

National Credit Union Administration

**Annual Performance
Budget 2008**

NCUA Annual Performance Budget 2008

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Message from the NCUA Board

We are pleased to present the National Credit Union Administration (NCUA) Annual Performance Budget 2008. It supports NCUA Strategic Plan 2006-2011. NCUA Annual Performance Budget 2008 is formulated to uphold and maintain the public trust in NCUA as the independent federal regulator of the credit union system through the accomplishment of our mission, vision and strategic goals. It focuses on the following objectives:

- Improving NCUA risk management of the credit union system
- Increasing access to affordable financial services to those of modest means
- Maintaining a regulatory environment that balances safety and soundness with credit union need to remain innovative and competitive
- Enhancing NCUA succession planning

These annual objectives originate from lessons learned during successful execution of NCUA Annual Performance Budget 2007. NCUA Annual Performance Budget 2008 discusses the strategies planned to accomplish its objectives, as well as measures that help us define success. NCUA operations will remain intent on our overall mission to facilitate the availability of credit union services to all eligible consumers by promoting a safe and sound credit union system.

NCUA Annual Performance Budget 2008 provides broad, agency-wide direction. Each NCUA Region and Office will develop a supporting annual operating plan. These plans include the specific strategies and tactics used by staff to accomplish agency-wide annual objectives.

We invite you to learn more about NCUA efforts in the following pages of the NCUA Annual Performance Budget 2008.



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 deposits in all federally chartered credit unions and approximately 90 percent of state chartered credit unions. NCUA works in cooperation with the state supervisory authorities (SSA) to ensure that 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. NCUA regulatory and oversight responsibilities are entirely funded by federally insured credit unions. NCUA receives no federal tax monies.



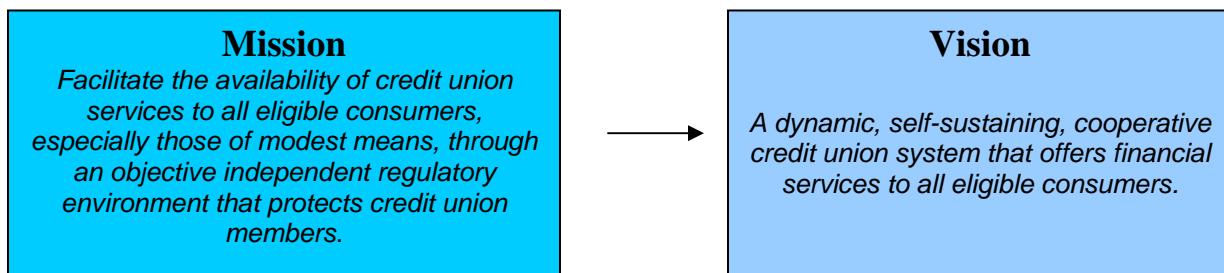
NCUA is located in Alexandria, Virginia with five regional offices located in Albany, NY; Alexandria, VA; Atlanta, GA; Austin, TX and Tempe, AZ. The headquarters office develops nationwide policies and programs for the agency and coordinates the operations of NCUA. The regional offices examine and supervise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



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Strategic Overview

Congress created NCUA, an independent government agency, with the express intent to help stabilize the national economic system. The NCUA mission and vision represent this congressional intent. The mission defines NCUA and provides the specific purpose that led to its creation, while the vision is achieved over time through successful accomplishment of the NCUA mission.



In turn, NCUA's organizational values support the agency's mission priorities and ultimately help guide our efforts toward fulfillment of our vision.

NCUA Values

Integrity – Maintaining open and honest communications and delivering promises as intended
Accountability – Holding ourselves accountable for quality and timely delivery of our commitments
Respect – Treating each other, credit unions and other industry representatives professionally
Team Oriented – Working together toward common goals

NCUA Goals

The NCUA mission is further reinforced by its strategic goals:

- A safe and sound credit union system
- Access to financial services offered by federally insured credit unions for all eligible consumers throughout the United States
- A prudent and flexible regulatory environment for all federally insured credit unions

The strategic goals guide NCUA toward the accomplishment of specific strategic outcomes. These outcomes serve as proxies for mission accomplishment.

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From Strategic Goals to Annual Objectives

The national economic system continually evolves leading to the continued evolution of NCUA strategic outcomes. As a result, NCUA must annually determine and achieve objectives, which are based on the strategic goals and designed to achieve specific outcomes. These annual objectives/outcomes move NCUA further down the road toward accomplishment of its intended mission and vision as chartered by Congress.

Strategic Goal	Strategic Outcome	Annual Objectives
A safe, sound and healthy credit union system	Effective management of the NCUSIF	Improved risk management of the credit union system
		<i>NCUA Succession Planning</i>
Access to financial services for all eligible consumers	Increased credit union membership and services, especially to those of modest means	Increased access to an array of affordable financial services to those of modest means
		<i>NCUA Succession Planning</i>
Prudent, flexible and efficient regulatory environment	Balanced regulation and oversight	Regulatory environment promotes innovation and competition while ensuring safety and soundness
		<i>NCUA Succession Planning</i>

NCUA, like all government agencies, must therefore annually determine how it will achieve its annual objectives/outcomes. This accomplished through strategies and the allocation of agency resources, which are tied to its performance. The NCUA Annual Performance Budget 2008 serves that end.

Note: To assist in measuring its progress, NCUA has selected strategic level measures and desired target levels, which it monitors annually for the long-term achievement of its mission and vision. Appendix A lists all strategic goal measures and their respective target levels.

2008 Objectives

The following strategic objectives were adopted for the 2008 annual performance budget and include accompanying strategies for agency staff.

Objective 1

Improving risk management of the credit union system

Effective risk management involves identifying, measuring, monitoring and controlling risks. NCUA focuses on those risks with the potential to adversely influence the health of a credit union and ultimately lead to losses. Key risk areas include credit, interest rate, liquidity, transaction, compliance, strategic and reputation.

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Strategies

- Monitor economic environment to identify risk trends and mitigate risks in a timely manner.
- Pursue development of risk management tools to include the capability to identify and monitor emerging risk areas on a real-time basis; educate stakeholders (staff, credit unions, industry) on the availability and capabilities of these tools.
- Enhance all stakeholders' responsiveness to risks through written guidance and training as well as prompt, consistent communication of emerging risks.

Objective 2

Increasing access to an array of affordable financial services to those of modest means

Improving access to credit union services to those of modest means is at the heart of the NCUA mission.

Strategies

- Provide an environment that encourages credit unions to develop and expand services to emerging, underserved, and/or low income markets/populations.
- Encourage partnering to develop or enhance knowledge, skills and abilities of stakeholders which will lead to enhanced services to members and potential members.
 - Make resources available to the Office of Small Credit Union Initiatives to lead the training, assistance, and partnering initiatives.
 - 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 – information on 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.

Objective 3

Maintaining a regulatory environment that promotes innovation and competition while ensuring safety and soundness of the credit union system

As the credit union industry continues to evolve, it faces increasing competition for members from other financial institutions. Credit unions must remain innovative in the services they offer. NCUA regulations and supervision are intended to maintain the soundness of the system, but they must not obstruct the ability of credit unions to be competitive.

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Strategies

- Develop policies, programs and procedures that will contribute to increased credit union market share and services; remove unnecessary regulatory barriers that may limit range of services offered.
- Enhance examiner knowledge of evolving credit union services and potential benefits and risks they pose to the system.
- Continue to promote credit union awareness about the importance of strategic planning.

Objective 4

Enhancing NCUA succession planning

The preparedness of NCUA staff is vital to strategic goal achievement. With approximately 40 percent of NCUA's managers eligible for retirement within the next 5 years, agency succession planning is a paramount objective. Staff must have the right skill sets and be in the right positions to meet effectively the needs of tomorrow. The Office of Human Resources continues to support the critical succession planning process.

Strategies

- Develop an effective knowledge management system to ensure information is retained as staff retire or leave current positions: document processes and resources needed for essential functions.
- Encourage details to other offices and temporarily double encumber important positions within an office to develop the skill sets needed for future succession.
- 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. The Office of Human Resources will continue tracking employee skills, competencies, and interests.

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Measures of Success

The following provides a look at key measures for each annual objective. Regional and Office operating plans include additional measures that support achievement of Annual Performance Budget objectives. All measures are monitored quarterly using available data.

Annual Objective 1 – Improving risk management of the credit union system

Annual Measure 1.1	The percentage of FICU assets with low or moderate risk ratings in the four institutional risk areas					
Desired Level	Maintain an average for the four risk areas of at least 90 percent					
All FICUs	2003	2004	2005	2006	Est. 2007	Est. 2008
Reputation	98.27	98.85	97.19	97.85	97.31	97.57
Strategic	94.58	92.59	94.23	94.11	93.81	93.58
Transaction	97.65	97.97	97.08	96.83	96.42	96.07
Compliance	98.33	97.53	87.69	81.07	82.46	82.50
Average	97.21	96.74	94.05	92.50	92.50	92.42

Annual Objective 2 - Increasing access to an array of affordable financial services to those of modest means

Annual Measure 2.1	Growth of credit unions' membership, assets, shares and loans					
Desired Level	Exceed average annual growth rate of previous three years					
	2003	2004	2005	2006	Est. 2007 ¹	Est. 2008
Membership	1.85	1.38	1.49	1.44	1.42	1.45
All Assets	9.51	6.04	4.90	5.47	6.47	6.19
All Loans	9.75	10.10	10.62	10.32	6.69	6.85
All Shares	9.11	5.26	3.83	4.55	5.97	5.62

¹ Figure estimated using annualized 3rd quarter data.

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Annual Objective 3 - Maintaining a regulatory environment that promotes innovation and competition while ensuring safety and soundness of the credit union system

Annual Measure 3.1	Percentage of FICUs involved in various products and services					
Desired Level	Improve from prior year					
	2003	2004	2005	2006	Est. 2007	Est. 2008
Real Estate Loans*	66.23	67.58	68.72	69.68	70.96	71.76
Member Business Lending*	17.43	18.66	21.20	23.04	25.57	26.86

* While these measures are not the only indicators of product and service expansion, they provide significant representation of credit union activity in areas where the industry movement has substantial capacity to expand.

Annual Objective 4 – Enhancing NCUA succession planning

NCUA has twelve Offices and five Regions. The 2008 target will be that the majority of these seventeen offices draft a succession plan.

Annual Measure 4.1	Number of offices that have drafted a succession plan					
Desired Level	At least fourteen offices have plan drafted by end of 2008					
	2003	2004	2005	2006	Est. 2007	Est. 2008
Offices with Plan drafted	N/A, baseline to be established using 2007 numbers				Baseline	TBD

Resource Allocation

In the Annual Performance Budget, resources are allocated proportional to existing and emerging risks based on their potential impact on goal achievement. The annual objectives that support Strategic Goal 1 are allocated the most resources (both full-time equivalents and dollars) followed by the objectives that support 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 NCUA strategic goals was changed².

² 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

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The resource allocation in the chart below reflects the new methodology beginning with 2005³. Prior years were converted to reflect the allocation to three strategic goals.

<u>Strategic Goal 1</u>						
A safe, sound and healthy credit union system.						
	2003	2004	2005	2006	Est. 2007	Est. 2008
Budgeted FTE	747.88	712.46	831.98	833.28	835.87	842.06
Actual FTE	686.66	656.35	819.87	814.73	810.45	TBD
Budgeted Dollars	\$112,510,524	\$110,887,609	\$128,130,015	\$131,330,131	\$132,648,769	\$138,421,801
Actual Dollars	\$99,525,336	\$97,487,328	\$119,737,003	\$125,065,576	\$127,252,351*	TBD

<u>Strategic Goal 2</u>						
Access to financial services offered by federally insured credit unions for all eligible consumers throughout the United States.						
	2003	2004	2005	2006	Est. 2007	Est. 2008
Budgeted FTE	143.56	174.35	90.21	86.34	85.15	85.89
Actual FTE	162.02	167.46	77.78	79.86	82.93	TBD
Budgeted Dollars	\$21,596,085	\$27,136,472	\$13,319,653	\$13,608,184	\$13,512,608	\$14,102,336
Actual Dollars	\$23,483,483	\$24,872,064	\$12,447,164	\$12,151,800	\$13,021,786*	TBD

<u>Strategic Goal 3</u>						
A prudent, flexible and efficient regulatory environment for all federally insured credit unions.						
	2003	2004	2005	2006	Est. 2007	Est. 2008
Budgeted FTE	79.59	76.48	37.26	36.80	36.90	37.15
Actual FTE	77.97	75.21	36.01	34.72	36.06	TBD
Budgeted Dollars	\$11,973,103	\$11,903,511	\$5,738,138	\$5,800,210	\$5,855,963	\$6,107,311
Actual Dollars	\$11,301,731	\$11,170,984	\$5,362,268	\$5,282,366	\$5,662,030*	TBD

* - Annualized

<u>Cumulative Resources for all Strategic Goals (Total)</u>						
	2003	2004	2005	2006	Est. 2007	Est. 2008
Budgeted FTE	971	963	959	956	958	965
Actual FTE	926.65	899.02	933.66	929.31	929.44	TBD
Budgeted Dollars	\$146,079,712	\$149,927,592	\$147,187,806	\$150,738,525	\$152,017,340	\$158,631,447
Actual Dollars	\$134,310,550	\$133,530,376	\$137,546,435	\$142,499,742	\$145,936,167	TBD

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.

³Resources associated with the two eliminated goals were reallocated to the current three goals based on 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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Appendix A – Strategic Goal Measures

Strategic Goal 1

A safe, sound and healthy credit union system

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.

Strategic Measure 1.1		Percentage of adequately and well-capitalized FICUs to all FICUs			
Desired Level 1.1		Maintain above 98 percent			
2003	2004	2005	2006	Est. 2007	Est. 2008
98.75%	98.97%	99.14%	99.17%	99.31%	99.40%

Strategic Measure 1.2		Percentage of FICU assets with a CAMEL rating of 1 or 2			
Desired Level 1.2		Maintain above 90 percent			
2003	2004	2005	2006	Est. 2007	Est. 2008
94.28%	92.22%	93.80%	94.08%	93.93%	93.81%

Strategic Measure 1.3		The corporate credit union system's capital ratio			
Desired Level 1.3		Maintain at or above 7 percent			
2003	2004	2005	2006	Est. 2007	Est. 2008
6.46%	7.01%	7.25%	7.15%	7.05%	7.12%

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			
2003	2004	2005	2006	Est. 2007	Est. 2008
85%	77%	78%	75%	76%	76%

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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

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 shares, 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	2003	2004	2005	Est. 2006	Est. 2007	Est. 2008
Membership	1.85%	1.38%	1.49%	1.44%	1.42%	1.45%
Assets	9.51%	6.04%	4.90%	5.47%	6.47%	6.19%
Loans	9.75%	10.1%	10.62%	10.32%	6.69%	6.85%
Shares	9.11%	5.26%	3.83%	4.55%	5.97%	5.62%

Strategic Goal 3

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

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.

Strategic Measure 3.1		Percentage of the credit union system's market share of federally insured assets ⁴ and consumer credit ⁵				
Desired Level 3.1		Improve or maintain from prior year				
All FICUs	2003	2004	2005	2006	Est. 2007	Est. 2008
Percent insured assets	6.30%	6.02%	5.95%	5.95%	6.02%	6.00%
Percent consumer credit	10.06%	10.06%	10.25%	10.26%	9.64%	9.86%

⁴ 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.

⁵ 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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Appendix B - Planning Factors

Recognizing that the operating environment is dynamic, NCUA's strategies for goal achievement are adjusted if significant changes occur. The following highlights environmental opportunities and challenges for 2008, as well as NCUA's strengths and areas needing improvement.

External Environment - 2008 Credit Union Opportunities

- Member Growth – 54% of adult nonmembers are eligible to join a credit union; vast untapped youth and minority markets also may provide excellent sources for membership growth.
- Credit Union Uniqueness – The member-owned, not-for-profit status of credit unions is inherently in consumers' best interest.
- Partnerships- Credit unions have an opportunity to collaborate with other entities to enhance financial services for members and potential members.
- Regulatory Environment – Appropriate regulations provided by NCUA assist credit unions in providing improved services and expanded products.
- Safety and soundness of system- as many other financial institutions suffer from the real estate loan market uncertainties, credit unions may be in strong shape to provide financial services to eligible members seeking affordable services from a secure institution; credit unions should also take this opportunity to examine and refine their internal credit risk management system and tools.

External Environment - 2008 Credit Union Challenges

- Economy – Inflation, home affordability, and energy prices all put a strain on members' spending capacity and their ability to repay loans; demand for loans has greatly decreased.
- Competition – lack of differentiation among financial institutions, and the increasing need to offer complex products and services requiring the retention of experienced and knowledgeable management and staff.
- 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.
- Technology –credit unions must work to ensure risks are minimized in areas such as protecting member privacy and identify theft.

External Environment – NCUA Challenges

- Increased complexity of credit union services/products creating a need for examiner training and/or specialization.
- Increased credit risk in consumer lending and commercial lending.
- Industry is consolidating; smaller credit unions have greater viability risk.
- Declining number of credit unions caused by conversions.

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External Environment – NCUA Opportunities

- Align examiner training to better address increased credit and compliance risk.
- Encourage/assist credit unions, particularly small ones to address succession planning.
- Enhance regulatory environment so credit unions remain competitive; assist credit unions in better understanding of increasingly complex compliance regulations.

Internal Environment - 2008 NCUA Strengths

- Agency Mission – NCUA mission is appealing in that it emphasizes helping people of lesser means.
- Information Technology – NCUA information technology infrastructure includes state-of-the-art equipment and communication methods.
- Independent Funding – Funding provided by federally insured credit unions allows greater freedom to make budgetary adjustments based on changes in the credit union system.
- Geographically Dispersed Workforce – Remote work capabilities assist greatly in NCUA's contingency preparedness.

Internal Environment - 2008 NCUA Improvement Areas

- 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. The agency must also maintain a positive and productive culture that places high value on keeping employees interested and engaged in their work.
- Stakeholder Focus – NCUA must balance its regulatory responsibilities with the needs of its stakeholders (credit unions and credit union members).
- Communication – Operational efficiency and effectiveness can be enhanced by providing consistent information within the requirements established by the union and NCUA.
- Consistency of Policy Implementation – staff must strive to ensure that the Board's policy intentions are faithfully and consistently implemented at all levels of the organization.

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Appendix C - Program Evaluations

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

In 2006, OMB completed a Performance Assessment Rating Tool (PART) evaluation of the NCUA Share Insurance Fund. NCUA received a rating of "Moderately Effective". Evaluations have shown that the fund has remained in good financial condition and helped maintain the stability and liquidity within the credit union system. The following actions are being taken to improve the performance of the program:

- Implementing a new performance measure to track the speed with which the NCUSIF refunds insured deposits after the failure of an institution.
- Implementing a new performance measure to track the effectiveness of the fund's receivership function
- Supporting revisions to the Federal Credit Union Act to allow NCUA to introduce risk-based "deductibles" for deposit insurance by adjusting the capital a credit union must hold based on its risk profile.

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Appendix D - Internal Operations

Human Capital Management

Human capital (NCUA staff) is the primary means 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. The Office of Human Resources is responsible for NCUA human capital management functions. This includes recruitment and merit promotion, position classification, compensation, employee records, training, employee benefits, performance appraisal, incentive awards, adverse actions and grievance programs. NCUA maintains a Human Capital Management Plan, which outlines key objectives and planned strategies for managing NCUA's human capital. The NCUA Human Capital Management Plan is available for review on the NCUA website.

Information Technology

Information technology is another primary means that NCUA uses to meet its strategic goals and annual objectives. The Office of the Chief Information Officer is responsible for managing NCUA's automated information resources. This includes collecting, validating and securely storing electronic agency information; developing, implementing and maintaining computer hardware, software and data communications infrastructure; and ensuring related security and integrity risks are recognized and controlled.

The NCUA Information Technology Oversight Committee (ITOC) serves as a sounding board for the Executive Director on the potential impact of information technology issues and programs upon NCUA goals and objectives. It also 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 current and future information technology environment.

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Appendix E - 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.