

The background of the entire page is a close-up, slightly blurred image of the United States flag, showing the stars and stripes in detail.

National Credit Union Administration

Annual Performance Budget 2007

NCUA Annual Performance Budget 2007

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Message from the NCUA Board

We are pleased to present the National Credit Union Administration's (NCUA) Annual Performance Budget 2007. NCUA Annual Performance Budget 2007 supports NCUA Strategic Plan 2006-2011 and our mission, vision and strategic goals. NCUA Annual Performance Budget 2007 was formulated to also uphold and maintain the public's trust as the independent federal regulator of the credit union system. It focuses on the following key areas:

- Risk management and control of losses to the NCUSIF
- Credit union partnerships
- View of NCUA and the credit union system by external stakeholders
- NCUA succession planning

The annual performance budget discusses objectives for each of these areas as well as the strategies planned to accomplish them. While each of these areas will receive additional emphasis in 2007, all of NCUA operations will remain intent on our overall mission to facilitate the availability of credit union services to those in need by promoting a safe and sound credit union system. The 2007 focus areas will play an important incremental role in accomplishing our mission.

The 2007 Annual Performance Budget is designed to provide broad, agency-wide direction. Each region and office within NCUA will develop their own annual operating budget and these individual plans include the specific and detailed strategies used by staff to accomplish agency-wide objectives.

We invite you to learn more about NCUA's efforts in NCUA Annual Performance Budget 2007.



JoAnn Johnson
Chairman



Rodney E. Hood
Vice Chairman



Gigi Hyland
Board Member

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Introduction

NCUA is the independent federal agency that charters and supervises federal credit unions, and, through the National Credit Union Share Insurance Fund (NCUSIF), insures a majority of member deposits held in the nation's credit unions. NCUA insures member deposits in all federally chartered credit unions and approximately 90 percent of the state chartered credit unions. As such, we work in cooperation with the state supervisory authorities (SSA) to ensure those credit unions insured by the NCUSIF but primarily subject to the regulatory authority of the states provide access to financial services in a safe and sound manner. Our regulatory and oversight responsibilities are entirely funded by federally insured credit unions; receiving no federal tax dollars in the execution of our chartering, supervision and enforcement mission.

NCUA is headquartered in Alexandria, VA with five regional offices located in Albany, NY; Alexandria, VA; Atlanta, GA; Austin, TX and Tempe, AZ. The headquarters office develops nationwide policies and programs for the agency and coordinates the operations of NCUA. The regional offices examine and supervise federally insured credit unions. NCUA's Office of Corporate Credit Unions oversees the nation's corporate credit unions which provide services to natural person credit unions.

Strategic Overview

Mission

Facilitate the availability of credit union services to all eligible consumers, especially those of modest means, through an objective, independent regulatory environment that protects credit union members by fostering a safe and sound credit union system

Vision

A dynamic, self-sustaining, cooperative credit union system that offers financial services to all eligible consumers

The NCUA workforce is directly responsible for the achievement of the mission, vision and strategic goals and as such is the agency's greatest asset. To ensure mission accomplishment, NCUA uses equal employment opportunities to attract, develop and retain the most qualified personnel. The success of NCUA and its employees is directly tied to NCUA's values. These internal values guide NCUA's workforce by providing a constant set of operating principles, even as the operating environment changes.

Values

Integrity – Maintaining open and honest communication and delivering promises as intended.

Respect – Treating each other, credit unions and other industry representatives professionally.

Accountability – Holding ourselves accountable for quality and timely delivery of our commitments.

Independence – Protecting credit union members through objective, autonomous oversight and supervision of federally insured credit unions.

Objectivity – Ensuring safe and sound federally insured credit unions through impartial examinations and compliance evaluations.

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Strategic Goals

To achieve its mission, NCUA has adopted three strategic goals. All three strategic goals serve as the basis for the development of annual objectives. NCUA's three strategic goals are as follows:

Strategic Goal 1

A safe, sound and healthy credit union system

Strategic Goal 2

Access to financial services offered by federally insured credit unions for all eligible consumers throughout the United States

Strategic Goal 3

A prudent, flexible and efficient regulatory environment for all federally insured credit unions

2007 Objectives

NCUA developed four major objectives for 2007 in support of strategic goal accomplishment. Key strategies were developed to support each 2007 objective. NCUA's 2007 objectives and planned strategies for achievement are discussed below:

Objective 1

Effective management of risks to control losses to the NCUSIF

Effective risk management involves identifying, measuring, monitoring and controlling risks. NCUA focuses on those risks with the potential to adversely impact the health of a credit union and ultimately lead to losses. Key risk areas include: credit, interest rate, liquidity, transaction, compliance, strategic and reputation. Effective management of risks supports Strategic Goal 1 – A safe, sound and healthy credit union system.

Strategies

- Enhance agency staff's, the credit union system's and state regulators' responsiveness to risks through written guidance and training
- Provide on-site training to agency staff on problem identification and problem resolution
- Pursue development of risk management tools to include the capability to monitor and identify emerging risk areas on a real-time basis
- Provide prompt and consistent communication of emerging risks and best practices to staff and the credit union industry
- Conduct an analysis of skills to determine any skill gaps and address any developmental needs through training, job aids, new technology, etc
- Safeguard the public trust in federally insured credit unions by maintaining strong, objective and independent oversight of the credit union system

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Objective 2

Encourage Credit Union Partnerships

Through credit union partnerships and other networking relationships, credit union volunteers help develop the knowledge, skills and abilities of staff and/or key officials in developing credit unions. As this process evolves, the results often include significant enhancements in risk management and strategic planning processes in developing credit unions directly supporting Strategic Goal 1. The partnerships also better prepare credit unions to provide eligible consumers access to the financial products and services they need which directly supports Strategic Goal 2.

Strategies

- Make resources available to the Office of Small Credit Union Initiatives who will lead the partnering initiative
- Identify and analyze current levels of partnership participation
- Enhance partnerships through NCUA's Resource Connection Website:
 - The Credit Union Connection – information pertaining to business practices submitted by credit unions nationwide
 - The Partnership Connection – existing partnerships, funding opportunities and partnership tools for credit unions
 - The Training Connection – upcoming agency training events, other governmental training events and presentations from past training events
- Emphasize the public purpose and mission of the credit union system

Objective 3

Enhanced view of NCUA and the credit union system by external stakeholders

An increased awareness of the positive attributes of NCUA and the credit union system may increase credit union loyalty and membership growth and thus support Strategic Goal 2 – Access to financial services offered by federally insured credit unions for all eligible consumers. NCUA's regulatory environment plays an important role in shaping stakeholders' view. A positive view of NCUA and the credit union system has the added benefit of supporting Strategic Goal 3 – A prudent, flexible and efficient regulatory environment for all federally insured credit unions.

Strategies

- Enhance the processes used to disclose information to various stakeholders
- Pursue flexible but prudent rules creating an optimal operating environment
- Provide Congress and the public with success stories and evidence about NCUA and the credit union system
- Further define NCUA's identity regarding "who we are" and "what we do"
- Provide enhanced Public Service Announcements about NCUA and credit unions
- Use good faith efforts to follow through with agreed upon recommendations from the Government Accountability Office
- Communicate positive consequences of enhanced stakeholder focus to all NCUA staff
- Address staff training on the topic of effective communication

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Objective 4

Enhanced NCUA Succession Planning

The preparedness of NCUA staff is vital to strategic goal achievement. With approximately 80 percent of NCUA's managers eligible for retirement within the next 5 years, agency succession planning is a paramount objective. It is not enough to simply have the staff in place. Staff must have the right skill sets and be in the right positions to effectively meet the needs of tomorrow. Enhanced succession planning supports all three strategic goals.

Strategies

- Develop a system to address all aspects of succession planning including the establishment of a formal mentoring program and hiring and developing the right skill sets for the future
- Convey a consistent message of paths to advancement within NCUA
- Develop an effective knowledge management system to ensure information is retained as staff retire
- Establish formal processes and procedures that allow key positions to be temporarily double encumbered to better develop the skill sets needed for important positions
- Redesign NCUA's internal Executive Development Program to distinguish it from NCUA's Management Development Program and to provide the executive competencies needed
- Provide work experiences for Supervisory Examiners outside their assigned regions to gain different perspectives
- Re-evaluate current position descriptions and the list of required knowledge, skills, and abilities to ensure the right traits and talents are targeted to lead NCUA in the future
- Assess the desire of staff to move into management positions and focus efforts on recruiting these potential leaders
- Assess NCUA's pay system to ensure parity with the other FFIEC agency pay systems
- Develop a systematic way to identify and define the future skill sets needed for managers and examiners

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Measures of Success

To understand whether we are successful in accomplishing our goals, NCUA monitors its performance toward goal achievement. Each strategic goal is supported with quantifiable measures developed using available data. The following provides a look at key measures for each strategic goal. Regional and office operating plans include additional measures which support strategic and annual goal achievement. All measures are monitored quarterly using available data.

Strategic Goal 1

A safe, sound and healthy credit union system

How will we know whether the credit union system is safe, sound and healthy? Key long-term indicators include a strong percentage of credit unions with adequately and well capitalized net worth ratios (net worth of 6 percent or greater). NCUA's internal CAMEL rating system is another measure of the health of the credit union system. Credit unions with a CAMEL rating of 1 or 2 include well managed, financially sound institutions as determined through NCUA's risk-focused examination program. The desired levels were established based on historical performance. Over time, these levels provide an indication of the credit union system successfully balancing moderate risk taking with safety and soundness. Regional and office operating plans include measures that look more closely at individual CAMEL component ratings and the risk ratings assigned in the seven areas of risk.

Strategic Measure 1.1		Percentage of adequately and well-capitalized FICUs to all FICUs			
Desired Level 1.1		Maintain above 98 percent			
2002	2003	2004	2005	Est. 2006	Est. 2007
98.82%	98.75%	98.97%	99.14%	99.25%	99%

Strategic Measure 1.2		Percentage of FICU assets with a CAMEL rating of 1 or 2			
Desired Level 1.2		Maintain above 90 percent			
2002	2003	2004	2005	Est. 2006	Est. 2007
94.66%	94.28%	92.22%	93.80%	93.50%	93%

Strategic Measure 1.3		The corporate credit union system's capital ratio			
Desired Level 1.3		Maintain at or above 7 percent			
2002	2003	2004	2005	Est. 2006	Est. 2007
6.66%	6.46%	7.01%	7.25%	7.15%	7.00%

Strategic Measure 1.4		Percentage of corporate credit unions with a CRIS Risk Management rating of 1 and 2			
Desired Level 1.4		Maintain at or above 75 percent			
2002	2003	2004	2005	Est. 2006	Est. 2007
88%	85%	77%	78%	75%	75%

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Strategic Goal 2

Access to financial services offered by federally insured credit unions for all eligible consumers throughout the United States

How will we know whether credit unions are offering financial access? Key long-term measures look at the credit union system's growth in members, assets, loans and shares. Agency operating plans drill down to look at growth in these areas for low-income credit unions as well as the increase in the number of share, first mortgage and member business loan accounts in all federal credit unions.

Strategic Measure 2.1		Percentage increase in total FICU membership, assets, shares and loans				
Desired Level 2.1		To be determined based on economic conditions and performance for all federally insured financial institutions				
All FICUs	2002	2003	2004	2005	Est. 2006	Est. 2007
Membership	2.02%	1.85%	1.38%	1.49%	1.37%	TBD
Assets	11.1%	9.51%	6.04%	4.90%	5.39%	TBD
Loans	6.28%	9.75%	10.1%	10.62%	7.91%	TBD
Shares	10.77%	9.11%	5.26%	3.83%	5.63%	TBD

Strategic Goal 3

A prudent, flexible and efficient regulatory environment for all federally insured credit unions

How will we know whether the regulatory environment is flexible and efficient? The credit union system's market share provides an indicator of whether the established regulatory environment allows credit unions to remain competitive with other financial service providers. Regional and office operating plans include additional measures regarding increases in the number of credit unions that offer key products and services to their membership.

Strategic Measure 3.1		Percentage of the credit union system's market share of federally insured assets ¹ and consumer credit ²				
Desired Level 3.1		Improve or maintain from prior year				
All FICUs	2002	2003	2004	2005	Est. 2006	Est. 2007
Percent insured assets	6.20%	6.30%	6.02%	5.95%	5.70%	6.00%
Percent consumer credit	10.01%	10.06%	10.06%	10.25%	10.81%	10.82%

¹ Market share is based on the percentage of federally insured assets held by credit unions in relation to all federally insured assets – both NCUA and FDIC insured assets.

² Consumer credit is based on the percentage of revolving and non-revolving credit held by credit unions in relation to all revolving and non-revolving credit outstanding. Consumer credit includes credit held by the following - commercial banks, finance companies, credit unions, federal government, savings institutions, and pools of securitized assets. This information is released monthly by the Federal Reserve.

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Internal Operations

Human Capital Management

Human capital (NCUA staff) is the primary resource NCUA uses to meet its strategic goals and annual objectives. Sustaining and nurturing human capital resources requires a blend of competitive compensation, strategic and innovative training and a supportive work environment. NCUA maintains a Human Capital Management Plan which outlines key objectives and planned strategies for managing NCUA's human capital. NCUA's Human Capital Management Plan is available for review on NCUA's website.

Information Technology

NCUA's Information Technology Oversight Committee (ITOC) provides overall direction and vision for how NCUA's information technology should contribute to NCUA's goals and objectives and serves as the forum for senior NCUA executives to make decisions regarding information technology expenditures and investments. As required by the Clinger Cohen Act, NCUA maintains an Enterprise Architecture Blueprint which outlines NCUA's current and future information technology environment.

Efficiency Measure

How will we know if NCUA staff is well positioned to leverage information technology in the most effective and efficient manner? A key indicator of our efficiency is the level of our operating expenses in relation to insured credit union assets. Additional efficiency indicators are included in agency operating plans.

Internal Measure 1		Percentage of total NCUA operating expenses to total federally insured credit union assets			
Desired Level 1		Reduce from prior year			
2002	2003	2004	2005	Est. 2006	Est. 2007
0.024%	0.022%	0.021%	0.020%	0.019%	0.018%

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Strategic Goal Resource Allocation

In the Annual Performance Budget, resources are allocated proportional to existing and emerging risks based on their potential impact on goal achievement. Strategic Goal 1 is allocated the most resources (both full-time equivalents and dollars) followed by Strategic goals 2 and 3 respectively.

In 2005 NCUA simplified the number of strategic goals from five to three. As a result, the methodology used to allocate resources to our strategic goals was changed³. The resource allocation in the chart below reflects the new methodology beginning with 2005⁴. Prior years were

<u>Strategic Goal 1</u>						
A safe, sound and healthy credit union system.						
	2002	2003	2004	2005	Est. 2006	Est. 2007
Budgeted FTE	744.22	747.88	712.46	831.98	833.28	TBD
Actual FTE	709.13	686.66	656.35	819.87	814.73	N/A
Budgeted Dollars	\$109,923,710	\$112,510,524	\$110,887,609	\$128,130,015	\$131,330,131	TBD
Actual Dollars	\$99,125,843	\$99,525,336	\$97,487,328	\$119,737,003	\$125,065,576*	N/A

<u>Strategic Goal 2</u>						
Access to financial services offered by federally insured credit unions for all eligible consumers throughout the United States.						
	2002	2003	2004	2005	Est. 2006	Est. 2007
Budgeted FTE	169.59	143.56	174.35	90.21	86.34	TBD
Actual FTE	161.52	162.02	167.46	77.78	79.35	N/A
Budgeted Dollars	\$25,031,968	\$21,596,085	\$27,136,472	\$13,319,653	\$13,608,184	TBD
Actual Dollars	\$22,577,487	\$23,483,483	\$24,872,064	\$12,447,164	\$12,959,063*	N/A

<u>Strategic Goal 3</u>						
A prudent, flexible and efficient regulatory environment for all federally insured credit unions.						
	2002	2003	2004	2005	Est. 2006	Est. 2007
Budgeted FTE	81.38	79.59	76.48	37.26	36.80	TBD
Actual FTE	87.65	77.97	75.21	36.01	34.32	N/A
Budgeted Dollars	\$12,011,783	\$11,973,103	\$11,903,511	\$5,738,138	\$5,800,210	TBD
Actual Dollars	\$12,250,912	\$11,301,731	\$11,170,984	\$5,362,268	\$5,523,535*	N/A

* - Annualized

³ The methodology uses available field staff hours reported by time code to allocate FTE to each strategic goal. Field staff is primarily involved in safety and soundness, thus the higher percentage allocation to Strategic Goal 1. For support offices without available time codes, FTE are allocated to the three goals proportionately with the field staff allocation. The exceptions to the proportionate allocation are: Regional Division of Insurance staff and the Office of Small Credit Union Initiatives – Goal 2 and the Office of General Counsel – Goal 3. The work performed by these offices is more directly related to a particular goal.

⁴ Resources associated with the two eliminated goals were reallocated to the current three goals based which existing goal most closely mirrored the intent of the eliminated goal. This is reflected in the tables above for years prior to 2005.

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Planning Factors

NCUA begins each planning cycle with strategic level discussions and analyses of factors which drive strategic goal achievement. The discussion encompasses issues both internal and external to NCUA and the credit union system. NCUA's 2007 Objectives emerged from these discussions. Recognizing that the operating environment is dynamic, NCUA's strategies for goal achievement are adjusted if significant environmental changes occur. The following highlights the key planning factors for 2007.

External Environment - 2007 Credit Union Opportunities

- Member Growth – Vast untapped youth and minority markets provide excellent sources for membership growth.
- Credit Union Uniqueness – The member-owned, not-for-profit status of credit unions is inherently in the consumers' best interest.
- Technology and Products – Recent advancements in product and service methods enhance economies of scale.
- Regulatory Environment – The flexible regulations provided by NCUA assist credit unions in providing improved services and expanded products.

External Environment - 2007 Credit Union Challenges

- Competition – Non-traditional lenders such as finance companies are making the financial services market increasingly competitive.
- Disaster Preparedness and Contingency Planning – Ongoing contingency planning and preparation is critical as evidenced by Hurricane Katrina and the continued threat of terrorist attacks.
- Economy – Inflation, home affordability, and energy prices all put a strain on members' spending capacity and their ability to repay loans.
- Operating Efficiencies – Marginal share and member growth and lower earnings levels emphasize the need for improved operating efficiencies.
- Demographics – Credit unions need to remain attuned to changes in the demographics of their membership and what those changes imply for service needs.
- Compliance - The increasing amount and complexity of outside regulations such as the Bank Secrecy Act (BSA) and the Home Mortgage Disclosure Act (HMDA) require greater expertise and resources.
- Succession Planning – Credit unions will need to find and attract managers and technical staff with the right skill sets for the future. Credit unions must strive to attract a diversified group of volunteers who can represent and relate to the full socio-economic range of individuals within their membership.
- Technology – With each new innovation in technology, credit unions must work to ensure risks are minimized and areas such as member privacy are protected.

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Internal Environment - 2007 NCUA Strengths

- Agency Mission – Our mission is simple and appealing in that it emphasizes helping people of lesser means.
- Agency Staff – The skill levels of our technical staff are increasing.
- Information Technology – Our information technology infrastructure includes state-of-the-art equipment and communication methods.
- Group Structure – Small units of workers allows for fast and flexible adjustments to operations.
- Independent Funding – Funding provided by federally insured credit unions allows greater freedom to make budgetary adjustments based on changes in the credit union system.
- Leadership – A mix of new and seasoned managers provides diverse ideas and experience.
- Geographically Dispersed Workforce – Remote work capabilities assist greatly in NCUA's contingency preparedness.

Internal Environment - 2007 NCUA Improvement Areas “Good to Great”

- Training – Training and development must address risk identification and management in a rapidly changing environment.
- Succession Planning – Staff retirements must be addressed by hiring and developing staff with the right skill sets to address tomorrow's needs.
- Stakeholder Focus – We must balance our regulatory responsibilities with the needs for our stakeholders.
- Communication – Operational efficiency and effectiveness can be enhanced by providing consistent information within the requirements established by the union and NCUA

Program Evaluations

NCUA uses program evaluations performed both within and outside the agency to improve and enhance our operations and planning processes. See NCUA Strategic Plan 2006-2011 for a listing and description of recurring internal and external evaluations performed.

In 2004, the Office of Management and Budget (OMB) completed a Program Assessment Rating Tool Evaluation (PART) of the Community Development Revolving Loan Fund. Recommendations from this PART have been incorporated into our strategic goals and measures.

During 2005, OMB conducted a PART of NCUA's Regulatory Program. NCUA received a rating of “Effective” – the highest possible rating. The final report was released in 2006.

OMB is currently in the process of completing a PART of NCUA's Share Insurance Fund.

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Glossary

Adequately Capitalized – Credit union net worth to assets ratio between 6.00 percent and 6.99 percent.

CAMEL – NCUA's internal rating system used to determine examination time in credit unions. CAMEL stands for Capital, Asset Quality, Management, Earnings, and Liquidity/Asset Liability Management.

Corporate Capital Ratio – a corporate credit union's capital (sum of retained earnings, paid-in capital and membership capital) divided by its moving daily average net assets.

Corporate CRIS Risk Management Rating – NCUA's internal rating system used to determine risk levels present in corporate credit unions.

Corporate Credit Union – an organization chartered under Federal or state law as a credit union with the primary function of serving natural person credit unions through deposits, loans and other services.

Low Income Designation – a designation provided to credit unions serving a geographic area where a majority of residents fall at or below an annual income standard.

Prompt Corrective Action – A framework of mandatory and discretionary supervisory actions, applicable according to a credit union's net worth ratio, designed primarily to restore and improve the net worth of federally-insured credit unions.

RegFlex – NCUA's Regulatory Flexibility Program (RegFlex) exempts credit unions meeting specific net worth and CAMEL rating criteria from all or part of identified NCUA regulations. The program also grants eligible credit unions with additional powers.

Well Capitalized – Credit union net worth to assets ratio of 7.00 percent or greater.