<tr>
<td></td>
<td>Increase the number of registered credit union users of the Learning Management Service training tool by 30 percent</td>
<td>N/A</td>
<td>N/A</td>
<td>37%</td>
<td>30%</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>3.1.1 Deliver timely and relevant training and leadership development programs for all staff</td>
</tr>
<tr>
<td></td>
<td>3.1.2 Promote inclusive leadership that values diverse perspectives and maximizes employees’ contributions</td>
</tr>
<tr>
<td></td>
<td>3.1.3 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>3.2.1 Implement a human capital plan to support strategic and business priorities</td>
</tr>
<tr>
<td></td>
<td>3.2.2 Protect NCUA staff, facilities and critical infrastructure</td>
</tr>
<tr>
<td></td>
<td>3.2.3 Implement secure, reliable and innovative technology solutions</td>
</tr>
<tr>
<td></td>
<td>3.2.4 Gain efficiencies through quality processes, systems, and project management</td>
</tr>
<tr>
<td>3.3 Ensure sound corporate governance</td>
<td>3.3.1 Foster an effective risk management and internal control environment</td>
</tr>
<tr>
<td></td>
<td>3.3.2 Align NCUA’s resources to focus on executing and supporting the core mission</td>
</tr>
<tr>
<td></td>
<td>3.3.3 Promote sound financial management and stewardship principles</td>
</tr>
</tbody>
</table>

Strategic Goal 3 encompasses fundamental business processes and management responsibilities within the NCUA: human capital, employee and operational security, information technology systems and assets, financial management, and employee engagement. This goal emphasizes organizational excellence through effective, efficient, and inclusive recruiting, hiring, training, and career development processes that support and promote diversity within the workplace. It also includes efforts to establish reliable and effective technology solutions, innovative business processes, robust security programs, and sound financial stewardship.
Strategic Objective 3.1

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

Developing a highly qualified workforce begins with recruitment and assessment of candidates. The NCUA is committed to filling positions with the best-qualified applicants. The NCUA uses robust outreach strategies to reach and attract applicants and is using new and innovative assessment tools to recruit the highest quality candidates. These assessments increase the validity of the recruitment process and ensure applicants meet standards in technical and non-technical competencies essential for an effective workforce.

The NCUA prioritizes diversity and inclusion as a strategic business imperative. The NCUA has outlined its commitment to employee diversity in its *2018-2022 Diversity and Inclusion Strategic Plan*, which was published on the NCUA website after the release of the agency-wide strategic Plan. Promoting diversity of backgrounds and experiences among the agency’s staff helps leverage each employee’s unique skillset, while empowering them to pursue opportunities for development and growth. Creating an inclusive work environment ensures that each employee is able to contribute to the mission and drives innovation and collaboration. A diverse workforce and inclusive work environment in turn, builds a stronger agency. The *Diversity and Inclusion Strategic Plan* sets five goals, which are aligned with the goals from NCUA’s agency-wide strategic plan:

- Workforce Diversity: Sustain a skilled, highly engaged, and diverse workforce at all levels, including leadership
- Inclusion: Cultivate an inclusive workplace where employees’ unique talents, skills, and perspectives are valued and leveraged
- Equal Opportunity: Ensure equal opportunity with proactive workplace resolutions
- Supplier Diversity: Build a robust and integrated supplier diversity program within the NCUA
- Credit Union Diversity: Promote diversity and inclusion as valued business imperatives in the credit union system

To supervise federally insured credit unions properly, all staff must receive the training necessary to develop their skills and abilities for identifying and mitigating risk. In 2019, the NCUA plans to deploy a new learning management system to increase the availability of on-demand training for all employees, and to accommodate the variety of new courses being developed with other offices. The NCUA will also continue reviewing and revising its training curricula to highlight regulatory and other changes to business context, respond to emergent industry trends, and address employee feedback.
The NCUA’s Talent Management Council has prioritized employee engagement as a critical factor for strengthening agency performance. Workforce engagement is critical to the successful performance of the NCUA, as an engaged workforce is more efficient, productive, and accountable to the success and results produced by the agency. An engaged workforce has increased energy, innovation, and drive for personal growth and is more flexible during times of change. For these reasons, each office throughout the organization has developed its own workforce engagement action plan to manage and grow its employees’ relationship with the NCUA. Additionally, programs that cultivate an inclusive environment are important in building understanding and connections between employees and creating a sense of belonging within the agency.

Improved employee engagement is also expected to lead to better employee retention. The NCUA will continue to develop strategies to reward and retain current employees who contribute to the agency’s success.

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

- Enhance the agency’s human capital data analytics while maintaining current staffing operations
- Increase the use of validated assessment tools for recruitment to select and promote the highest quality candidates
- Address and eliminate barriers to equal employment opportunity where low participation exists
- Provide training on a timely basis to help staff understand emerging risk areas in the credit union system and related mitigation strategies
- Survey student experience in training classes and incorporate feedback into course design to improve future training
- Develop and redesign several core and specialized training classes for examiners
- Offer leadership development programs 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
- Provide diversity training to all NCUA employees to build agency-wide inclusion competencies, skills, and awareness
- Expand the NCUA diversity and inclusion curriculum and training materials, focusing on unconscious bias and inclusive leadership
- Publish advertisements that target diverse communities
• Develop and implement office-specific action plans targeting increased employee engagement
• Evaluate the results of the Employee Viewpoint Survey and implement changes as necessary to address lower scoring areas
• Send regulatory and policy action materials to staff prior to external release
• Publish the Inside NCUA newsletter to keep staff apprised of changes and issues
• Actively monitor and promptly respond to Ask NCUA questions from staff

Performance Goal 3.1.1

Deliver timely and relevant training and leadership development programs for all staff

Indicators

1. Obtain at least an 85 percent average satisfaction rating in training class evaluations
2. Implement a new Learning Management System for NCUA employees and state examiners

Performance Goal 3.1.2

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

Indicators

1. Improve the 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 the NCUA’s score for OPM’s Federal Employee Viewpoint Survey 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 the NCUA’s Federal Employee Viewpoint Survey Employee Engagement Index by two percentage points
2. Obtain at least an 89 percent (3.56 out of 4) average satisfaction rating in new employee surveys

Strategic Objective 3.2

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

At the start of 2019, the NCUA took the final steps to implement the agency reorganization plan approved by the Board in July 2017. Five regional offices were consolidated to three, and the two former regional office locations were closed. All staff reassignments and personnel actions were finalized.

More than just restructuring office assignments and reporting relationships, however, the reorganization’s purpose is to focus the agency on its core mission responsibilities by improving operational efficiency and effectiveness, as well as accomplishing the following:

- Eliminate, consolidate and streamline offices with similar or overlapping functions;
- Restructure offices to improve the efficiency within 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.

In 2019, the NCUA will continue improving its operations while focusing on core mission responsibilities. Specific focus areas include:

- Strengthening the agency’s internal processes to support strategic and business priorities
- Protecting the NCUA’s staff, facilities and infrastructure;
- Implementing technology solutions that are secure, reliable, and innovative; and
- Improving the agency’s processes, systems and project management.

The NCUA’s employees are its most valuable asset. The NCUA’s Talent Management Council is made up of senior agency leadership and has identified four focus areas for workforce development in 2019: workforce alignment and engagement; training and
development; leadership skills building; and technology advancements. In each of these areas, the Office of Human Resources will work in a systematic way to improve the agency’s engagement with and management of its employees. Targeted outreach to employees will help maximize employee performance and enable organizational success. Other efforts include standardizing documentation of mission critical employee skills and developing continuous training options to maintain and improve employees’ specialty knowledge of complex issues and trends within the financial services industry.

The NCUA is dedicated to ensuring its employees have safe workplaces and that the agency is prepared for emergencies that may affect its operations. The Office of Continuity and Security Management (OCSM) is responsible for the agency’s continuity of operations and emergency management programs, physical security at NCUA facilities, personnel security, and national security and intelligence activities. In 2019, OCSM will ensure the preparedness and safety of the NCUA workforce by delivering relevant training about security, insider threats, and continuity of operations. OCSM will also work to ensure the NCUA is equipped with reliable communications systems for use during natural or man-made disasters, and that relevant agency personnel can use these resources. Finally, OCSM will continue to link the intelligence community to the credit union system, by leading the NCUA’s threat analysis and working with the Intelligence Community and other partners to communicate threats to those in the credit union system who might be impacted. Appendix C discusses cybersecurity threats in more detail and the actions the NCUA is taking to address these threats.

The Office of Business Innovation (OBI) partners with OCIO to implement future-facing technology solutions for the NCUA workforce and business processes. An integral part of OBI’s efforts is identifying how quality processes and systems can drive efficiency at the NCUA. In 2019, OBI and OCIO will continue managing the Examination and Supervision Solution and Data Strategy Framework projects while starting market research and procurement activities related to the NCUA’s Data Collection and Sharing Solution project.

Once implemented, the Examination and Supervision Solution system 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 primary goal of the Examination and Supervision Solution project is to implement a secure, new, flexible, technical foundation to enable current and future NCUA business process modernization initiatives.

In addition to its partnership with OBI, OCIO is responsible for providing secure, innovative information technology services and solutions to the entire NCUA enterprise. The continued and growing reliance of the NCUA and the credit union system on technology makes OCIO critical for ensuring organizational effectiveness, creating business efficiencies, and supporting mission success. As reflected by the capital investments the NCUA makes in information technology systems, it is critical that
OCIO staff not only work within the agency to identify the best technology solutions that support mission success, but that such investments be made through cost-effective and well-managed projects.

The NCUA is also working to streamline its field operations to ensure the agency’s staff carries out their responsibilities in an efficient and effective manner. One initiative the NCUA will pilot in 2019 is a program to evaluate the appropriateness and feasibility of carrying out alternating-year examinations for federally insured state-chartered credit unions. The pilot will allow the NCUA, state regulators, and stakeholders to evaluate the benefits and challenges of an alternate-year examination schedule and will need to run approximately three years to evaluate one full alternating-year exam cycle. The results of the pilot will provide valuable insight into the advantages and risks of such an approach prior to finalizing a decision about a permanent alternating-year exam cycle.

To deliver an efficient organizational design supported by improved business processes and innovation in 2019, the NCUA will carry out the following strategies and initiatives:

- Finalize implementation of the NCUA reorganization as approved by the Board in July, 2017
- Refresh the agency’s Human Capital Strategic Plan, including specific succession strategies for determining the knowledge, skills, and abilities necessary to fill critical staff positions
- Develop workforce plans for NCUA offices to identify the changing needs of the agency
- Ensure the NCUA is equipped with reliable means of communication during natural or man-made disasters and that personnel are sufficiently trained to use these resources
- Deliver relevant and timely security, insider threat risk, and continuity of operations trainings to impacted staff
- Deliver the first deployment of the NCUA’s Examination and Supervision Solution
- Transition all customers whose accounts are managed through AMAC to a modernized servicing system that supports financial operations and creates operational efficiencies
- Ensure that OCIO staff use industry and government best practices in project and acquisition management
- Strengthen the agency’s cybersecurity and continue to ensure compliance with the Federal Information System Management Act
- Reduce solution delivery time and development costs through investments in enterprise architecture and expanded portfolio management support
Performance Goal 3.2.1

Implement a human capital plan to support strategic and business priorities

**Indicators**

1. Develop a 2020 Human Capital plan to include a succession planning strategy
2. Develop workforce plans for NCUA offices to address the changing needs of the agency

Performance Goal 3.2.2

Protect NCUA staff, facilities and critical infrastructure

**Indicators**

1. Deliver relevant, quality insider threat risk and continuity of operations training to impacted staff annually
2. Obtain a score of 73 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. Conduct ONES examinations and supervision contacts for all federal credit unions with assets greater than $10 billion and joint exams with state regulators in federally insured state-chartered credit unions with assets greater than $10 billion in Washington and North Carolina using the Modern Examination and Risk Identification Tool (MERIT), commencing October 7, 2019
2. Complete the replacement of end-of-life telephone system with a scalable, integrated VoIP system
Performance Goal 3.2.4

Gain efficiencies through quality processes, systems, and project management

Indicators

1. Improve Tier 1 resolution rate (incidents resolved without transferring or escalating) for the NCUA service desk by five percentage points
2. Effectively train NCUA and State examiners participating in the NCUA Alternating State Exam Pilot Program
3. Enhance project and acquisition management practices by ensuring 90 percent of OCIO staff are certified as Level I Contracting Officer Representatives (CORs) and 60 percent are certified as Level II CORs by year-end

Strategic Objective 3.3

Ensure Sound Corporate Governance

Over the past several years, the NCUA has strengthened its processes and procedures that ensure: the soundness of its four permanent funds; the responsible management of its investments, liquidity, liquidated and acquired assets, and other financial resources; the prudent execution of the NCUA’s role as a fiduciary; and the agency’s compliance with financial management policies and standards. The NCUA works to maximize the use of its resources by continually improving its operations and strengthening its internal controls.

The Office of the Chief Financial Officer (OCFO) is responsible for a wide range of agency financial management, risk identification, and accountability processes, including:

- Budget formulation and management
- Day-to-day financial management and accounting functions
- NCUA strategic planning
- Development of the annual performance plan
- Administration of the agency’s enterprise risk management function
- Facilities management
- Acquisitions and procurement
- Administration of credit union operating fees and Share Insurance Fund capitalization deposits and operations
OCFO operations are critical to ensuring NCUA employees have the resources needed to perform their jobs. OCFO also provides various analyses and scheduled presentations to the NCUA Board and executive leadership team so they can make informed decisions, achieve the agency’s mission objectives, and ensure the NCUA operates efficiently and effectively.

Annually, the NCUA assesses the effectiveness of its internal controls, noting areas of specific improvement since the previous study and areas that require future focus to preclude negative results. Although the internal control assessment is an OCFO responsibility, the office partners with managers across the agency to improve the quality of controls and encourages risk self-identification and resolution when improvement opportunities are identified.

More generally, the NCUA employs an Enterprise Risk Management (ERM) program to inform executive leadership of various factors (both internal to the agency and external in the industry) that can affect the agency’s performance relative to its mission, vision, and performance outcomes. The NCUA’s ERM Council provides oversight of the agency’s enterprise risk management activities. The ERM program was established in 2015 to include an enterprise risk appetite statement and risk taxonomy. Since then, the NCUA has identified priority risk areas for focused study. In 2018, the NCUA identified a number of enterprise risks that helped inform the agency’s planning and budget processes, and assigned roles and responsibilities for monitoring risks in several specific activities.

Overall, the NCUA’s ERM program promotes awareness of risk, which, when combined with robust measurement and communication, are central to cost-effective decision-making and risk optimization within the agency.

To ensure sound corporate governance in 2019, the NCUA will implement the following strategies and initiatives:

- Provide financial management expertise and support to external and internal customers
- Assess its accounting and financial management systems for operational efficiency and cost-effectiveness, evaluating alternative approaches for the potential to deliver better value to financial operations
- Implement sound business processes that promote efficiency in operations, and support accountability and decision making
- Continue to strengthen the agency’s financial reporting processes to promote efficiency and continuous improvement while improving internal controls
- Continue to mature the NCUA ERM program by completing additional risk response plans for the agency’s top-tier risks
Formally integrate risk analysis into the agency’s budgetary decision-making process

Issue competitive solicitations for procurement actions to allow for market pricing, higher quality proposal submissions, and a distributed vendor base

Leverage tools, processes and resources for increasing opportunities to minority- and women-owned businesses in the NCUA competitive procurement process. Preliminary results for 2018 are promising; through the third quarter, contracts awarded to minority- and women-owned businesses account for close to 42 percent of the total value of NCUA’s contracts, up from 39 percent for the same period in 2017

Improve the public presentation of budget and performance information to stakeholders

Performance Goal 3.3.1

Foster an effective risk-management and internal-control environment

**Indicators**

1. Develop risk response plans for 75 percent of the NCUA’s Tier 1 enterprise risks
2. Complete at least 90 percent of OIG and GAO recommendations due in 2019 within the established timeframes
3. Improve by five points the NCUA leadership's assessment of the adequacy of its internal controls environment

Performance Goal 3.3.2

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

**Indicators**

1. Maintain baseline ratio of NCUA costs relative to credit union insured shares regulated
2. Continue maturation of the NCUA Enterprise Risk Management (ERM) program for top tier risks identified through ERM, integrate risk response plans into 2020 budget processes
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>2016 Actual</th>
<th>2017 Actual</th>
<th>2018 Actual</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1.1</td>
<td>Obtain at least an 85 percent average satisfaction rating in training class evaluations</td>
<td>88%</td>
<td>85%</td>
<td>85% as of Third Quarter</td>
<td>85%</td>
</tr>
<tr>
<td></td>
<td>Implement a new internal Learn Management System for NCUA employees and state examiners</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Fourth Quarter 2019</td>
</tr>
<tr>
<td>3.1.2</td>
<td>Improve the 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>67.3</td>
<td>65.7</td>
<td>65.0</td>
<td>66.0</td>
</tr>
<tr>
<td></td>
<td>Improve the 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>65</td>
<td>63</td>
<td>64</td>
</tr>
<tr>
<td>3.1.3</td>
<td>Improve the NCUA’s Federal Employee Viewpoint Survey Employee Engagement Index by two percentage points</td>
<td>73%</td>
<td>69%</td>
<td>67%</td>
<td>Greater than or Equal to 69%</td>
</tr>
<tr>
<td></td>
<td>Obtain at least an 89 percent (3.56 out of 4) average satisfaction rating in new employee surveys</td>
<td>87%</td>
<td>82%</td>
<td>89%</td>
<td>Greater than or Equal to 89%</td>
</tr>
<tr>
<td>3.2.1</td>
<td>Develop a 2020 Human Capital Plan to include a succession planning strategy</td>
<td>N/A</td>
<td>N/A</td>
<td>Human Capital Plan Approved</td>
<td>Third Quarter 2019</td>
</tr>
<tr>
<td></td>
<td>Develop workforce plans for NCUA offices to address the changing needs of the agency</td>
<td>N/A</td>
<td>N/A</td>
<td>28%</td>
<td>50% of all Offices</td>
</tr>
<tr>
<td>3.2.2</td>
<td>Deliver relevant, quality insider threat risk and continuity of operations trainings to impacted staff annually. Measured in percent of staff trained</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100% of targeted groups</td>
</tr>
<tr>
<td>Goal</td>
<td>Indicator</td>
<td>2016 Actual</td>
<td>2017 Actual</td>
<td>2018 Actual</td>
<td>Target</td>
</tr>
<tr>
<td>------</td>
<td>-----------</td>
<td>-------------</td>
<td>-------------</td>
<td>-------------</td>
<td>--------</td>
</tr>
<tr>
<td>3.2.2</td>
<td>Achieve a score of 73 percent or above on the NCUA’s Federal Employee Viewpoint Survey Question 36 “My organization has prepared employees for potential security threats”</td>
<td>82%</td>
<td>76%</td>
<td>76%</td>
<td>Greater than or Equal to 73%</td>
</tr>
<tr>
<td>3.2.3</td>
<td>Conduct ONES examinations and supervision contacts for all federal credit unions with assets greater than $10 billion and joint exams with state regulators in federally insured state-chartered credit unions with assets greater than $10 billion in Washington and North Carolina using the Modern Examination and Risk Identification Tool (MERIT), commencing October 7, 2019</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Complete the replacement of end of life telephone system with scalable, integrated VoIP system</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Fourth Quarter 2019</td>
</tr>
<tr>
<td>3.2.4</td>
<td>Improve Tier 1 resolution rate (incidents resolved without transferring or escalating) for the NCUA service desk by five percentage points</td>
<td>N/A</td>
<td>N/A</td>
<td>Baseline Established</td>
<td>68%</td>
</tr>
<tr>
<td></td>
<td>Effectively train NCUA and State Examiners participating in the NCUA Alternating State Exam Pilot program</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>December 31, 2019</td>
</tr>
<tr>
<td></td>
<td>Enhance project and acquisition management practices by ensuring 90 percent of OCIO staff are certified as Level I Contracting Officer Representatives (CORs) and 60 percent are certified as Level II CORs by year-end</td>
<td>N/A</td>
<td>N/A</td>
<td>67% COR I certified, 48% COR II certified</td>
<td>90% COR I certified, 60% COR II certified</td>
</tr>
<tr>
<td>3.3.1</td>
<td>Develop initial risk response plans for 75 percent of the NCUA's tier 1 enterprise risks</td>
<td>N/A</td>
<td>N/A</td>
<td>25%</td>
<td>75%</td>
</tr>
<tr>
<td></td>
<td>Complete at least 90 percent of OIG and GAO recommendations due in 2019 within the established timeframes</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>90%</td>
</tr>
<tr>
<td></td>
<td>Improve by five points the NCUA leadership's assessment of the adequacy of its internal controls environment</td>
<td>N/A</td>
<td>N/A</td>
<td>Baseline established</td>
<td>5 points over Baseline</td>
</tr>
<tr>
<td>Goal</td>
<td>Indicator</td>
<td>2016 Actual</td>
<td>2017 Actual</td>
<td>2018 Actual</td>
<td>Target</td>
</tr>
<tr>
<td>------</td>
<td>-----------</td>
<td>-------------</td>
<td>-------------</td>
<td>-------------</td>
<td>--------</td>
</tr>
<tr>
<td>3.3.2</td>
<td>Maintain baseline ratio of NCUA costs relative to credit union insured shares regulated</td>
<td>N/A</td>
<td>N/A</td>
<td>Baseline Established</td>
<td>Maintain Baseline of 0.026%</td>
</tr>
<tr>
<td></td>
<td>Continue maturation of the NCUA Enterprise Risk Management (ERM) program; for top tier risks identified through ERM, integrate risk response plans into 2020 budget processes</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Third Quarter 2019 Budget Submissions</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></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>83% as of Third Quarter</td>
<td>70%</td>
</tr>
</tbody>
</table>
Management Review

The 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 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.

The 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. OCFO 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 to inform future development of strategies, goals, measures, and targets. For this performance plan, each office provided their analysis and support for each performance goal.

Several performance indicators in this plan are new for 2019; 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 agency’s performance 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 2019, the NCUA plans to establish an Enterprise Data Analytic Council and has budgeted for continued improvements to its data management system including further development of business intelligence tools and an enterprise data governance framework. Through these efforts, agency analysis and reporting will be 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 the 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 the NCUA, an effective risk management approach requires a defined framework where specific risks and broader organizational risks are identified, measured, and monitored by functional owners and consolidated by an independent risk-management oversight function. Working collaboratively with functional owners, the risk-management apparatus prioritizes and optimizes risk management and mitigation on a consistent and continuous basis to increase the NCUA’s success at achieving stated strategic goals. Effective internal controls, combined with robust measurement and communication are central to effective decision-making and risk optimization within the NCUA.

The NCUA’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 to include an enterprise-risk-appetite statement. In 2019, the NCUA will continue to progress its risk profile, including risk responses for Tier 1 enterprise risks.
Hyperlinks

2018–2022 Strategic Plan
2018-2022 Diversity and Inclusion Strategic Plan
NCUA Budget Documents
Enterprise Solution Modernization (ESM) Program
Cybersecurity Resources
Consumer Compliance Regulatory Resources
## Appendix A – Budgetary Requirements by Strategic Goal

### FY 2019 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>OIG</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dollars</td>
<td>Percent</td>
<td>Dollars</td>
<td>Percent</td>
<td>Dollars</td>
</tr>
<tr>
<td>$203.5</td>
<td>66.9%</td>
<td>$28.7</td>
<td>9.4%</td>
<td>$68.5</td>
</tr>
</tbody>
</table>

### FY 2019 Projected FTE by Strategic Goal

<table>
<thead>
<tr>
<th>Strategic Goal 1</th>
<th>Strategic Goal 2</th>
<th>Strategic Goal 3</th>
<th>OIG</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTE</td>
<td>Percent</td>
<td>FTE</td>
<td>Percent</td>
<td>FTE</td>
</tr>
<tr>
<td>934.2</td>
<td>79.3%</td>
<td>115.8</td>
<td>9.8%</td>
<td>118.0</td>
</tr>
</tbody>
</table>

Expenses for the offices of Board, Executive Director, Public and Congressional Affairs and Chief Financial Officer are allocated across all strategic goals.

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5 The NCUA’s 2019 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 1,170 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 2019–2020 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 2019

The economic environment is a key determinant of credit union performance. For the past few years, the economy has supported solid performance of the credit union system. The current consensus of forecasters suggests the economic environment will continue to support credit union performance over the next two years. The U.S. economy is expected to grow at a solid pace, employment is projected to rise, and the unemployment rate will remain low. Favorable economic conditions should remain a positive force for overall credit union lending, membership growth, and credit quality, but continued tightness in labor markets could lead to higher interest rates. While the consensus economic forecast appears largely supportive of credit unions, economic forecasts are far from perfect. Some analysts are suggesting the long expansion could end during the plan’s performance period. A recession would likely be associated with rising delinquencies, reduced loan demand, and, potentially, an increase in shares as consumers move funds from riskier investments into safer, insured credit union deposits. Credit unions need to plan and prepare for a range of economic outcomes that can affect their performance and determine resource needs.

In addition to risks associated with movements in the general economy, credit unions will need to understand their increasing exposure to, and address risks associated with, ongoing technological and structural changes. 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.

Economy and Credit Unions

The U.S. economy is expected to grow at a solid but somewhat slower pace over the next two years as the effects of the fiscal stimulus that boosted growth in 2018 are expected to subside. Labor markets may continue to tighten as employment rises and the unemployment rate – which is already below the level associated with full employment – declines slightly. Policymakers are expected to raise short-term interest rates in order to keep consumer price inflation near the Federal Reserve’s 2-percent target.

The latest projections from Federal Reserve policymakers indicate that the federal funds target rate could move considerably higher over the next two years as they seek to fulfill their dual mandate of maintaining maximum employment and low inflation. The median midpoint of policymakers’ forecasts of the federal funds target range suggest it will rise from its December 2018 level of 2.4 percent to 2.9 percent at the end of 2019 and reach 3.1 percent in late 2020.
Interest Rate Risk

The consensus forecast indicates that credit unions’ ability to manage and mitigate interest rate risk will become increasingly important to their success. On the liability side, rising deposit rates, if realized, could force credit unions to adapt more quickly than they have done in the past, since many members have a number of financial institution alternatives and can move funds quickly across institutions. Of the nearly 20 percent of households using a credit union as their primary financial institution, 60 percent also use a bank for some type of financial service.6

On the asset side, the low interest rate environment of the past decade has led some credit unions to lengthen the term of investments to boost their portfolio’s earnings or to lock in relatively low rates on long-term loans like mortgages. For affected credit unions, higher deposit rates will push up against low loan rates, which would compress net interest margins.

While the consensus forecast is for rising rates, slower-than-expected growth could keep rates down or cause them to fall. 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.

6 Federal Reserve Board, 2016 *Survey of Consumer Finances.*
Risks to the U.S. Economic Forecast

Although the near-term outlook for the U.S. economy is favorable, there are risks on the horizon that could lead to slower-than-expected growth in the United States. Some of the potential consequences for credit unions include weaker deposit and membership growth, reduced credit union loan demand and higher credit risk. Downside risks for the economy include rising trade barriers and tariff-related uncertainty, slowing global growth, and falling oil prices.

While many forecasters think the balance of risks is now tilted to the downside, there are upside risks that could lead to faster-than-expected growth in the U.S. economy, including unanticipated strength in consumer spending, or expansionary fiscal policy changes. Stronger growth would lift credit union lending activity, credit quality and membership growth but, with the economy already near or below full employment, inflation could also rise and interest rates could increase more than expected.

Other Emerging Risk Areas for Credit Unions

Beyond macroeconomic risks, the NCUA and credit unions will need to understand and adapt to other emerging financial and demographic trends. These may not only affect credit unions but may also affect the resource needs of the NCUA.

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

**Financial Landscape and Technology**: New financial products that mimic deposit and loan accounts, such as mobile payment systems, pre-paid shopping cards and peer-to-peer lending are emerging. These products pose a competitive challenge to credit unions and banks alike. Credit unions also face a range of challenges from financial technology (fintech) companies in the areas of lending and the provision of other services. For example, underwriting and lending may be automated at a cost below levels associated with more traditional financial institutions, but may not be subject to the same regulations and safeguards that credit unions and other traditional financial institutions face. The emergence and 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 their products and services and rethink their business models. In 2018, the NCUA convened two working groups to study these issues: the Fintech Working Group and the Blockchain Working Group.
Technological changes outside the financial sector may also lead to changes in consumer behavior that indirectly affect credit unions. For example, the increase in on-demand use of auto services and the potential for pay-as-you-go on-demand vehicle rental could reduce purchases of consumer-owned vehicles. That could lead to a slowdown or reduction in the demand for vehicle loans, now slightly more than a third of the credit union system loan portfolio.

Smaller credit unions’ challenges and industry consolidation: Small credit unions face challenges to their long-term viability for a variety of reasons, including lower returns on assets, 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. As of September 30, 2018, there were 543 federally insured credit unions with assets of at least $500 million, 16 percent more than five years earlier. These 543 credit unions accounted for 71 percent of credit union members and 77 percent of credit union assets. Large credit unions tend to offer more complex products, services and investments. Increasingly complex institutions will pose management challenges for the institutions themselves, as well as the NCUA since consolidation means the risks posed by individual institutions will become more significant to the Share Insurance Fund.

Membership Trends: While overall credit union membership continues to grow strongly, close to half of federally insured credit unions had fewer members at the end of the third quarter of 2018 than a year earlier. 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.
Cybersecurity

Credit unions’ increasing use of technology exposes the credit union system to increasing cyber-attacks. Malware, ransomware, distributed denial of service (DDOS) attacks, and other forms of cyber intrusion affect credit unions of all sizes, and will require ongoing measures for containment. These trends are likely to continue, and even accelerate, over the next two years.

The banking and payment systems remain attractive targets to cyber criminals because they provide more direct cash out opportunities. Cyber risk in this area is generally better understood and fraud indicators are in place; however, cyber criminals are focusing more on smaller institutions’ websites and supply chain networks. Credit unions must take a strategic risk management approach, which includes continual hardening and improving security of their networks, as well as a thorough review and mitigation of risk with their respective supply chains.

The FSOC, of which the NCUA Chairman is a member, continues to highlight the importance of improving cybersecurity to combat the growing risks to individual institutions, financial market infrastructure, and financial stability.

In its 2018 Annual Report, 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 more robust security of third-party vendors and their servicers and advocates for legislation to grant examination and enforcement powers to the NCUA to oversee these and other third-party providers.
To improve and standardize supervision related to cybersecurity, the NCUA is implementing the 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 maturity 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 using a transparent methodology.

The NCUA Cyber Threat Working Group is maturing its coordination of cybersecurity initiatives such as detecting emerging threats, enhancing information sharing, identifying mitigation measures and improving response and resiliency efforts. The group serves as the NCUA’s primary mechanism to receive and share intelligence reports on industry-facing cyber threats, which the NCUA receives directly from various federal sources.