



NCUA
National Credit Union Administration

2021 Annual Performance Plan

January 2021



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About this 2021 Annual Performance Plan

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
3. Maximize organizational performance to enable mission success.

The *Annual Performance Plan* sets out performance measures and targets in support of the goals in the Strategic Plan. The NCUA's *Annual Performance Plan* has five components: (1) strategic goals; (2) strategic objectives (3) performance goals; (4) performance measures and associated targets; and (5) means and strategies to accomplish the strategic objectives.

In this fourth 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. The COVID-19 pandemic remains a dominant consideration for the agency's priorities in 2021. The spread of COVID-19 has presented a multitude of challenges to the credit union industry and the NCUA. This plan outlines how the agency will continue to effectively supervise and insure a growing and evolving credit union system amidst the pandemic and its economic impact. As financial services and the credit union sector continue to change, the NCUA must adapt to meet the evolving challenges and developments.

This *Annual Performance Plan* strives to provide all interested parties, including the NCUA's employees, credit unions, credit union members, other federal and State regulatory partner agencies, and Congress, with transparency and understanding of the NCUA's performance objectives. This plan sets out performance indicators and associated targets in support of the goals outlined in the agency's *Strategic Plan* and draws a clear line from the agency's mission to the strategic goals, strategic objectives, performance goals, and performance indicators and targets.

This plan also describes the means, strategies and specific actions the agency has resourced and intends to undertake to achieve each strategic objective. The priorities and performance indicators in this plan comply with the Government Performance and Results Modernization Act of 2010.



NCUA

National Credit Union Administration

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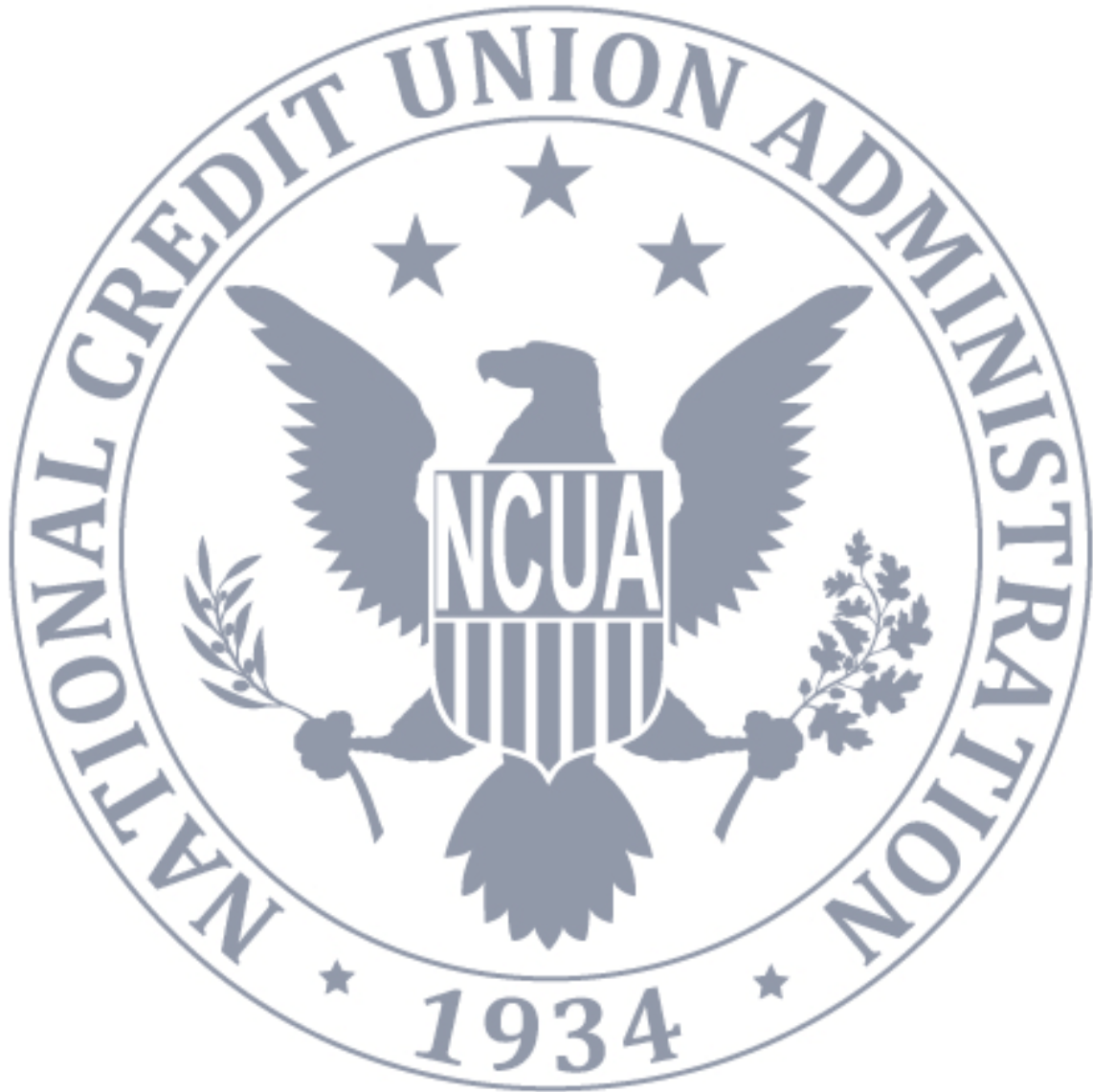




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Message from Chairman Rodney E. Hood

I am glad to present the National Credit Union Administration's 2021 Annual Performance Plan, which documents how the agency will achieve its mission to provide, through effective but not excessive regulation and supervision, a safe and sound credit union system, which promotes confidence in the national system of cooperative credit.

Our country continues to face extraordinary challenges as the COVID-19 pandemic has affected virtually every facet of American life, wreaking unprecedented economic harm on our nation's citizens and businesses. The pandemic's economic impact on the credit union system is an important context for this plan and the year ahead for the credit unions and the NCUA.

The credit union industry has a long history of assisting its member-owners in times of need and economic uncertainty. Credit unions continue to work with affected members on the terms of their debt obligations. They provide needed credit to their members and communities. Federally insured credit unions continued to supply the nation's small businesses and entrepreneurs with needed credit during the pandemic through the Small Business Administration's Paycheck Protection Program.

The NCUA's response to COVID-19 has been robust. Despite the many ways COVID-19 has upended our routines and everyday life, the NCUA and its workforce have continued to succeed at carrying out our mission and responsibilities. We have adjusted our supervision and examination program, while addressing emerging risks and implementing statutory and regulatory changes in response to COVID-19. We continue working closely with credit unions to obtain documentation and complete examination procedures offsite. In doing so, our goal is to protect the safety of our staff and the staff of the credit unions we oversee, and to limit the burden on credit unions so they can focus on providing uninterrupted service to their members. We have worked diligently to provide regulatory relief where possible to give federally insured credit unions the flexibility they need to continue providing financial services. COVID-19 has also forced the agency to recognize the way credit unions are doing business has changed, and some of the changes are likely permanent. Therefore, it is critical the agency's regulations, including field of membership, reflect this reality.

The NCUA's 2021 Annual Performance Plan lays out how we will oversee the credit union system and how we will manage and protect the Share Insurance Fund through the current crisis. The 2021 Annual Performance Plan, in concert with the 2021-2022 budget that the NCUA Board approved in December 2020, outlines the resources and strategies the NCUA will use to achieve the strategic goals contained in the NCUA's Strategic Plan. The Strategic Plan and Annual Performance Plan include many



important and worthwhile performance goals for 2021, but there is one performance goal in particular I want to highlight, which is to efficiently administer viable credit union charters and expansion requests. This goal includes the NCUA's new Advancing Communities through Credit, Education, Stability, and Support, or ACCESS initiative, which I announced last year.

The ACCESS initiative brings together agency leaders to develop policies and programs that support financial inclusion within the NCUA and more broadly throughout the credit union system. At its heart, financial inclusion means expanding access to safe and affordable financial services for unbanked and underserved people and communities as well as broadening employment and business opportunities. The NCUA has a role to play in making sure that credit unions can support overlooked or underserved areas.

The NCUA has dedicated resources from across the agency offices to ensure an inclusive and open-minded approach to refreshing and modernizing regulations, policies, and processes. Addressing the various aspects of inclusion, the agency will look at the unique role credit unions can fill by providing access to unbanked and underserved individuals and communities, how credit unions can remain competitive within the financial services industry, and what steps can be taken to modernize the rules and processes for chartering new credit unions to provide consumers with services that meet their needs.

One of our most significant achievements of 2020 was responding decisively to the needs of more than 5,000 federally insured credit unions during the COVID-19 pandemic and fulfilling our critical mission of protecting the safety and soundness of the nation's system of cooperative credit. Since their earliest formation, credit unions have provided much-needed financial services to their member-owners, especially those of modest means. We will carry that same level of response to the challenges we will face in 2021. I look forward to working with the team at the NCUA and my Board colleagues as we work to ensure our nation's credit unions remain stable and strong and will continue delivering vital financial services to the millions of members who count on them every day.

Sincerely,

Rodney E. Hood
Chairman



Mission and Values

Throughout 2021, the NCUA will implement initiatives to continue meeting 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 oversees the NCUA’s operations by setting policy, approving budgets, and adopting rules. According to the Federal Credit Union Act¹, the agency is “under the management of a National Credit Union Administration Board.”

The NCUA is responsible for the regulation and supervision of 5,133 federally insured credit unions with 123.7 million members and \$1.79 trillion in assets across all states and U.S. territories.²

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 (CLF), and

¹ 12 U.S.C. 1752a(a)

² Credit union data is as of September 30, 2020.



- The Community Development Revolving Loan Fund.

The NCUA Operating Fund, in conjunction with the Share Insurance Fund, finances the agency's operations. The NCUA CLF is a contingent liquidity source, administered by the NCUA Board, which serves as a liquidity lender to credit unions experiencing unusual or unexpected liquidity shortfalls. The authorities of the CLF were expanded under the Coronavirus Aid, Relief and Economic Security Act, as described in Letter to Credit Unions 20-CU-08, [Enhancements to Central Liquidity Facility Membership and Borrowing Authority](#). The CLF's expanded authorities were extended through the end of 2021 by the Consolidated Appropriations Act, 2021 [as explained in Letter to Credit Unions 21-CU-01, Summary of the Consolidated Appropriations Act, 2021](#). The NCUA Community Development Revolving Loan Fund provides loans and grants to low-income designated credit unions, for which Congress appropriated \$1.5 million in 2021.

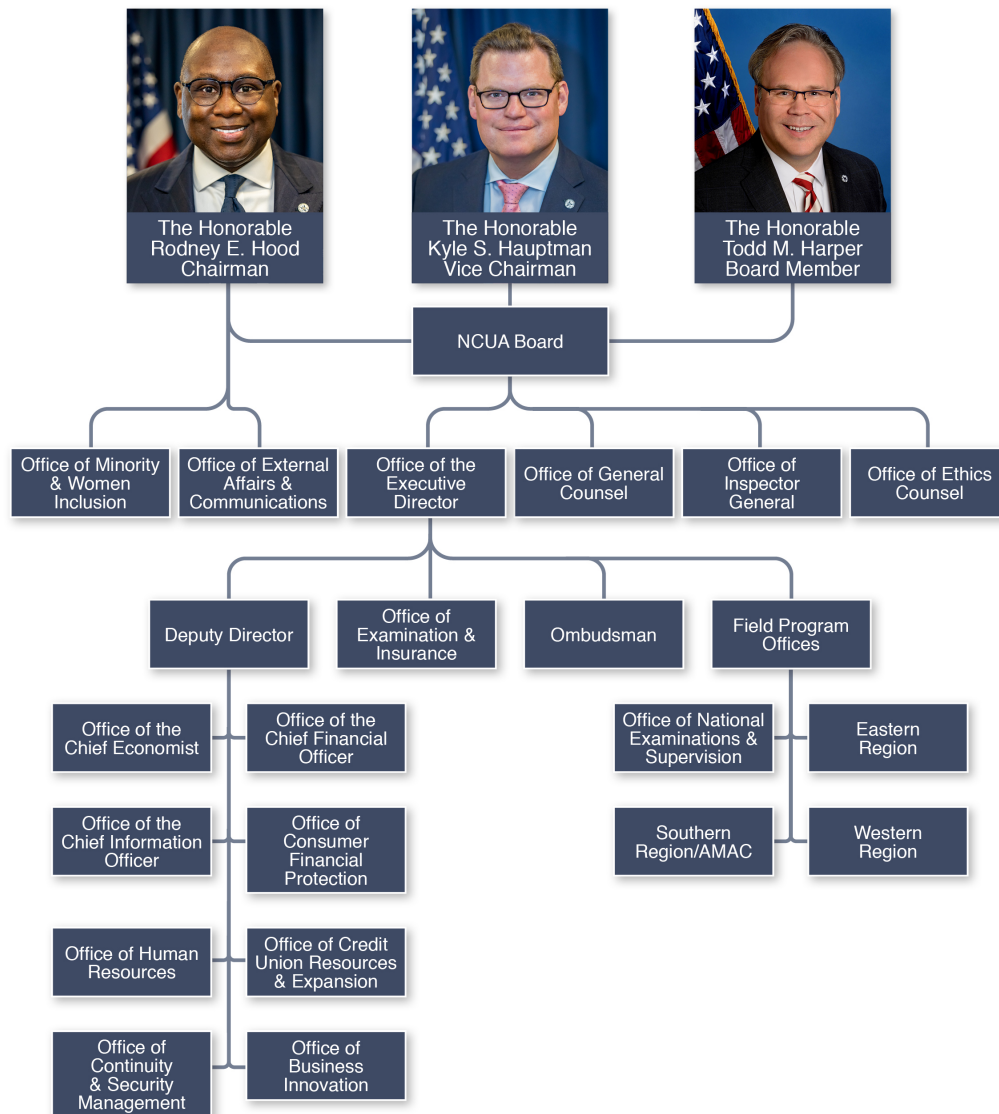
Throughout the *Annual Performance Plan's* period, the NCUA will rely upon its employees to perform activities in the NCUA's major program areas and support functions. The NCUA employs staff in a central office, an Asset Management and Assistance Center (AMAC) to manage the assets of failed credit unions, and three regional offices. Reporting to each of 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 field program offices and the Office of Examination and Insurance (E&I). Field staff, representing nearly two-thirds of the agency's workforce, work in a remote environment, which was true before the onset of the COVID-19 pandemic. The functions of the central office are critical to ensuring the success of the field program. The NCUA's organizational structure and the operational changes that resulted from the COVID-19 pandemic require creative methods to deliver the necessary administrative and office support to all staff in remote environments.

The NCUA organizational chart follows. Additional information about the NCUA's executive leadership is also available on the NCUA's [website](#).



National Credit Union Administration Organizational Chart





Major Agency Programs

Supervision

The supervision program contributes to the safety and soundness of the credit union system, thereby protecting the interests of all credit union stakeholders. The NCUA's supervision is driven by identifying and resolving risk in seven primary areas:

- interest rate risk,
- liquidity risk,
- credit risk,
- reputation risk,
- concentration risk,
- compliance risk, and,
- operational risks, including cybersecurity and fraud.

The NCUA supervises federally insured credit unions through examinations by enforcing regulations, taking administrative actions, and conserving or liquidating severely troubled institutions as necessary to manage risk.

Insurance

The NCUA manages the \$19.2 billion³ 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, 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

³ As of September 30, 2020.



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, although the number of new credit union charters in recent years is disappointing. The NCUA will focus even more on chartering new credit unions in 2021, as this is a Board priority.

Consumer Financial Protection

The NCUA protects consumers through effective supervision and 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.

NCUA's commitment to consumer financial protection is not new to the agency. In fact, it goes hand in hand with our safety and soundness mission. It is imperative that the agency strive to keep a healthy balance between the appropriate level of oversight needed to ensure consumers are protected and the flexibility credit unions need to provide the highest levels of service to their member-owners. In addition, the NCUA's Consumer Assistance Center provides an avenue through which credit union members can report concerns they may have about their treatment at their credit unions. We take these complaints very seriously and follow through on all of them, with the aim of resolving them to each member's satisfaction.

When it comes to working with credit unions, it is the NCUA's goal to facilitate their safe and sound operation while ensuring they fully comply with applicable laws. Toward that end, we emphasize a compliance approach over an enforcement approach, providing credit unions with clear guidelines and incentives to ensure they prioritize consumer protection. When a compliance issue does arise, as is inevitable, we strive to detect and resolve problems in credit unions through supervision and examination procedures before they become insurmountable.

Asset Management

The NCUA conducts liquidations of failed credit unions and performs management and recovery of assets through AMAC. AMAC 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, credit union member-owners, and other stakeholders.



Cross-Agency Priority Goals and Collaboration

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



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.

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



Strategic Goals, Objectives and Performance Goals

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

Strategic Objectives

Performance Goals

1.1 Maintain a strong Share Insurance Fund

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

1.1.2 Effectively manage losses to the Share Insurance Fund

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

1.2 Provide high-quality and efficient supervision

1.2.2 Effectively identify and evaluate risk in complex credit union portfolios

1.2.3 Improve the quality control and consistency of examinations

The Federal Credit Union Act assigns statutory responsibility for the Share Insurance Fund and oversight of the credit union system to the NCUA Board. The NCUA’s primary function is to identify and assess credit union system risks, threats and vulnerabilities, determine the magnitude of such risks, and mitigate unacceptable levels of risk 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. The examination and supervision programs, and the collection of credit union Call Report data, provide information that helps to identify high-risk credit unions and risks to the system overall. 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, an effective examination and supervision program, and administrative actions. Examiners also use administrative actions as necessary to mitigate risks before they escalate to costly problems for the system.

The NCUA's asset recovery 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 valuations 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

One measure of the Share Insurance Fund's health is the equity ratio. The equity ratio is a measure of the Share Insurance Fund's capitalization, as defined in the Federal Credit Union Act. In short, it is calculated by dividing the Share Insurance Fund's net position, less any unrealized gain or loss on investments, by insured shares.

The Normal Operating Level is an equity ratio set by the NCUA Board that generally determines when a distribution of surplus equity is made to credit unions from the Share Insurance Fund. Per the Federal Credit Union Act, the NCUA Board may set the Normal Operating Level between 1.20 percent and 1.50 percent. In 2007, the Board affirmed that the Share Insurance Fund would maintain a "counter-cyclical posture." A counter-cyclical posture means the Share Insurance Fund's equity should be built up during periods of economic prosperity and allowed to decline during periods of economic adversity. This approach helps ensure the Share Insurance Fund's equity is adequate to withstand adverse economic developments with a lower likelihood of premium assessments or impairment of credit unions' contributed capital deposits during an economic downturn and early phase of a recovery. The NCUA needs to maintain a safe and sound Share Insurance Fund to preserve public confidence in federal share insurance and protect the credit union community and taxpayers. The current Normal Operating Level is 1.38 percent, which was most recently reviewed by the Board in December 2020.



The COVID-19 pandemic resulted in an increase in share deposits at most credit unions in 2020. The equity ratio is determined as the sum of the Share Insurance Fund’s actual retained earnings, net of any direct or contingent liabilities, and contributed capital, divided by insured shares. Because of government stimulus and other factors – including elevated savings rates – insured shares increased more rapidly than retained earnings and contributed capital in the Share Insurance Fund. This meant the equity ratio fell in 2020. The NCUA has committed to establishing a working group⁴ in 2021 to review the factors impacting the Share Insurance Fund equity ratio and the agency’s methods and assumptions for determining the Normal Operating Level. The working group will report its findings to the NCUA Board.

The examination and supervision program is the most important component of managing risk to the Share Insurance Fund and protecting members. The NCUA’s examination program institutes standards for a high quality, efficient, and effective examination process, and establishes guidelines to:

- Identify and mitigate current and emerging risks
- Ensure credit unions are in compliance with applicable laws and regulations
- Initiate appropriate corrective actions supported by a sufficiently detailed administrative record
- Facilitate timely resolution of supervisory concerns and, when appropriate, ensure effective communication to credit union members to make informed decisions regarding their interests

The NCUA currently 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 Office of National Examinations and Supervision (ONES) is responsible for supervision and oversight of the largest and most complex credit unions.

In 2017, based on recommendations from the agency’s Examination Flexibility Initiative, the NCUA revised its examination frequency and transitioned well-managed, low-risk federal credit unions that meet certain criteria to an extended examination cycle. Information on the agency’s Examination Flexibility Initiative, including examination cycles, can be found on the [Examination Flexibility Initiative](#) webpage.

⁴ <https://www.ncua.gov/files/agenda-items/AG20201217Item6b.pdf>



The NCUA affirmed its commitment to this examination frequency in July 2020, with the issuance of Letter to Credit Unions, 20-CU-22, [Update to NCUA's 2020 Supervisory Priorities](#).

To the extent possible, the NCUA coordinates completion of federally insured, state-chartered credit union examinations with state regulators in accordance with state scheduling practices. The NCUA and six state regulators are also piloting an alternating-year examination program for federally insured, state-chartered credit unions. The pilot program, based on recommendations in the [2016 Exam Flexibility Initiative Report](#), will run for one full alternating cycle, or approximately three years. The pilot will continue into 2021, after which time the NCUA and its state partners will assess how and whether the results of the initiative can improve examination procedures. The pilot results will help the NCUA and state regulators determine how to make the best use of federal and state resources by improving coordination.

When risks in a credit union are unmanageable and the credit union is no longer viable, the NCUA may liquidate it. The liquidation process enables NCUA to mitigate potential risks these institutions pose to the system. Through the NCUA's asset management program, the NCUA ensures members are paid promptly after any liquidation, and limits losses to the Share Insurance Fund and other creditors through effective management of the failed credit union's assets. The NCUA evaluates all courses of action that will maximize potential recoveries from the assets of liquidated credit unions and minimize losses to the Share Insurance Fund.

As outlined in [Appendix C](#), there are a number of emerging challenges and risks potentially affecting the credit union system and the Share Insurance Fund. The NCUA monitors these challenges and risks and takes action as appropriate.

The NCUA will maintain a strong Share Insurance Fund in 2021 through the following strategies and initiatives:

- Manage the examination program effectively and efficiently by:
 - Allocating resources to credit unions and credit union activities posing the greatest risk
 - Following up with CAMEL composite 3, 4, and 5 credit unions
 - Resolving regulatory violations and safety and soundness concerns promptly
 - Taking prompt and effective supervisory and resolution actions, if warranted
 - Ensuring examinations and supervision are scheduled and completed in accordance with agency policy



- Ensure that credit unions have evaluated and effectively managed the economic impact of COVID-19 on their credit risk, capital position, and overall financial stability
- Manage and recover assets in credit union liquidations to minimize failure costs and expenses to the Share Insurance Fund, credit union member-owners, and other creditors
- Develop additional and enhance existing risk management tools and reports to support the supervision program
- Identify merger or purchase and assumption partners for credit union failures, reduce costs, increase efficiency, and provide continued service to credit union members

Performance Goal 1.1.1

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

Indicators

1. Start 95 percent of federal credit union examinations within 12 months of prior exam completion for annual examinations and within 20 months of prior exam completion for extended examinations.
2. Start 95 percent of federally insured, state-chartered credit union examinations within 14 months of prior exam completion for those on an annual examination schedule.
3. Resolve troubled credit unions⁵ within an average of 23 months from the initial CAMEL composite downgrade to troubled status.

Performance Goal 1.1.2

Effectively manage losses to the Share Insurance Fund

Indicators

1. Maintain two percent or less of credit union system assets in CAMEL composite 4 and 5 rated credit unions.

⁵ As defined in NCUA regulation § 701.14.



2. Maintain the Share Insurance Fund's equity ratio at or above 1.3 percent and at or below the Normal Operating Level.⁶
3. Within three business days of a credit union failure, ensure payments are issued to members for the balance of their verified insured funds or members have access to their funds.
4. 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 as they seek to provide their members with more and improved products and services. This growth and innovation raise the risks to the Share Insurance Fund. The NCUA's examination and supervision program must continue to evolve with the credit union system.

The NCUA's Office of the Chief Economist provides economic information and enhances the agency's understanding of emerging microeconomic and macroeconomic risks. This office also provides insight on regional and industry specific economics and potential risks. Future risks to credit unions include escalating cybersecurity threats, interest rate and liquidity challenges, real estate and member business loan concentrations, and technology-driven changes in the financial landscape. 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 is implementing enhanced examination procedures, including supervisor concurrence and additional quality controls, for credit unions with very high concentrations in specific loan types. The agency will also develop credit risk related tools for high-risk credit unions. For more information, see NCUA's Letter to Credit Unions 20-CU-22, [Update to NCUA's 2020 Supervisory Priorities](#).

Cybersecurity threats and other technology-related issues continue to be of interest and concern to the NCUA. Increasingly sophisticated cyber-attacks pose a significant threat to credit unions, financial regulators, and the broader financial services sector. The availability, confidentiality, and integrity of credit union member information remains a key supervisory priority for the NCUA. Advances in financial technology, the

⁶The equity ratio is the ratio of Share Insurance Fund equity to the amount of insured shares.



prevalence of remote workers, and the increased use of mobile technology for financial transactions has increased the likelihood of cyber threats adversely affecting credit unions and consumers. To address this, the NCUA has shifted focus from conducting maturity assessments using the Automated Cybersecurity Examination Toolbox (ACET) to conducting focused reviews of information security and providing corrective action to address deficiencies, when necessary. In 2021, the NCUA is piloting the Information Technology Risk Examination solution for Credit Unions (InTREx-CU). Appendix C provides further discussion of the InTREx-CU pilot and the continued use of ACET as a self-assessment tool for credit unions.

The multi-year Enterprise Solution Modernization program will reach a major milestone in 2021 with the release of the Modern Examination and Risk Identification Tool (MERIT) to all credit union examiners and state regulators. This milestone was initially planned for 2020; however, the COVID-19 pandemic delayed most staff training and the MERIT rollout. MERIT is the agency's modernized examination platform and will replace the Automated Integrated Regulatory Examination System, and integrate business intelligence tools into the supervision function. This system is a critical and primary information source for documenting the industry's health and safety and soundness.

The NCUA staff of credit union examiners are the agency's most important assets for identifying and addressing risks before they threaten a credit union's solvency. The NCUA will continue to deliver training virtually as needed in 2021 to ensure the NCUA staff continue to receive training and tools to help them do their jobs effectively in the current environment. This includes training for field staff on the use of MERIT. As the agency transitions to this new platform, which is expected to result in more efficient and effective supervision, the NCUA must prepare its staff.

In 2021, supervisors at the NCUA will review all examination and supervision reports issued by NCUA examiners and issue those reports in a timely manner, as required in the National Supervision Policy Manual. The review program provides increased assurance that the agency addresses all material issues effectively and consistently. An integrated workflow solution for this quality assurance effort is planned with the release of the MERIT platform.

ONES' adoption of a data-driven supervision approach supports the agency's mission by identifying changing risks early in large credit unions.



The NCUA will provide high quality and efficient supervision through the following strategies and initiatives:

- Review credit union policies and the use of loan workout strategies, risk management practices, and new strategies implemented to assist borrowers impacted by the COVID-19 pandemic, including new programs authorized through the Coronavirus Aid, Relief and Economic Security Act
- Modernize technology and agency processes to improve analytic capabilities to identify critical correlations, risks and current and future data elements
- Produce robust modeling and risk identification tools that provide economic information on emerging microeconomic and macroeconomic risks
- Request public comment about and evaluate incorporating a sensitivity to market risk component (“S”) into the CAMEL examination rating system
- 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
- Work closely with state regulators, including continuing the Alternating State Exam Program pilot, to ensure necessary action to mitigate risk within the federally insured, state-chartered credit union program
- Increase the transparency and accessibility of credit union data and analyses, and related economic data and analyses, for external stakeholders
- Review processes and documents supporting standard enforcement and litigation actions.
- Expand collaboration and coordination with relevant agencies towards a more harmonized examination and critical infrastructure protection capability
- Pursue a feedback mechanism to collect credit union perspectives about agency processes. The agency aims to establish the mechanism in 2021, baseline results in 2022 and measure improvements in 2023.
- Hire an additional senior credit specialist to provide enhanced risk mitigation and program support for the credit risk area.
- Realign five positions to support the additional large consumer credit unions that will come under ONES supervision.



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 Review and Credit Union Data Summary on the NCUA website to assist with identifying regional and national trends in credit union performance.
2. Provide examiners with timely risk reports to identify trends in targeted risk areas throughout 2021.
3. Perform a quarterly analysis of high-risk credit unions.

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. Conduct supervisory stress testing on all Tier III credit unions, as defined by NCUA regulations part 702, by the second quarter of 2021 and perform multi-path valuation analysis (stochastic) on all credit unions with assets greater than \$10 billion, by the fourth quarter of 2021.
3. Complete pilot of and train targeted staff on the enhanced cybersecurity examination program by December 31, 2021, for implementation in 2022.

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. Establish a third-party mechanism to solicit feedback directly from credit unions about their views of agency processes by December 31, 2021.
3. Implement enhanced examination procedures, including supervisor concurrence and additional quality controls, for credit unions with very high concentrations in specific loan types no later than the second quarter of 2021.



Strategic Goal 1: Summary Performance Indicators and Targets

Goal	Indicator	2018 Actual	2019 Actual	2020 Q3 Actual	Target
1.1.1	Start 95 percent of federal credit union examinations within 12 months of prior exam completion for annual examinations and within 20 months of prior exam completion for extended examinations.	96%	97%	93%	Greater than or Equal to 95%
	Start 95 percent of federally insured state-chartered credit union examinations within 14 months of prior exam completion for those on an annual examination schedule	96%	96%	97%	Greater than or Equal to 95%
	Resolve troubled credit unions within an average of 23 months from the initial CAMEL composite downgrade to troubled status.	19	21	24	Average 23 Months
1.1.2	Maintain two percent or less of credit union system assets in CAMEL composite 4 and 5 rated credit unions.	0.8%	0.7%	0.5%	2% or Less
	Maintain the Share Insurance Fund's equity ratio at or above 1.3 percent and at or below the Normal Operating Level.	1.39	1.35	1.22 ⁷	Between 1.3% and 1.38%
	Within three business days of a credit union failure, ensure payments are issued to members for the balance of their verified insured funds or members have access to their funds.	3	1	0	Average 3 Days
	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).	91%	100%	100%	At Least 85%
1.2.1	Publish the Quarterly U.S. Map Review and Credit Union Data Summary on the NCUA website to assist with identifying regional and national trends in credit union performance.	4	4	3	4
	Provide examiners with timely reports to identify trends in targeted risk areas throughout 2021.	NA	Achieved	On Target	Achieve

⁷ As of June 30, 2020.



Goal	Indicator	2018 Actual	2019 Actual	2020 Q3 Actual	Target
	Provide a quarterly analysis of high-risk credit unions.	NA	NA	NA	4
	Review and assess all capital plans and stress tests for credit unions with assets greater than \$10 billion within timelines outlined in regulation.	Achieved	Achieved	On Target	Achieve
1.2.2	Conduct supervisory stress testing on all Tier III credit unions, as defined by NCUA regulations part 702, by Q2 2021 and perform multi-path valuation analysis (stochastic) on all credit unions with assets greater than \$10 billion, by Q4 2021.	NA	NA	On Target	Achieve
	Complete pilot of and train targeted staff on the enhanced cybersecurity examination program by December 31, 2021 for implementation in 2022.	NA	NA	NA	Achieve
	Develop new or revise existing training courses to meet the needs of all field staff.	13	14	23	8
1.2.3	Establish a third-party mechanism to solicit feedback directly from credit unions about their views of agency processes.	NA	NA	NA	Achieve
	Implement enhanced examination procedures, including supervisor concurrence and additional quality controls, for credit unions with very high concentrations in specific loan types no later than Q2 2021.	NA	NA	Delayed	Not Later than Q2 2021



Strategic Goal 2: Provide a Regulatory Framework that is Transparent, Efficient and Improves Consumer Access

Strategic Objectives

Performance Goals

2.1 Deliver an effective and transparent regulatory framework

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

2.1.2 Increase awareness of regulatory activities

2.2 Enforce federal consumer financial protection laws and regulations in federal credit unions

2.2.1 Assess compliance with consumer lending and deposit laws and regulations

2.2.2 Empower consumers with information to make independent and informed financial decisions

2.3 Facilitate access to federally insured credit union financial services

2.3.1 Efficiently administer viable credit union charters and expansion requests

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

Strategic Goal 2 describes how the NCUA will 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 to financial education, services and protection and ensure credit unions meet consumer compliance requirements.

The NCUA has statutory responsibility for a variety of regulations that protect credit unions, members, and the Share Insurance Fund. As the financial services landscape evolves and credit unions continue to address the impact of the COVID-19 pandemic, 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. In 2021, the NCUA will continue to evaluate the needs of credit unions in light of the pandemic. In April 2020, the NCUA provided regulatory relief which modified certain regulatory requirements to help ensure federally insured credit unions remain operational and can properly conduct appropriate liquidity management to address economic conditions caused by the COVID-19 pandemic. The NCUA recently [extended this regulatory relief](#).

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 endeavors to improve credit union members' understanding of their role as owners in a financial cooperative. The NCUA strives to promote access to credit union services for consumers of all backgrounds and income levels. To support this effort, 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

As credit unions grow larger and more complex, the regulatory framework must keep pace to maintain the strength and stability of the entire credit union system. Through its rulemaking, the NCUA responds to these changes and addresses emerging risk.

The NCUA endeavors to reduce the regulatory burden, where appropriate, and provide credit unions with more flexibility to manage their operations, reduce their administrative hurdles, and allow credit unions to better compete in the financial services marketplace. In 2021, the NCUA will continue work accomplished in 2020 to provide regulatory relief where possible to give federally insured credit unions the flexibility they need to continue providing financial services to their members during and after the COVID-19 pandemic.

The NCUA's Regulatory Reform Task Force's final report, issued in 2018, provides a blueprint for the agency's regulatory agenda. The agency continues to make [progress advancing its regulatory reform agenda](#) including issuing proposed and final rules as outlined on the [agency's website](#). In 2019, the NCUA also returned to its practice of conducting three-year rolling reviews of its regulations.



The NCUA participates on various councils and interagency groups responsible for regulating the financial system. 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. Participation in interagency groups better prepares the NCUA and the credit union system to address emerging risks.

The NCUA will deliver an effective and transparent regulatory framework through the following strategies and initiatives:

- Continue initiating the implementation of amendments recommended by the [Regulatory Reform Task Force's final report](#)
- Participate in the development of financial system regulations and guidance as applicable to credit unions
- Participate in interagency meetings including FSOC, FFIEC, and Financial and Banking Information Infrastructure Committee, 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
- Maintain open communications between examiners and credit unions to help improve the understanding and implementation of regulations and NCUA initiatives
- Support the NCUA through strategic outreach and engagement with stakeholders in the credit union system, including credit union management, associations and leagues, and journalists who cover the industry

Performance Goal 2.1.1

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

Indicator

1. Review one-third of all regulations, annually.



Performance Goal 2.1.2

Increase awareness of regulatory activities

Indicator

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

Strategic Objective 2.2

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

The NCUA's assessment of compliance risk considers 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 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 through the following strategies and initiatives:

- Provide timely guidance to the credit union system and examiners related to changes in regulations established to protect consumers, including by conducting a webinar with the credit union industry on consumer financial protection law matters
- Use offsite modeling to assist with the selection of fair lending examinations and offsite fair lending supervision contacts
- Monitor consumer complaints and fair lending examination and offsite supervision contacts results to guide consumer compliance program development
- Perform fair lending examinations and supervision contacts, and 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
- Continue to provide a responsive and efficient consumer complaint handling process in the Consumer Assistance Center
- Hire an additional consumer compliance employee to aid in developing a proposal to enhance consumer compliance examination procedures for the largest credit unions that are not primarily examined for consumer financial protection by the Consumer Financial Protection Bureau. The Office of Consumer Financial Protection will deliver a report to the NCUA Board no later than October 15, 2021, with options regarding the enhanced procedures and the cohort of credit unions that would be subject to them. As with any significant potential change in program, the NCUA Board will review the planned consumer compliance functions and must approve any such program before implementation
- Provide a summary report to regional office management semi-annually on the results of the consumer financial protection quality control reviews

Performance Goal 2.2.1

Assess compliance with consumer lending and deposit laws and regulations

Indicators

1. Complete 30 fair lending examinations, annually.
2. Complete 40 offsite fair lending supervision contacts, annually.
3. Perform quality control reviews on 200 examination reports to determine if the consumer financial protection supervisory priorities are sufficiently addressed during safety and soundness examinations.
4. Issue Risk Alerts semi-annually, if needed, addressing common themes identified in credit union operations during consumer financial protection quality control reviews.



Performance Goal 2.2.2

Empower consumers with information to make independent and informed financial decisions

Indicators

1. Develop and distribute four direct-to-consumer financial literacy public awareness initiatives, at least one of which shall focus on COVID-19 relief programs. Such initiatives may include events, videos, or materials focused on current consumer financial protection and financial literacy issues.
2. Increase the web traffic to the NCUA's digital consumer financial literacy outreach page MyCreditUnion.gov, by five percent.

Strategic Objective 2.3

Facilitate Access to Federally Insured Credit Union Financial Services

The NCUA seeks to promote financial inclusion to better serve a changing population and economy. The NCUA continues to develop initiatives to create opportunities to promote financial education and financial inclusion, and foster an environment where those with low-to-moderate incomes, people with disabilities, and the otherwise underserved have access to affordable financial services.

In October 2020, the NCUA launched its Advancing Communities through Credit, Education, Stability, and Support (ACCESS) initiative, which will bring together agency leaders to develop policies and programs that support financial inclusion within the NCUA and more broadly, throughout the credit union system. By building on the NCUA's past and current financial inclusion initiatives, ACCESS will focus on meeting the financial services and financial literacy needs of underserved and diverse communities, and expanding their employment opportunities. We must invest in a longer-term financial inclusion agenda that creates robust economic benefits for all Americans.

The effort to build financial inclusion begins with expanding access to quality financial services. A 2018 study of "unbanked" Americans by the Federal Deposit Insurance Corp. reported that about 8.4 million U.S. households — more than 14 million adults — lack a checking or savings account at an insured financial institution. An even larger number, 24.2 million households, have accounts at an insured institution, but still rely on alternative financial services — such as payday lenders or check-cashing services — to make ends meet. Minority households are more likely to be among the unbanked, and thus, more likely to be targeted by predatory lenders.



We must recognize there's no "silver bullet" to combating inequity. Instead, we need a carefully considered, comprehensive agenda that puts financial inclusion for underserved, minority communities at its core. The ACCESS initiative will strengthen the four pillars of financial inclusion: access to credit, education, stability, and support. Expanding access to credit gives more Americans the opportunity to build businesses, afford higher education, achieve the dream of homeownership, and create strong, vibrant communities. Expanding access to financial literacy education helps consumers start on the right path financially and make smart financial decisions that improve their financial well-being. Ensuring financial stability allows credit unions serving minority and underserved areas to thrive and meet the evolving financial needs of their members and by extension, their communities. Supporting new employment opportunities for minorities, women, the disabled, and the underserved allows these individuals to join the financial mainstream and benefit from greater economic opportunity.

In 2021, the NCUA will build on its successes; ACCESS will expand existing efforts to address the financial services and financial literacy needs of underserved and diverse communities, as well as expand opportunities for employment. While the agency will focus on achieving specific ACCESS milestones in the coming year, the overall ACCESS initiative will involve on-going dedication to achieving the initiative's long-term goals.

The NCUA's Office of Credit Union Resources and Expansion's (CURE) primary mission is to support credit union growth and development. Through CURE, the NCUA provides support to minority, low-income and any credit union seeking assistance with chartering, charter conversions, bylaw amendments, field of membership expansion requests and low-income designations. CURE provides access to grants and loans through the Community Development Revolving Loan Fund and develops online training and other educational resources. CURE is also responsible for outreach to credit unions seeking to serve underserved areas and the minority depository institution (MDI) preservation program.

The NCUA's MDI preservation program provides needed support to federally insured credit unions that serve communities and individuals who may lack access to mainstream financial products and services. The NCUA provides ongoing assistance to MDIs by working directly with them, sharing its knowledge of the credit union system and best practices, and generally acting as a knowledgeable point of contact and resource.

CURE is 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. In 2019, the NCUA [launched a new digital tool](#) to help organizing groups with the charter application process. The chartering proof of concept



tool is an automated system that educates organizers of the new credit union. This process prepares organizers to complete a new charter application. In 2021, the NCUA will continue to modernize and automate the chartering process and implement its new charter modernization plan.

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

- Encourage greater use of the Community Development Revolving Loan Fund and the Community Development Financial Institution certification to bolster services to low-income members
- Enhance education and outreach services to credit union boards and management, including through on-line training courses
- Provide educational assistance and support to groups and communities seeking to form credit unions
- Seek feedback from newly chartered credit unions and groups supporting them to identify ways to streamline the credit union chartering process while maintaining safety and soundness priorities
- 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
- Promote the value of diversity and inclusive financial services in credit unions
- Promote the use and submission of the [Voluntary Credit Union Diversity Self-Assessment](#). The self-assessment is a tool for credit unions to evaluate their diversity programs and practices
- Notify credit unions newly qualifying for low-income status of their eligibility, semi-annually
- Develop an MDI Preservation Plan, which will promote growth of existing and encourage the formation of new minority institutions.
- Hire two Financial Technology (FinTech) and Access personnel to work with credit unions and FinTech companies to harness the opportunities that innovation provides to support financial inclusion efforts and make financial services more accessible to underserved communities.



Performance Goal 2.3.1

Efficiently administer viable credit union charters and expansion requests

Indicators

1. Charter two new credit unions by December 31, 2021.
2. By March 30, 2021, establish processing time standards for applications from credit unions and provide on-going, quarterly reports on actual processing results.
3. Finalize and implement the 2021 action items in the new charter modernization plan by December 31, 2021.
4. By March 31, 2021, deliver a work plan to the Board that includes specific deliverables and milestones for each of the four pillars of the ACCESS initiative and that identifies what other NCUA actions may be taken to close the wealth gap by increasing Americans' access to credit union services, and for the remainder of the year, complete the 2021 deliverables as presented.

Performance Goal 2.3.2

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

Indicators

1. Award funds to 50 percent of the minority depository institutions applying for grants.
2. Assess the needs of MDIs through regional roundtable meetings to determine how the NCUA may assist, preserve, and increase the number of MDIs in the future.



Strategic Goal 2: Summary Performance Indicators and Targets

Goal	Indicator	2018 Actual	2019 Actual	2020 Q3 Actual	Target
2.1.1	Review one-third of all regulations, annually.	NA	Achieved	On Target	Achieve
2.1.2	Increase by five percent web traffic to regulatory and related supervisory information on NCUA.gov.	-7%	+45%	+6%	Greater than or Equal to 5% Increase
	Complete 30 fair lending examinations, annually.	26	25	4	Greater than or Equal to 30
	Complete 40 offsite fair lending supervision contacts, annually.	40	43	28	Greater than or Equal to 40
2.2.1	Perform quality control reviews on 200 examination reports to determine if the consumer financial protection supervisory priorities are sufficiently addressed during safety and soundness examinations.	NA	NA	180	200
	Issue Risk Alerts semi-annually, if needed, addressing common themes identified in credit union operations during consumer financial protection quality control reviews.	NA	NA	NA	2 Risk Alerts, if needed
2.2.2	Develop and distribute direct to consumer financial literacy public awareness initiatives, at least one of which shall focus on COVID-19 relief programs. Such initiatives may include events, videos, or materials, focused on current consumer financial protection and financial literacy issues.	5	5	8	4
	Increase by five percent the web traffic to the NCUA's digital consumer financial literacy outreach efforts through the agency's consumer-facing website MyCreditUnion.gov, including espanol.mycrreditunion.gov.	865,195	-16%	+42%	Greater than or Equal to 5% Increase



Goal	Indicator	2018 Actual	2019 Actual	2020 Q3 Actual	Target
	Charter two new credit unions by December 31, 2021.	1	2	1	2
	By March 31, 2021, establish processing time standards for applications from credit unions and provide on-going, quarterly reports on actual processing results.	NA	NA	NA	3/31/21: Establish Processing Time Standards, Quarterly Reports Thereafter
2.3.1	Finalize and implement the 2021 action items in the new charter modernization plan by December 31, 2021.	NA	NA	NA	Achieve
	By March 31, 2021, deliver a work plan that includes specific deliverables and milestones for each of the four pillars of the ACCESS initiative and that identifies what other NCUA actions may be taken to close the wealth gap by increasing Americans' access to credit union services, and for the remainder of the year, complete the 2021 deliverables as presented.	NA	NA	ACCESS Established	3/31/2021: Deliver ACCESS Work Plan 12/31/21: Complete 2021 ACCESS Deliverables
	Award funds to 50 percent of the minority depository institutions applying for grants.	91%	63%	51%	Greater than or Equal to 50%
2.3.2	Assess the needs of MDIs to determine how the NCUA may assist, preserve, and increase the number of MDIs in the future.	NA	NA	NA	12/31/21: Conduct 4 Regional Roundtable Meetings



Strategic Goal 3: Maximize Organizational Performance to Enable Mission Success

Strategic Objectives

Performance Goals

3.1 Attract, engage and retain a highly skilled, diverse workforce and cultivate an inclusive environment

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

3.1.2 Promote inclusive leadership that values diverse perspectives and maximizes employees' contributions

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

3.2 Deliver an efficient organizational design supported by improved business processes and innovation

3.2.1 Implement a human capital plan to support strategic and business priorities

3.2.2 Protect NCUA staff, facilities and critical infrastructure

3.2.3 Implement secure, reliable and innovative technology solutions

3.2.4 Gain efficiencies through quality processes, systems, and project management

3.3 Ensure sound corporate governance

3.3.1 Foster an effective risk management and internal control environment

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

3.3.3 Promote sound financial management and stewardship principles



Achieving the NCUA’s goals requires effective communication, collaboration, and coordination by all staff and across all offices within the agency. Strategic Goal 3 addresses the fundamental business processes and management responsibilities within the NCUA. In order to achieve its other two strategic goals, the agency must be prudent and effective in its administration of:

- 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

The NCUA aims to foster a work environment that is innovative, high performing, highly engaged, and inclusive. Developing such a workforce begins with recruitment and assessment of candidates. The NCUA is committed to filling positions with the best-qualified applicants and uses robust outreach strategies to reach and attract them.

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. 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

In 2020, the NCUA worked to reach a diverse pool of job candidates by conducting virtual outreach through online recruitment events offered by career-oriented organizations. The agency also continued to mature its Employee Resource Group network program. Employee Resource Groups are voluntary, employee-led groups that serve as a resource for members and organizations within the agency by fostering a diverse, inclusive workplace aligned with organizational mission, values, goals, business practices, and objectives. The NCUA's Culture, Diversity, and Inclusion Council continued its work to help shape the agency's culture and shared commitment to diversity and inclusion. This work included launching an employee climate survey and focus group process to gauge the NCUA's existing agency culture and create a path to making it more inclusive. Engaging in behaviors that promote a 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 an inclusive work environment contribute to a stronger agency.

To support the agency's mission and supervise federally insured credit unions properly, all staff must receive the training necessary to develop their skills and abilities. Training needs are identified on an ongoing basis through individual development plans for each employee. In addition to external training opportunities available to the public, the NCUA offers a full curriculum of examiner-focused training courses to its staff and state regulators. The NCUA will continue reviewing and revising its training to respond to emergent industry trends, highlight regulatory and other changes to business context and address employee feedback. In 2021, the agency will also conduct examiner training in support of the implementation of the new MERIT examination and supervision system.

The NCUA's Talent Management Council continues to prioritize 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. Programs that cultivate an inclusive environment are important in building understanding and connections between employees, cultivating a high-performance organization, and creating a sense of



belonging within the agency. Each office throughout the NCUA is responsible for executing its own workforce engagement action plan to manage and grow its employees' relationship with the agency.

Improved employee engagement also leads to increased 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 statistical modeling and forecasting capabilities to improve long-range planning efforts
- Strengthen human capital data analytics through dashboards and other data analytics tools that make information readily accessible to NCUA's leadership
- Address and eliminate barriers to equal employment opportunity where low participation exists
- Develop a culture of continuous learning to attract and retain employees with superior qualifications and abilities
- Deploy a new internal Learn Management System for NCUA employees and state examiners and continue developing on-line courses that meet employees' learning needs
- 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
- Cultivate talent by providing training, mentoring, detail assignments, and other leadership development opportunities
- Maintain investment in programs that promote employee retention and inclusion, such as the NCUA Mentorship Program, Employee Resource Groups, the Culture, Diversity and Inclusion Council, the Summer Intern Program, OMWI Talks, Special Emphasis Programs, and the VIBE Campaign
- Target diverse communities through awareness campaigns as part of employee recruiting and other agency opportunities
- Evaluate the results of the Employee Viewpoint Survey and implement changes as necessary to address lower scoring areas
- Monitor actively and respond promptly 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. Achieve at least an average 90 percent employee satisfaction level with NCUA leadership development programs.
3. Deploy replacement Learn Management System into production by March 31, 2021.

Performance Goal 3.1.2

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

Indicator

1. Improve the agency's score for its proxy Inclusion Quotient (IQ) by one percentage point over the calculated proxy IQ for 2020.

Performance Goal 3.1.3

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

Indicator

1. Improve the NCUA's Federal Employee Viewpoint Survey (FEVS) Employee Engagement Index by two percentage points.

Strategic Objective 3.2

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

The resilience of the NCUA's information technology infrastructure and the availability of its technological applications help ensure the efficiency and effectiveness of the agency's workforce, particularly in response to crises. The NCUA is committed to implementing new technology responsibly and delivering secure, reliable and innovative technological solutions to support its mission. To support the agency's



workforce, the NCUA makes technology investments funded by the [Capital Budget](#) to develop and support the analytical tools and technology required to achieve the agency's mission.

The Office of Business Innovation (OBI) partners with the Office of the Chief Information Officer (OCIO) to implement future-facing technology solutions for the NCUA workforce and the agency's business processes. An integral part of OBI's efforts is identifying how quality processes and systems can drive efficiency at the NCUA. In 2021, OBI will:

- Finalize and complete deployment of the MERIT system and associated examination analytics, and transition new examinations from the Automated Integrated Regulatory Examination System to MERIT. This transition includes the agency's primary examination platform as well as many business processes targeted to take advantage of MERIT's configurable platform
- Continue development of the NCUA's Enterprise Data Program which is intended to enhance how the agency governs and reports on its data.

OBI's Enterprise Information Security Support Program team will also continue partnering with OCIO to refine an information security program to support business system owners.

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. To this end, OCIO is committed to enhancing its oversight of all new and existing information technology capital projects in 2021 through new governance and project accountability processes.

The NCUA continues working to streamline its field operations to ensure the agency's staff carry out their responsibilities in an efficient and effective manner. The NCUA expects that lessons learned from the 2020 COVID-19 pandemic will help the agency improve its examination efficiencies through new and improved examination procedures.

The virtual exam project team is researching ways to harness new and emerging data, advancements in analytical techniques, innovative technology, and improvements in supervisory approaches.



By identifying and adopting alternative methods to remotely analyze much of the financial and operational condition of a credit union, with equivalent or improved effectiveness relative to current examinations, it may be possible to reduce the frequency and scope of onsite examinations.

The NCUA is dedicated to ensuring its employees have safe workplaces and that the agency is prepared for emergencies that may affect its operations. As a result of the COVID-19 pandemic, the agency transitioned to a remote work posture in 2020 for nearly all of its employees.

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 2021, OCSM, in conjunction with E&I, will continue to serve as the agency's link between the intelligence community and 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. OCSM will also continue managing the agency's pandemic response plan, including by monitoring the appropriate public health indicators that will recommend when the agency can start returning to on-site operations.

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

- Deploy the MERIT examination platform and optimized examination analytics and train all examiners on their use
- Deploy Microsoft Office 365 and associated software to the agency's workforce increasing information technology security, availability, and usability
- Update the GENISIS and FOMIA applications to ensure their continued functionality and reliability
- 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
- Monitor relevant public health statistics related to the COVID-19 pandemic, using that data to determine when on-site operations can safely resume.
- Deliver relevant and timely security, insider threat risk, and continuity of operations trainings to impacted staff
- Ensure that OCIO staff use industry and government best practices in project and acquisition management



- Enhance the oversight of information technology capital investments through routine, scheduled project reviews in order to remove obstacles that might negatively impact cost, schedule, scope, risk, quality, or resource requirements.
- Establish an enterprise business intelligence capability implementation plan
- Strengthen the agency's cybersecurity and continue to ensure compliance with the Federal Information System Management Act

Performance Goal 3.2.1

Implement a human capital plan to support strategic and business priorities

Indicator

1. 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. Achieve a score of 75 percent or above on the NCUA's FEVS Question 36: "My organization has prepared employees for potential security threats."
3. Conduct at least three cybersecurity-related tests by December 31, 2021.

Performance Goal 3.2.3

Implement secure, reliable and innovative technology solutions

Indicator

1. Conduct examinations and supervision contacts for all credit unions using MERIT, commencing December 1, 2021.
2. By September 30, 2021, submit to the Board a plan for developing and deploying a credit union locator application, funding for which is subject to availability.



Performance Goal 3.2.4

Gain efficiencies through quality processes, systems, and project management

Indicators

1. Achieve a Service Desk Tier 1 resolution rate (incidents resolved without transferring or escalating) of at least 70 percent.
2. Maintain a low-risk designation for the NCUA's annual National Archives and Records Administration Records Management Self-Assessment in 2021.

Strategic Objective 3.3

Ensure Sound Corporate Governance

As part of the rapidly changing financial services industry, the NCUA seeks continuous improvements to strengthen its fundamental business processes and procedures. Sound corporate governance and practices at the agency 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 its role as a fiduciary; and
- The agency's compliance with financial management laws, policies, and standards.

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 and development of the annual performance plan
- Administration of the agency's Enterprise Risk Management (ERM) 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 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 ERM 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, the NCUA will implement the following strategies and initiatives:

- Provide financial management expertise and support to external and internal customers
- 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
- Assess the agency's accounting and financial management systems for operational efficiency and cost-effectiveness, evaluating alternative approaches for the potential to deliver better value to financial operations
- Revisit the NCUA ERM program by refreshing the agency's inventory of enterprise-level risks
- Continue to bolster the security of information technology systems by establishing plans of action and milestones and ensuring remediation activities occur as planned.



- Leverage tools, processes and resources for increasing opportunities to minority- and women-owned businesses in the NCUA competitive procurement process
- 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. Complete at least 90 percent of the Office of Inspector General recommendations due in 2021 within the established timeframes.
2. Improve the NCUA leadership's assessment of the adequacy of the agency's internal controls environment.

Performance Goal 3.3.2

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

Indicator

1. Revise and refresh the NCUA inventory of top tier enterprise risks.

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.
3. Establish an award program to recognize employee proposals that result in reductions to agency costs.



Strategic Goal 3: Summary Performance Indicators and Targets

Goal	Indicator	2018 Actual	2019 Actual	2020 Q3 Actual	Target
	Obtain at least an 85 percent average satisfaction rating in training class evaluations.	85%	85%	92%	85%
3.1.1	Achieve at least an average 90 percent employee satisfaction level with NCUA leadership development programs.	NA	NA	100%	90%
	Deploy replacement Learn Management System into production by March 31, 2021.	NA	NA	Awarded	Deploy
3.1.2	Improve the agency's score for its proxy IQ by one percentage point over the calculated proxy IQ for 2020.	64	65	NA	Increase by 1 percentage point
3.1.3	Improve the NCUA's FEVS Employee Engagement Index by two percentage points.	67	69	NA	Increase by 2 percentage points
3.2.1	Develop workforce plans for NCUA offices to address the changing needs of the agency.	NA	22.1%	80.7%	80% or above of employees
	Deliver relevant, quality insider threat risk and continuity of operations trainings to impacted staff annually.	100%	100%	100%	100% of targeted groups
3.2.2	Achieve a score of 75 percent or above on the NCUA's FEVS Question 36 "My organization has prepared employees for potential security threats."	76%	86%	NA	Greater than or Equal to 75%
	Complete at least three cybersecurity-related tests by December 31, 2021.	NA	NA	NA	Three or More Tests by 12/31/21



Goal	Indicator	2018 Actual	2019 Actual	2020 Q3 Actual	Target
3.2.3	Conduct examinations and supervision contacts for all credit unions using MERIT, commencing December 1, 2021.	NA	MERIT released to ONES / Select States	Delayed	100%
	By September 30, 2021, submit to the Board a plan for developing and deploying a credit union locator application, funding for which is subject to availability.	NA	NA	NA	9/30/21: Submit Plan
3.2.4	Achieve a Service Desk Tier 1 resolution rate (incidents resolved without transferring or escalating) of at least 70 percent.	Baseline Established	71%	61%	At least 70%
	Maintain a low-risk designation for the NCUA's annual National Archives and Records Administration Records Management Self-Assessment in 2021.	NA	NA	Low Risk	Maintain Low-Risk
3.3.1	Complete at least 90 percent of Office of Inspector General recommendations due in 2020 within the established timeframes.	76%	83%	85%	At least 90%
	Improve the NCUA leadership's assessment of the adequacy of the agency's internal controls environment.	NA	3.93	3.77	Weighted average 4 out of 5
3.3.2	Revise and refresh the NCUA inventory of top tier enterprise risks by December 31, 2021.	NA	NA	NA	Achieve
3.3.3	Receive an unmodified opinion on the NCUA financial statement audit of all four funds.	Achieved	Achieved	Achieved	Achieve
	Award at least 70 percent of total eligible contract dollars as competitive actions.	79%	91%	87%	70%
	Establish an award program to recognize employee proposals that result in reductions to agency costs.	NA	NA	NA	12/31/21: Establish Award Program



Management Review

The NCUA develops performance measures through its strategic planning process. The agency holds program managers accountable through meaningful and realistic targets that also challenge the agency to leverage its resources and improve the results achieved by the NCUA. 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 2021; therefore, historical data is not available. These indicators are marked as “NA” 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 E&I, 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 2021, the NCUA plans to provide for continued improvements to its data management systems including further development and standardization of business intelligence tools and continued development of its enterprise data management program. 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 ERM program, the agency is proactively managing risks to achieving its mission, as well as maximizing opportunities across the agency. ERM 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 ERM 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 ERM activities.

In 2021, the NCUA plans to refresh its inventory of enterprise risks, which were last developed in 2017. This effort will enable the agency to consider not only changes in



the economy and the financial outlook of the credit union system since that time, but will also help inform the agency's future strategic planning efforts.

Hyperlinks

[*2018–2022 Strategic Plan*](#)

[*2018-2022 Diversity and Inclusion Strategic Plan*](#)

[NCUA Regulations](#)

[NCUA Budget Documents](#)

[Enterprise Solution Modernization Program](#)

[Cybersecurity Resources](#)

[Consumer Compliance Regulatory Resources](#)

[Examination Flexibility Initiative](#)

[Annual Voluntary Credit Union Diversity Self-Assessment](#)



Appendix A – Budgetary Requirements by Strategic Goal

Strategic Goal	2021 Budget	
	Dollars (in Millions)	Full-Time Equivalents*
Goal 1: Ensure a safe and sound credit union system	\$217.09	933.7
Goal 2: Provide a regulatory framework that is transparent, efficient, and improves consumer access	\$32.76	117.7
Goal 3: Maximize organizational performance to enable mission success	\$87.51	130.6
Office of Inspector General	\$4.02	10.0
Total	\$341.38	1,192.0

Expenses for the Offices of the Board, Executive Director, Inspector General, External Affairs and Communications, and Chief Financial Officer are allocated across all strategic goals.

*NCUA's 2021 positions are funded by three different sources: the Central Liquidity Facility funds 3 full-time equivalents, and the Share Insurance Fund funds 5 full-time equivalents. NCUA's Operating Fund funds the remaining 1,184 full-time equivalents.



Appendix B – Performance Management Programs Process

The NCUA’s performance management programs process begins with the agency’s strategic plan, which 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 2021-2022 Budget Justification](#) 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 the [OMB website](#).



Appendix C – External Factors 2021

Economy and Credit Unions

After several years of solid growth, the economy entered recession at the start of 2020. The COVID-19 pandemic and efforts to slow the spread of the virus led to a dramatic pull-back in spending and the economy contracted sharply. In the span of two months, between February and April, employment plunged by 22 million and the unemployment rate surged from a five-decade low of 3.5 percent to post-war high of 14.7 percent. The federal government responded quickly, establishing loan programs for affected businesses and providing financial relief to households in the form of stimulus payments and enhanced benefit payments to unemployed workers. Federal Reserve policymakers cut short-term interest rates, increased the Federal Reserve's asset holdings, and established a number of lending programs to support financial conditions and the flow of credit to households, businesses, and state and local governments. Interest rates across the maturity spectrum fell to historically low levels.

Economic conditions started to improve in late spring. Economic activity picked up sharply, employment began to rise and the unemployment rate moved lower. By November, a little over half of the jobs lost in the spring had been restored, and the jobless rate had fallen to 6.7 percent. The recovery in labor markets and the broader economy is expected to continue. The outlook for the economy over the next two years has improved markedly with the advent of a COVID-19 vaccine. However, given the depth of the recession, which is on track to be the most severe since the Great Depression, it is expected to take several years for the economy to return to full employment, and the risk of a worse-than-anticipated outcome is high.

Despite the deterioration in economic conditions, credit unions in the aggregate turned in a relatively solid performance in the first three quarters of 2020. Even if the economy continues to recover as expected, the operating environment for credit unions over the next two years could prove to be more difficult than in prior years, and credit union performance could deteriorate. Credit unions should plan for a range of economic outcomes that could affect their performance and resource needs. In addition to the risks associated with movements in the general economy, credit unions should also understand their 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.



Near-Term Outlook

A consensus of forecasters expects the economy to expand rapidly over the next two years as households and businesses resume many of the activities put on hold during the COVID-19 pandemic. Employment is expected to increase and the unemployment rate will continue to decline, but neither is forecast to return to its pre-recession level during the next two years. By the end of 2022, the unemployment rate is expected to average 4.8 percent.⁸ Inflation is widely expected to remain below the Federal Reserve's 2 percent target.

In light of these expectations, interest rates are forecast to remain low. Federal Reserve policymakers anticipate that it could be appropriate to hold the federal funds target rate in its current range of 0 to 0.25 percent until 2023.⁹ Analysts expect other short-term interest rates, which largely determine the interest payments credit unions make, to remain near their current low levels through 2021, moving modestly higher in 2022. Longer-term rates, which largely determine the interest payments credit unions receive, are expected to edge higher as economic conditions improve. Private-sector forecasters expect the 10-year Treasury rate to rise from around 0.90 percent in early December 2020 to roughly 1.60 percent by the end of 2022.¹⁰

Even if the economy continues to expand as expected, the recent downturn will likely affect credit union performance through the end of the performance plan period. For example, the high level of unemployment could weigh on loan demand, particularly for non-mortgage consumer loans, and affect credit quality. System-wide delinquency rates, which remained low through the third quarter of 2020, could begin to rise as the forbearance programs put in place during the spring of 2020 come to an end. Credit union shares could remain elevated as consumers eschew riskier investments and opt to keep their funds in insured credit union deposits.

Interest Rate Risk

Credit unions' ability to manage and mitigate interest rate risk will continue to be important to their success. On the liability side, deposit rates have fallen since the start of 2020 and will likely remain low given the Federal Reserve's commitment to accommodative monetary policy. Credit unions will continue to face pressure to offer competitive deposit rates to avoid deposit attrition, as many members have a number of financial institution alternatives and can move funds quickly across institutions. Of the

⁸ Wall Street Journal Economic Forecasting Survey, December 2020.

⁹ Federal Open Market Committee, December 16, 2020.

¹⁰ Wall Street Journal Economic Forecasting Survey, December 2020.



nearly 20 percent of households using a credit union as their primary financial institution, 56 percent also use a bank for some type of financial service.¹¹ A prolonged period of low interest rates also poses risks on the asset side. 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 longer-term and higher-risk assets to their portfolio.

Risks to the U.S. Economic Forecast

The recovery in economic activity and labor markets is widely expected to continue. The availability of a COVID-19 vaccine is a positive development and should support increased economic activity in the year ahead. However, there is still a tremendous amount of uncertainty about the economy in the near term. If COVID-19 cases rise to levels that necessitate another wave of business closures and other measures that hinder economic activity, the recovery could falter, leading to more job losses and higher unemployment. Weaker-than-expected economic conditions or another downturn would keep interest rates low or cause them to decline, particularly at the long end of the yield curve, and pose more significant challenges for the credit union system.

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 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 crypto currencies, peer-to-peer payment, and peer-to-peer lending, pose a competitive challenge to credit unions and banks alike. Credit unions also face a range of challenges from 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

¹¹ Federal Reserve Board, 2019 Survey of Consumer Finances.



safeguards that credit unions and other traditional financial institutions face. The emergence and increasing importance of digital currencies may pose both risks and opportunities for credit unions. As these institutions and products gain popularity, credit unions may have to be more active in marketing and rethink their business models.

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 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

In the third quarter of 2020, 2,760 federally insured credit unions, representing 54 percent of the industry total, had less than \$50 million in assets. Together, these credit unions accounted for only 3 percent of total assets and 4 percent of credit union membership in the quarter. The number of small credit unions declined substantially over the past five years. In the third quarter of 2016, there were 3,571 credit unions in this category, and they represented 61 percent of the system-wide total.

Small credit unions face challenges to their long-term viability for a variety of reasons, including lower returns on assets, human capital challenges, 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. In the third quarter of 2020, there were 636 federally insured credit unions with assets of at least \$500 million, 28 percent more than five years earlier. These 636 credit unions represented only 12 percent of credit unions, but accounted for 77 percent of credit union members and 82 percent of assets in the quarter. 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, because consolidation means the risks posed by individual institutions will become more significant to the Share Insurance Fund.

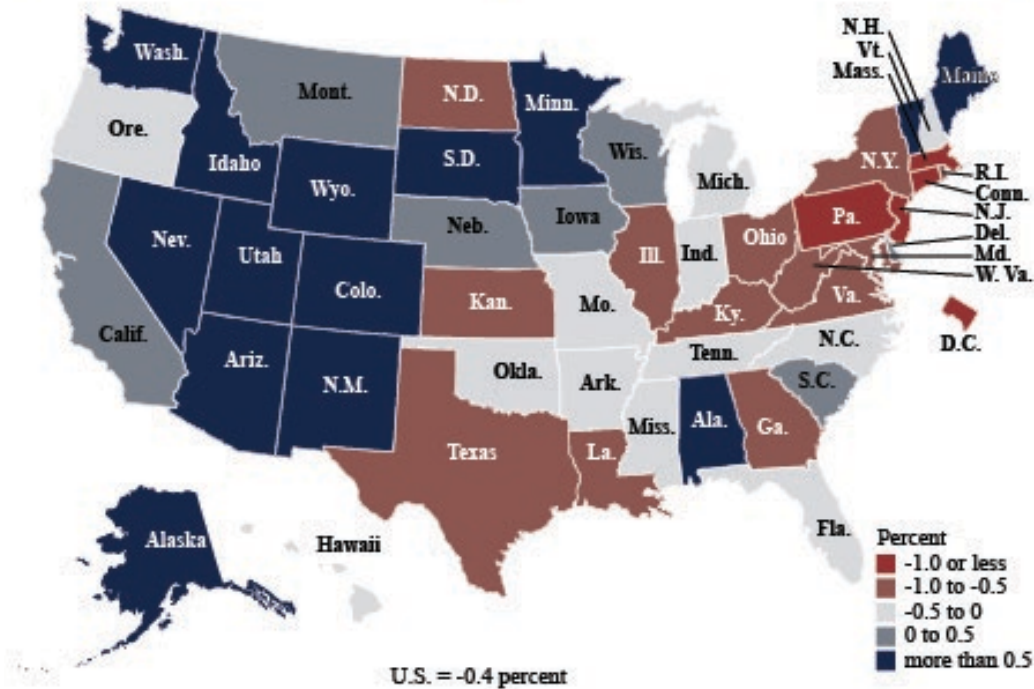
Membership Trends

While overall credit union membership continues to grow, about half of federally insured credit unions had fewer members at the end of the third quarter of 2020 than a year earlier. In 26 states and Washington, D.C., the median membership growth rate was negative over the year. Credit unions with falling membership tend to be small; about 65 percent had less than \$50 million in assets. 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.

Median Annual Membership Growth



Cybersecurity

Credit unions' increasing dependency on technology is making the credit union system inevitably more vulnerable to cyber risk and threats. The prevalence of ransomware, malware, social engineering, distributed denial of service attacks, and other forms of historical cyber intrusion are creating challenges at credit unions of all sizes, and will require ongoing measures for rapid detection, protection, response, and recovery. These trends are likely to continue and accelerate in the foreseeable future.

This technology dependency has been a double-edged sword particularly during the COVID-19 pandemic. On the one hand, emerging technologies such as mobile transactions and cloud computing have allowed credit unions to more effectively perform their normal business operations in a time of increased telework for their employees, social distancing measures by their customers, and offsite examinations



from their regulators. On the other hand, COVID-19 has increased opportunities for cyber-enabled fraud.

While traditional core banking and payment systems remain attractive targets to cyber criminals because they provide more direct cash out opportunities and access to personal identifiable information, we have also seen an increase in attacks on the underlined supporting technologies for both information technology and operational technology. Credit unions must take a strategic risk management approach, which includes continual hardening, monitoring and improving the 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 the overall financial ecosystem. The FSOC recognizes that a cyber-attack on an important financial market utility, or a sensitive data breach at a large financial institution, could pose an acute threat to U.S. financial stability.

In FSOC's 2020 Annual Report, one consistent theme is that COVID-19 is advancing, by necessity, an enhanced use of various forms of information technology on the part of the financial services industry, but that enhanced use has opened up new and increased cyber risks to the system. Cyber attackers are actively working to take advantage of the pandemic, as witnessed by the marked increase in COVID-related phishing attacks reported by market participants. FSOC's recommendations on how to control and curb such threats closely mirror those it has put forth in recent years. The report also highlights the need for robust monitoring and enhanced information security at third-party service providers, particularly during this time of growing use of such providers and recommends that Congress pass legislation that ensures that NCUA have adequate examination and enforcement powers to oversee these third-party service providers.

The FSOC also strongly encourages federal and state regulators to conduct cybersecurity examinations in order to guarantee comprehensive and robust cybersecurity monitoring. As financial institutions increasingly adopt new technologies like cloud computing and artificial intelligence, FSOC also encourages agencies to explore how these technologies might introduce new risks to the financial system and how these technologies might be regulated and supervised.

In July 2020, NCUA updated its supervisory priorities, which continue to include cybersecurity. The focus in that space is to advance consistency, transparency and accountability within the cybersecurity examination program. The NCUA is piloting InTREx-CU, which aligns the IT and cybersecurity examination procedures shared by the Federal Deposit Insurance Corporation, the Federal Reserve System, and some state financial regulators to ensure consistent approaches are applied to community financial



institutions. The InTREx-CU will be deployed to identify gaps in security safeguards, allowing examiners and credit unions to identify and remedy potential high-risk areas through the identification of critical information security program deficiencies as represented by an array of critical security controls and practices. Concurrently, ACET has completed its Baseline and Benchmarking objective and is now offered to credit unions as a self-assessment tool for their information security programs as opposed to a facilitated NCUA activity.