



NCUA
National Credit Union Administration

2020 Annual Performance Plan

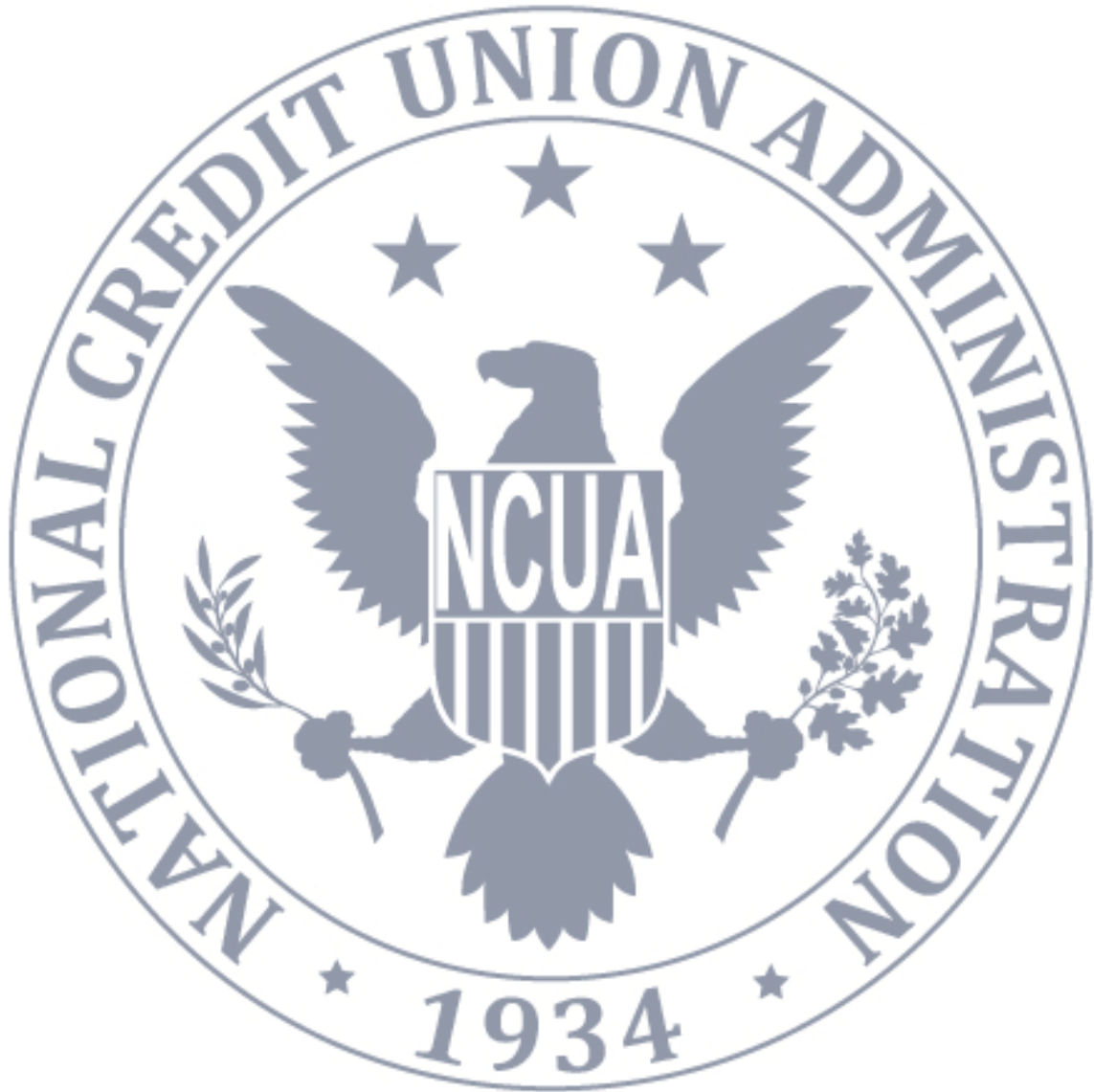
January 2020



NCUA

National Credit Union Administration

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About this 2020 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 third year implementing its current strategic plan, the *Annual Performance Plan* supports the agency's goal of becoming even more efficient, effective, transparent and accountable while protecting America's credit union community, the financial stability of the credit union system and the safety and soundness of the National Credit Union Share Insurance Fund. This plan outlines how the agency will continue to effectively supervise and insure a growing and evolving credit union system. As financial services and the credit union sector continue to change, the NCUA must adjust to meet the challenges and developments. In 2020, the NCUA will fully implement new technology to improve the agency's examination process. The agency also continues the progress made in 2018 and 2019 by ensuring priorities and objectives align with the mandates prescribed in the Federal Credit Union Act and are achieved with greater efficiency, responsiveness and effectiveness.

This *Annual Performance Plan* strives to provide all interested parties, including the NCUA's employees, consumers, credit unions, other agencies, and Congress, with transparency and understanding of the NCUA's performance 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 plan's priorities and performance indicators comply with the Government Performance and Results Modernization Act of 2010 (GPRA Modernization Act) and the Office of Management and Budget's (OMB) Circular A-11.



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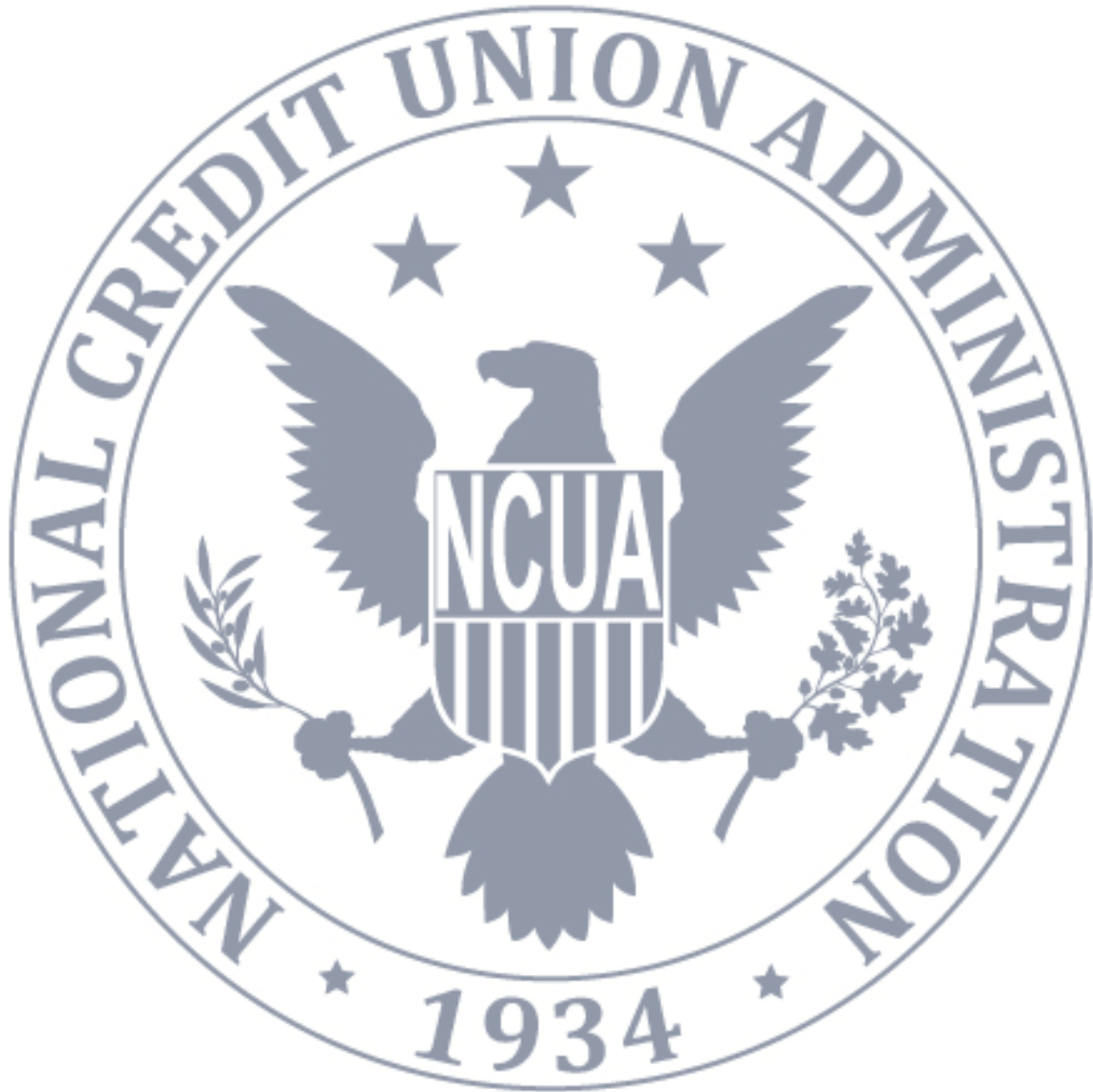




Table of Contents

About this 2020 Annual Performance Plan	ii
Message from the Chairman	v
Mission and Values.....	1
Organizational Structure.....	1
Major Agency Programs	4
Supervision.....	4
Insurance	4
Credit Union Development	4
Consumer Financial Protection	4
Asset Management	5
Cross-Agency Priority Goals and Collaboration.....	5
Agency Priority Goals.....	5
Summary of Strategic Goals and Objectives	6
Strategic Goals, Objectives and Performance Goals	7
Strategic Goal 1	7
Strategic Goal 2.....	18
Strategic Goal 3.....	28
Management Review	41
Program Evaluation and Research.....	41
Data Management and Reliability	41
Enterprise Risk Management	42
Hyperlinks.....	43
Appendix A – Budgetary Requirements by Strategic Goal.....	44
Appendix B – Performance Management Programs Process	45
Appendix C – External Factors 2020.....	46
Economy and Credit Unions	46
Interest Rate Risk	47
Risks to the U.S. Economic Forecast	48
Other Emerging Risk Areas for Credit Unions	48
Cybersecurity	50



Message from Chairman Rodney E. Hood

I am pleased to present the National Credit Union Administration's 2020 Annual Performance Plan, which outlines the agency's goals and priorities for this year.

The NCUA's mission is to provide, through regulation and supervision, a safe and sound credit union system, which promotes confidence in the national system of cooperative credit. Further, the agency protects consumers, insures the deposits of credit union members, and safeguards the National Credit Union Share Insurance Fund from losses.

Since President Donald J. Trump appointed me as NCUA Chairman, I am proud of what we have achieved in terms of regulatory relief initiatives in less than a year. Our results for 2019 will be published in March in the NCUA's Annual Report, and our regulatory accomplishments include:

- Delaying the implementation of the risk-based capital rule until January 2022, which gives us time to consider improvements;
- Increasing the threshold on appraisal requirements for commercial property from \$250,000 to \$1 million;
- Being the first federal banking regulator to issue interim guidance on doing business with the legal hemp industry;
- Adopting the Payday Alternative Loans II rule, which addresses continued market demand for a short-term, small-dollar loan program with an affordable solution; and
- Facilitating, through our Second Chance Initiative, new and expanded employment opportunities for people convicted of minor crimes in the past, but who have paid their debt to society and are seeking a new path forward.

Federally insured credit unions continued to perform well in 2019. As of September 30, 2019, credit union membership grew by more than 3 percent over the preceding year, to more than 119 million members, more than a third of all Americans. Assets in the credit union system increased to \$1.54 trillion, and the system's aggregate net worth ratio stood at 11.39 percent, well above the 7-percent statutory level for well-capitalized credit unions.

The NCUA's work also includes initiatives to help credit unions — within the bounds of safety and soundness — serve their members more effectively, including members of modest means and those in underserved areas. This is done through our chartering and field-of-membership functions and our technical assistance to low-income credit unions and minority depository institutions. In 2020, the NCUA will continue to develop initiatives that promote financial education and greater financial inclusion, especially



for rural and underserved communities, people with disabilities, and others who have been unable to join the financial mainstream.

The NCUA's supervision program contributes greatly to our safety and soundness mission by identifying and resolving risk concerns, including credit risk, concentration risk, cybersecurity risk, and compliance risk. Our supervisory priorities for 2020, issued in January, included consumer financial protection. As I wrote in my letter to the industry, credit unions have a long and proud history of member service, and consumer protection is a vital element of that service. The NCUA examines for compliance with all applicable consumer financial protection rules and regulations as part of our examinations process.

The 2020 Annual Performance Plan, in concert with the 2020–2021 budget the NCUA Board approved in December 2019, outlines the resources and strategies the NCUA will use to advance the strategic goals contained in the NCUA's 2018–2022 Strategic Plan. The strategic and annual performance plans include many important and worthwhile performance goals, but four of these stand out as priorities for 2020:

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

The effective execution of our examination and supervision program is at the core of our mission and our responsibility to maintain a strong Share Insurance Fund that protects member deposits. The NCUA's supervision of federally insured credit unions consists of periodic onsite examinations and continuous offsite monitoring. The examination program is designed to deploy resources on a proportionate basis, taking into account the size and the risk profile of individual institutions. The NCUA's examiners conduct risk-focused examinations, which concentrate on areas of highest risk, new products and services, and compliance with applicable laws and regulations.

- **Performance Goal 1.2.2**
Effectively identify and evaluate risk in complex credit union portfolios

This goal includes our efforts to bolster cybersecurity in the credit union system. As information technology has become an integral and ubiquitous part of the financial services system, cybersecurity is a priority both for institutions and regulators and across the federal government. In 2020, we will continue to improve and standardize our supervision related to information and data protection and to cybersecurity risks and threats. Our data-driven supervision approach supports the agency's mission by identifying changing risks early in large consumer credit unions.



- **Performance Goal 2.1.1**

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

We continue to improve the regulatory environment for credit unions without sacrificing our safety and soundness mission. I believe the NCUA Board is obligated to consider the compliance burdens and the costs our institutions shoulder on a day-to-day basis. Regulation should be effective, but not excessive. As a result, we are streamlining or eliminating outdated or overly burdensome regulations where possible, so credit unions can remain competitive and continue to provide affordable financial services to their members and communities.

- **Performance Goal 3.2.3**

Implement secure, reliable and innovative technology solutions.

We have made a considerable investment in modernizing our examination systems. The new Modern Examination and Risk Identification Tool, or MERIT, will increase the NCUA's analytic capabilities, improve access to and control of information, and enable stronger collaboration and greater efficiency within the agency. Credit unions will benefit from this new system and will have the ability to perform certain activities, such as the secure transfer of examination documents. The 2020 budget supports the deployment of MERIT to all examination staff in the second half of the year.

Federally insured credit unions are stronger than ever, and they offer a variety of affordable financial services and products — including mortgages, consumer loans, and business loans — to millions of Americans, helping to expand more economic opportunity. For this to continue, the NCUA and federally insured credit unions must adapt to technological and market changes with integrity, foresight, and prudence.

I am honored to serve as the NCUA Chairman, and I look forward to working with the agency's staff and with the credit union industry as we ensure a strong, innovative system of cooperative credit.

Sincerely,

Rodney E. Hood
Chairman



Mission and Values

Throughout 2020, 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 of Directors oversees the NCUA’s operations by setting policy, approving budgets, and adopting rules.

The NCUA is responsible for the regulation and supervision of 5,281 federally insured credit unions with 119.6 million members and \$1.54 trillion in assets across all states and U.S. territories.¹

Through an effective examination and supervision program, the NCUA protects the safety and soundness of the credit union system by mitigating risks to the National Credit Union Share Insurance Fund (Share Insurance Fund). Backed by the full faith and credit of the United States, the Share Insurance Fund provides members with up to at least \$250,000 of insurance per individual depositor.

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

¹ Credit union data is as of September 30, 2019.



and grants to low-income designated credit unions.

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 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). Examination field staff work in a remote environment and represent nearly two-thirds of the workforce.

Because nearly two-thirds of the workforce does not report to a physical office on a daily basis, the NCUA is a decentralized organization. This structure requires creative methods to deliver the necessary administrative and office support to all staff. The support functions of the central offices are critical to ensure the success of the field program in remote environments.

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

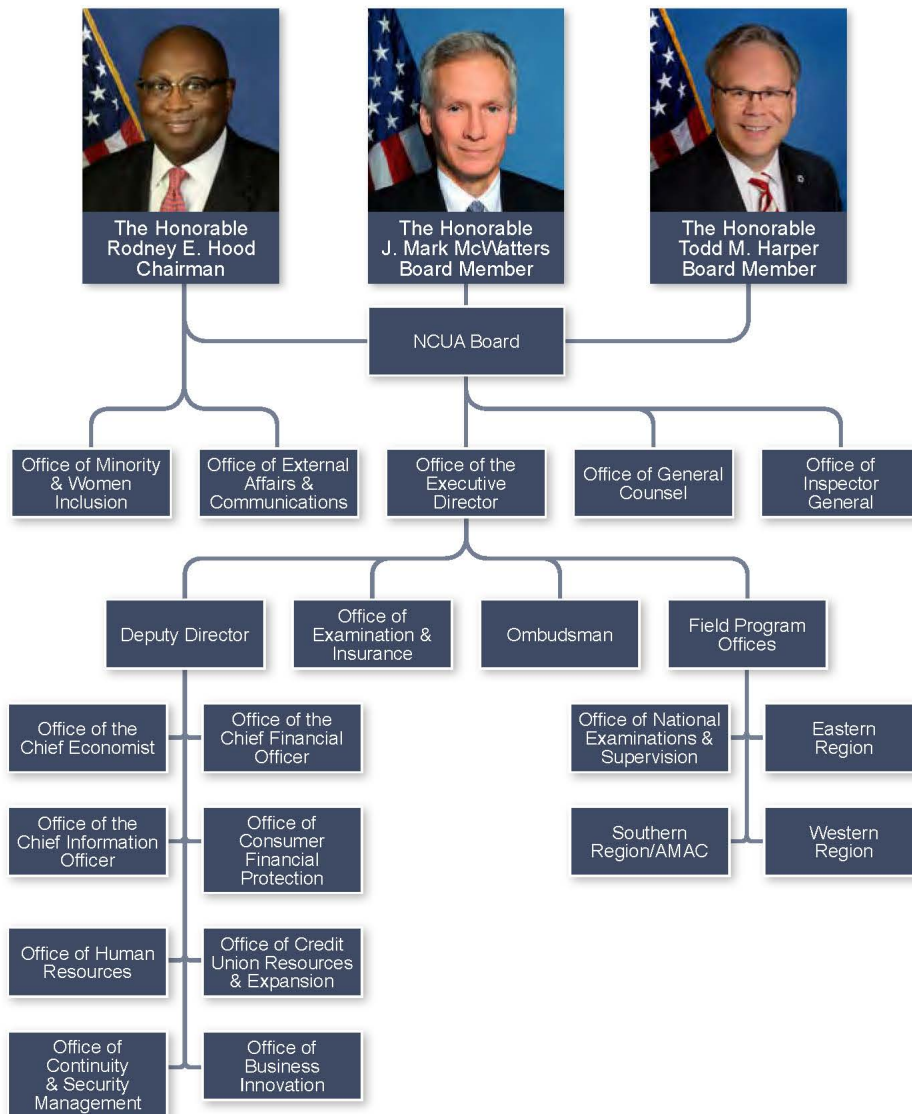


NCUA

National Credit Union Administration



National Credit Union Administration Organizational Chart





Major Agency Programs

Supervision

The supervision program contributes to the safety and soundness of the credit union system. A program priority includes identifying and resolving risk concerns such as interest rate risk, liquidity risk, credit risk, concentration risk, compliance risk, and operational risks, including cybersecurity and fraud risk. 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 nearly \$17 billion Share Insurance Fund, which provides insurance up to at least \$250,000 for deposits held at federally insured credit unions. The Share Insurance Fund is capitalized by credit unions and through retained earnings. The NCUA manages the Share Insurance Fund to the Board approved Normal Operating Level.

Credit Union Development

Through chartering and field of membership services, training, and resource assistance, the NCUA fosters credit union development, particularly the expansion of services to eligible members provided by small, minority, newly chartered and low-income designated credit unions. One source of assistance is the Community Development Revolving Loan Fund, which provides loans and technical assistance grants to credit unions serving low-income members. This support results in improved access to financial services, an opportunity for increased member savings, and improved employment opportunities in low-income communities. The NCUA charters new federal credit unions, as well as approves modifications to existing charters and fields of membership.

Consumer Financial Protection

The NCUA protects consumers' rights through effective enforcement of federal consumer financial protection laws, regulations, and requirements. The NCUA also develops and promotes financial education programs for credit unions to assist members in making more informed financial decisions.



Asset Management

The NCUA conducts liquidations of failed credit unions and performs management and recovery of assets through the Asset Management and Assistance Center (AMAC). This office effectively manages and resolves assets acquired from liquidated credit unions. AMAC provides specialized resources to the NCUA regional offices with reviews of large, complex loan portfolios and actual or potential bond claims. It also participates in the operational phases of conservatorships and records reconstruction. The purpose of AMAC is to minimize credit union failure costs to the Share Insurance Fund and credit union stakeholders.

Cross-Agency Priority Goals and Collaboration

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

Agency Priority Goals

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

- **Performance Goal 1.1.1**
Fully and efficiently, execute the requirements of the agency's examination and supervision program
- **Performance Goal 1.2.2**
Effectively identify and evaluate risk in complex credit union portfolios
- **Performance Goal 2.1.1**
Promulgate efficient, targeted regulation tailored to offer meaningful relief without undermining safety and soundness
- **Performance Goal 3.2.3**
Implement secure, reliable and innovative technology solutions



Summary of Strategic Goals and Objectives

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

<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 Provide high-quality and efficient supervision	1.2.1 Enable continuous risk analysis, identify key trends and target examinations where most needed
	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 of the Share Insurance Fund and oversight of the credit union system to the NCUA. The NCUA's primary function is to identify and assess credit union system risks, threats and vulnerabilities, determine their magnitude, and mitigate unacceptable levels through the examination and supervision program. Strategic Goal 1 objectives focus on minimizing unacceptable levels of current and future risk as early as possible and encouraging stability within the credit union system.

To maintain safety and soundness for credit unions, the NCUA monitors credit union performance, conducts credit union examinations, enforces regulations, and provides guidance to assist credit unions in understanding regulations and emerging risks. Onsite examinations and offsite supervision, and the collection of credit union Call Report data, provide information that helps to identify 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 management program, administered by AMAC, manages and resolves assets acquired from liquidated credit unions. AMAC ensures members are paid promptly after any necessary liquidation, and limits losses to the Share Insurance Fund and credit union stakeholders through effective liquidation of failed credit union assets. AMAC staff also provide expertise by conducting examinations of large complex loan portfolios, reviewing bond claims and participating in operational phases of conservatorships.

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

Strategic Objective 1.1

Maintain a Strong Share Insurance Fund

A 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, which was approved by the Board in December 2018.

In 2018 and 2019, the NCUA Board approved Share Insurance Fund distributions for eligible institutions totaling over \$895 million. Distributions are possible when the Share Insurance Fund’s year-end equity ratio exceeds the Normal Operating Level. The addition of assets from the Temporary Corporate Credit Union Stabilization Fund (the Stabilization Fund) in 2017, as prescribed by the Federal Credit Union Act, and the current 1.38 percent Normal Operating Level allows the NCUA to manage the potential risks associated with combining the legacy assets from the Stabilization Fund into the



Share Insurance Fund's portfolio. As 2021 approaches, the NCUA will carefully monitor the value of the Stabilization Fund legacy assets to ensure the agency satisfies its remaining obligations and maintains the health of the Share Insurance Fund.

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

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 all of the following criteria to an extended examination cycle:

- CAMEL code 1 or 2, both in composite and management rating components
- Less than \$1 billion in assets
- Well capitalized per prompt corrective action regulations
- No documents of resolution related to significant recordkeeping deficiencies
- No formal or informal enforcement or administrative order, such as a cease and desist order, letter of understanding and agreement, or preliminary warning letter

For qualifying credit unions, examinations are targeted to begin 14 to 20 months after the prior examination completion date. Examinations at federal credit unions that do not meet the criteria above generally begin between 8 and 12 months after completion of the prior examination.

The NCUA, to the extent possible, coordinates completion of federally insured, state-chartered credit union examinations with state regulators in accordance with state scheduling practices. NCUA examinations in federally insured, state-chartered credit



unions are generally targeted to occur at least once every five years, except for credit unions that meet any one of the following criteria:

- Greater than \$1 billion in assets;
- CAMEL composite code 4 or 5 with assets greater than \$50 million; or
- CAMEL composite code 3 with assets greater than \$250 million.

Examinations of these three categories of federally insured, state-chartered credit unions generally begin between 8 and 12 months after the prior completion date, consistent with the treatment of federal credit unions that do not qualify for an extended cycle.

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. It will help the NCUA and state regulators determine how an alternating examination program could improve coordination and make the best use of federal and state resources.

When risks in a credit union have manifested to the extent that 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 2020 through the following strategies and initiatives:

- Effectively and efficiently manage the examination program 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
- Effectively manage and recover assets in credit union liquidations to minimize failure costs and expenses to the Share Insurance Fund and credit union members and creditors
- Develop additional and enhance existing risk management tools and reports to support the supervision program
- Provide training for examiners in higher and emerging risk areas to enhance examination effectiveness
- Identify merger or purchase and assumption partners for credit union failures reduce costs, increase efficiency, and provide continued service to credit union members
- Develop educational materials to assist credit union governance leaders and staff with regulatory and industry specific information

Performance Goal 1.1.1

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

Indicators

1. 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 unions² within an average of 24 months of initial CAMEL composite downgrade.

Performance Goal 1.1.2

Effectively manage losses to the Share Insurance Fund

² As defined in Part 701.14 of the NCUA's Rules and Regulations.



Indicators

1. Maintain two percent or less of credit union system assets in CAMEL composite 4 and 5 rated credit unions.
2. Maintain the Share Insurance Fund's equity ratio at or above 1.3 percent and at or below the Normal Operating Level.³
3. Issue payments or provide access to members for the balance of their verified insured funds within three business days following a credit union failure.
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 and seek to provide their members with more and improved products and services. The growth and innovation raises risk to the Share Insurance Fund. It is imperative the NCUA's examination and supervision program continues to evolve with the credit union system.

The NCUA's Office of the Chief Economist (OCE) provides economic information and enhances the agency's understanding of emerging microeconomic and macroeconomic risks. OCE 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.

Cybersecurity threats and other technology-related issues continue to be of key 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. In 2020, the NCUA will continue to improve and standardize supervision related to information protection and cybersecurity risks and threats.

In 2018, the NCUA began implementing a new Automated Cybersecurity Examination Toolbox (ACET) maturity assessment for credit unions with assets greater than \$1

³The equity ratio is the ratio of Share Insurance Fund equity to the amount of insured shares.



billion, followed by institutions with assets between \$1 billion and \$250 million in 2019. In 2020, the agency expects to finish maturity assessments for all federal credit unions with assets greater \$250 million and will begin completing assessment for credit unions with assets over \$100 million. The focus of the ACET assessment is to baseline individual credit unions' cybersecurity maturity consistently while benchmarking the entirety of the sector. The agency will also pilot new procedures to evaluate critical security controls during examinations between maturity assessments. The NCUA will scale its reviews of critical security controls relative to the size and risk profile of the institution.

Concurrently, the NCUA is developing a tailored examination program adapted from the Information Technology Risk Examination (InTREx) solution leveraged by the Federal Deposit Insurance Corporation, the Federal Reserve Board and state regulators. This effort will help to ensure a harmonized, repeatable, measurable and transparent process for examining the compliance, safety and soundness of credit unions' information security programs.

The multi-year Enterprise Solution Modernization (ESM) program will reach a major milestone in 2020 with the release of the Modern Examination and Risk Identification Tool (MERIT) to all credit union examiners and state regulators. MERIT is the agency's modernized examination platform and will replace the Automated Integrated Regulatory Examination System (AIRES), 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 members' share deposits. In 2020, the NCUA staff will receive training and tools to help them do their jobs effectively in this complex and dynamic financial environment. This includes training for field staff on 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 ensure its staff is prepared.

In 2020, the NCUA will review all examination and supervision reports issued by NCUA examiners. 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 new examination platform, MERIT.

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



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

- Modernize technology and 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
- 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
- Coordinate with the U.S. Department of the Treasury and the Federal Emergency Management Agency to monitor the operational status of the credit union system during disasters
- Conduct at least one agency-wide continuity of operations exercise or training event on the use of the agency's Incident Management System to improve operational response during emergencies
- Increase the transparency and accessibility of credit union data and analyses, and related economic data and analyses, for external stakeholders
- Advance consistency, transparency and accountability within the cybersecurity examination and supervision program
- Pilot new procedures to evaluate critical security controls during examinations.
- Expand collaboration and coordination with relevant agencies towards a more harmonized examination and critical infrastructure protection capability
- Hire two new information systems officers to support expanded responsibilities for cybersecurity and critical infrastructure protection that include: management of interagency activities, development of industry policy related to information security, and improvement of credit union cybersecurity hygiene and resilience

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 2020.

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 in-house supervisory stress testing on all Tier III credit unions, as defined by NCUA Rules and Regulations Part 702, by the second quarter of 2020 and perform multi-path valuation analysis (stochastic) on all credit unions with assets greater than \$10 billion, by the fourth quarter of 2020.
3. Evaluate cybersecurity risk in 100 percent of federal credit unions with assets greater than \$250 million using the Automated Cybersecurity Examination Toolbox (ACET) maturity assessment by December 31, 2020.
4. Evaluate cybersecurity risk as part of 100 percent of insurance reviews of federally insured, state-chartered credit unions with assets greater than \$100 million in 2020 using the Automated Cybersecurity Examination Toolbox (ACET) maturity assessment.

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. Train NCUA staff and industry stakeholders in the use and implementation of the enhanced credit union Automated Cybersecurity Examination Toolbox (ACET) maturity assessment.
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 2020.



Strategic Goal 1: Summary Performance Indicators and Targets

Goal	Indicator	2017 Actual	2018 Actual	2019q3 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.	NA	96%	96%	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.	NA	96%	95%	95%
	Resolve troubled credit unions within an average of 24 months of initial CAMEL composite downgrade.	22	19	20	24
1.1.2	Maintain two percent or less of credit union system assets in CAMEL composite 4 and 5 rated credit unions.	0.7%	0.8%	0.7%	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.	1.46%	1.39	1.33 ⁴	Between 1.33% and 1.38%
	Issue payments or provide access to members for the balance of their verified insured funds within 3 business days following a credit union failure.	0 ⁵	3	1	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).	100%	91%	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 2020.	NA	NA	On Target	Achieve

⁴ As of June 30, 2019

⁵ All 2017 liquidations had a purchase and assumption agreement and members had access to their funds immediately.



Goal	Indicator	2017 Actual	2018 Actual	2019q3 Actual	Target
1.2.2	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	Achieved	Achieve
	Conduct in-house supervisory stress testing on all Tier III credit unions, as defined by NCUA Rules and Regulations Part 702, by Q2 2020 and perform multi-path valuation analysis (stochastic) on all credit unions with assets greater than \$10 billion, by Q4 2020.	NA	NA	NA	Achieve
	Evaluate cybersecurity risk in 100 percent of federal credit unions with assets greater than \$250 million using the Automated Cybersecurity Examination Toolbox (ACET) maturity assessment by December 31, 2020.	56 credit unions as part of initial pilot	86% of credit unions greater than \$1 billion	93% of credit unions with assets greater than \$1 billion	100% of federal credit unions with assets greater than \$250 million
	Evaluate cybersecurity risk as part of 100 percent of insurance reviews of federally insured, state-chartered credit unions with assets greater than \$100 million in 2020 using the Automated Cybersecurity Examination Toolbox (ACET) maturity assessment.			37% of credit unions with assets between \$250 million and \$1 billion	100% of insurance reviews in federally insured state-chartered credit unions with assets greater than \$100 million
1.2.3	Develop new or revise existing training courses to meet the needs of all field staff.	9	13	10	7
	Train NCUA staff and industry stakeholders in the use and implementation of the enhanced credit union Automated Cybersecurity Examination Toolbox (ACET) maturity assessment.	NA	NA	NA	Conduct at least 6 training events
	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 2020.	NA	NA	NA	Not later than Q2 2020



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 strives to manage the balance between regulatory flexibility and responsible oversight effectively. The NCUA’s goal is to issue balanced, clear, and straightforward regulations, while addressing emerging adverse trends in a timely manner. The goal also seeks to improve consumer access 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, the NCUA must evolve with it to promote continued financial stability within the credit union system. The NCUA aims to reduce, streamline, or eliminate outdated or overly burdensome regulations where possible, so credit unions can simultaneously stay competitive in the changing environment and continue to provide financial services to their members and communities.

It is the NCUA’s objective to protect consumer rights and member deposits by establishing and enforcing appropriate regulations, enhancing consumer confidence, and improving financial literacy and education. The NCUA also strives to promote access to credit union services for consumers of all backgrounds and income levels. To



support this endeavor, the NCUA works to foster the preservation and growth of credit unions.

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

Strategic Objective 2.1

Deliver an Effective and Transparent Regulatory Framework

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 also 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.

The NCUA improves the effectiveness and transparency of its regulations by encouraging communication between credit unions and examiners, as well as by modernizing the agency's communication methods, to ensure greater transparency and fair application of these regulations. New or revised rules and regulations are generally issued for a minimum of 30 days for public comment, with most issued for 60 days of public comment. The NCUA evaluates and considers comments received from stakeholders to understand the impact regulations may have on credit union operations.

The NCUA'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 2020, the agency will continue to initiate implementation of regulatory amendments recommended by the Regulatory Reform Task Force and post progress reports of its reform efforts 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 in 2020 through the following strategies and initiatives:

- Continue initiating the implementation of amendments recommended by the [Regulatory Reform Task Force's final report](#)
- Participate in development of financial system regulations and guidance as applicable to credit unions
- Participate in interagency meetings including FSOC, FFIEC and FBIIC, and their related task forces, subcommittees and working groups. Actively participate in the development process on all applicable guidance. Develop and issue guidance through various program offices
- Engage the Chair and Ranking Members of primary committees and subcommittees of jurisdiction on the NCUA's legislative priorities, and conduct follow-up meetings with key congressional staff as warranted
- Maintain open communications between examiners and credit unions to help improve the understanding and implementation of regulations and NCUA initiatives
- Pursue a web services program to assist the NCUA with sharing information with the public, credit unions, Congress, the media and NCUA employees about the agency and its functions, Board actions and other matters
- Utilize four additional staff, approved during the July 2019 mid-session review, to support the agency's growing engagement with the Administration, Congress, industry stakeholders, and the general public. The newly authorized positions for the Office of External Affairs and Communications include a Deputy Director, a Communications Specialist, a Technical Writer and Editor, and a Program Analyst for External Affairs
- 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 web traffic to regulatory and related supervisory information on NCUA.gov by five percent.

Strategic Objective 2.2

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

The NCUA's assessment of compliance risk encompasses all of the federal consumer financial protection laws and regulations the agency enforces, as well as other relevant laws and regulations that govern the operation of credit unions, such as the Bank Secrecy Act, the Flood Disaster Protection Act, the Secure and Fair Enforcement for Mortgage Licensing Act and, more broadly, the NCUA's established regulations. The NCUA's fair lending examination program is designed to ensure credit unions comply with the rules and regulations established to protect consumers. Targeted consumer compliance reviews are also a consideration during risk-focused examinations.

As part of the FFIEC Taskforce on Consumer Compliance and the Financial Literacy Education Commission, the NCUA also contributes to developing well-balanced regulations and policy statements related to consumer financial protection and financial literacy.

The NCUA will enforce federal consumer financial protection laws and regulations in 2020 through the following strategies and initiatives:

- Provide timely guidance to the credit union system and examiners related to changes in rules and regulations established to protect consumers, 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
- Enhance scoping procedures for targeted consumer compliance reviews during 2020 risk-focused examinations and provide tools and resource materials to examination staff
- Provide training on consumer financial protection regulations and develop targeted onsite assessments of compliance with federal consumer regulations for field examiners



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

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 a quality control review on a sample of examination reports each quarter to determine if the consumer financial protection supervisory priorities outlined in Letter to Credit Unions No. 20-CU-01 were sufficiently addressed during safety and soundness examinations.

Performance Goal 2.2.2

Empower consumers with information to make independent and informed financial decisions

Indicators

1. Develop and maintain direct to consumer financial literacy public awareness initiatives such as events, videos, or materials focused on current consumer financial protection and financial literacy issues.



2. Expand the NCUA's digital consumer financial literacy outreach efforts through the agency's consumer-facing website MyCreditUnion.gov, including espanol.mycrreditunion.gov.

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. In 2020, the NCUA will continue 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.

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

The agency supports the creation of new and preservation of existing minority depository institutions (MDI). The NCUA's minority depository 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 their knowledge of the credit union system and best practices and generally acting as a knowledgeable point of contact and resource.

In 2019, the NCUA also created a new pilot mentoring program for small, low-income credit unions that are also designated as MDIs. The MDI mentoring pilot is designed to encourage mentor relationships between larger low-income designated credit unions (mentors) and small low-income MDIs (mentees). The purpose of the MDI mentoring pilot is to encourage strong and experienced credit unions to provide technical assistance to small MDI credit unions to increase their ability to serve minority, low-income and underserved populations. The larger credit unions will provide technical assistance, such as building staff capacity through training, improvements to credit union operations, and assistance with the modernizing processes. The NCUA will use the results of this pilot program to make improvements to the initiative in the future.



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 helps organizers better understand the chartering process and how to prepare a charter application. This process allows the NCUA to preview the information to be included in an application. In 2020, the NCUA will continue exploring ways to modernize and automate the chartering process.

The NCUA will facilitate access to federally insured credit union financial services in 2020 through the following strategies and initiatives:

- Encourage greater use of the Community Development Revolving Loan Fund and the CDFI certification to bolster services to low-income members
- Enhance education and outreach services to credit union boards and management
- Promote programs to assist credit unions with providing access to financial services
- Structure the CDRLF grant initiatives to assist credit union outreach and financial services efforts in low-income communities
- Follow-up with federal credit unions on the implementation of their business and marketing plan every year for the first three years after receiving a new or expanded community charter
- Promote the value of diversity and inclusive financial services in credit unions
- Complete 12 outreach efforts to 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
- Develop educational materials for organizing groups on how to charter new credit unions
- Notify credit unions newly qualifying for low-income status of their eligibility, semi-annually
- Develop training courses specific to minority depository institutions



Performance Goal 2.3.1

Efficiently administer viable credit union charters and expansion requests

Indicators

1. Make a determination on completed field-of-membership expansion applications within an average of 60 days.
2. Develop an implementation plan for modernizing the Federal Credit Union chartering process by December 31, 2020.
3. Promote the use of the automated Proof of Concept tool by groups interested in chartering a new credit union.

Performance Goal 2.3.2

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

Indicators

1. Award funds to 40 percent of the minority depository institutions applying for grants.
2. Award up to five MDI mentorship pilot program grants in 2020, subject to availability of funds.
3. Increase the number of registered credit union users of the Learning Management Service training tool by 30 percent.



Strategic Goal 2: Summary Performance Indicators and Targets

Goal	Indicator	2017 Actual	2018 Actual	2019q3 Actual	Target
2.1.1	Review one-third of all regulations, annually.	Achieved	NA	On Target	Achieve
2.1.2	Increase web traffic to regulatory and related supervisory information on NCUA.gov by five percent.	Baseline	-7%	11%	Greater than or Equal to 5% Increase
2.2.1	Complete 30 fair lending examinations, annually.	26	26	15	Greater than or Equal to 30
	Complete 40 offsite fair lending supervision contacts, annually.	49	40	35	Greater than or Equal to 40
	Perform a quality control review on a sample of examination reports each quarter to determine if the consumer financial protection supervisory priorities outlined in Letter to Credit Unions No. 20-CU-01 were sufficiently addressed during safety and soundness examinations.	NA	NA	NA	Achieve
2.2.2	Develop and maintain direct to consumer financial literacy public awareness initiatives such as events, videos, or materials, focused on current consumer financial protection and financial literacy issues.	2	5	5	4
	Expand the NCUA's digital consumer financial literacy outreach efforts through the agency's consumer-facing website, MyCreditUnion.gov, including espanol.mycreditunion.gov.	753,588	865,195	545,565	850,000
2.3.1	Make a determination on completed field-of-membership expansion applications within an average of 60 days.	54	57	50	Average 60 Days
	Develop an implementation plan for modernizing the Federal Credit Union chartering process by December 31, 2020.	NA	NA	NA	December 31, 2020
	Promote the use of the automated Proof of Concept tool by groups interested in chartering a new credit union.	NA	NA	Tool Released	20



Goal					
2.3.2	Award funds to 40 percent of the minority depository institutions applying for grants.	69%	91%	63%	40%
	Award up to five MDI mentorship pilot program grants in 2020, subject to availability of funds.	NA	NA	NA	5
	Increase the number of registered credit union users of the Learning Management Service training tool by 30 percent.	NA	37%	27%	30%



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 encompasses the fundamental business processes and management responsibilities within the NCUA. The agency must ensure prudent and effective administration of: human capital, employee and operational security, information technology systems and assets, financial management, and employee engagement in order to achieve its other two strategic goals.



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

The NCUA prioritizes diversity and inclusion as a strategic business imperative. The NCUA has outlined its commitment to employee diversity in its [2018-2022 Diversity and Inclusion Strategic Plan](#), which was published on the NCUA website after the release of the agency-wide strategic Plan. 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 2019, the NCUA chartered a new Culture, Diversity and Inclusion Council, as a subcommittee of the Talent Management Council, to build an organizational culture where our shared values, beliefs and behavioral norms around equity, diversity, inclusion, engagement and leadership align with our agency's strategic priorities to



optimize organizational performance. Promoting diversity of backgrounds and experiences among the agency's staff helps leverage each employee's unique skillset, while empowering them to pursue opportunities for development and growth. Creating an inclusive work environment ensures that each employee is able to contribute to the mission and drives innovation and collaboration. A diverse workforce and inclusive work environment contributes 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 many examiner-focused training courses to its staff and state regulators. The NCUA will continue reviewing and revising its training curricula to respond to emergent industry trends, highlight regulatory and other changes to business context and address employee feedback. In 2020, the agency is also focused on developing and executing training to support the implementation of MERIT.

The NCUA's Talent Management Council has prioritized employee engagement as a critical factor for strengthening agency performance. Workforce engagement is critical to the successful performance of the NCUA, as an engaged workforce is more efficient, productive and accountable to the success and results produced by the agency. An engaged workforce has increased energy, innovation, and drive for personal growth and is more flexible during times of change. In addition to the NCUA Engagement Plan, each office throughout the organization continues to execute on its own workforce engagement action plan to manage and grow its employees' relationship with the NCUA. Additionally, programs that cultivate an inclusive environment are important in building understanding and connections between employees, cultivating a high-performance organization and creating a sense of belonging within 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 data analytics while maintaining current staffing operations
- Address and eliminate barriers to equal employment opportunity where low participation exists
- Implement a new internal Learn Management System for NCUA employees and state examiners



- 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
- Provide diversity training to all NCUA employees to build agency-wide inclusion competencies, skills, and awareness
- Continue to invest in programs that promote inclusion and employee retention, 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
- Publish advertisements that target diverse communities
- Evaluate the results of the Employee Viewpoint Survey and implement changes as necessary to address lower scoring areas
- Actively monitor and promptly respond to *Ask NCUA* questions from staff

Performance Goal 3.1.1

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

Indicators

1. Obtain at least an 85 percent average satisfaction rating in training class evaluations.
2. Provide effective leadership development programs to NCUA staff.
3. Initiate the acquisition of a new Learn Management System for NCUA employees and state examiners by December 31, 2020.

Performance Goal 3.1.2

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

Indicators

1. Improve the NCUA's score for the Partnership for Public Service's Support for Diversity Indicator (Employee Viewpoint Survey Questions 34, 45, and 55) by one percentage point. These questions measure the extent to which employees



believe that actions and policies of leadership and management promote and respect diversity.

2. Improve the NCUA's score for OPM's Federal Employee Viewpoint Survey Inclusion Quotient by one percentage point. The Inclusion Quotient identifies behaviors that help create an inclusive environment.

Performance Goal 3.1.3

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

Indicators

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

Strategic Objective 3.2

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

The efficiency and effectiveness of the agency's workforce is dependent upon the resiliency of the NCUA's information technology infrastructure and availability of technological applications. The NCUA is committed to implementing new technology responsibly and delivering secure, reliable and innovative technological solutions to support its mission. This necessitates investments funded in the [Capital Budget](#) and staff to provide the analytical tools and technology the workforce needs to achieve the NCUA mission.

The Office of Business Innovation (OBI) partners with OCIO to implement future-facing technology solutions for the NCUA workforce and business processes. An integral part of OBI's efforts is identifying how quality processes and systems can drive efficiency at the NCUA. In 2020, OBI will:

- Finalize and deploy the initial release of MERIT and examination analytics and begin transitioning examination system users from AIRES to MERIT. This transition includes the agency's primary examination tool as well as many business processes targeted to take advantage of MERIT's configurable platform
- Complete market research activities for the Data Collection and Sharing Solution project. This project replaces several legacy data collection tools with a common solution



- Implement the NCUA’s new Enterprise Data Program to enhance how the agency governs and reports on its data. This includes selecting a data management maturity assessment model as required by the Federal Data Strategy, developing the implementation plan for the model, and working with the Enterprise Data Governance Council and agency Data Subject Matter Experts to implement data standards

The OBI 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 reviewing all new and existing information technology capital projects with its program review committee at least once during the year.

The NCUA continues working to streamline its field operations to ensure the agency’s staff carries out their responsibilities in an efficient and effective manner. Two initiatives the agency continues to evaluate in 2020 are the alternating examination pilot program and a virtual examination program.

The alternating examination pilot program began in 2019 with six states regulators. The pilot program provides insight into how an alternating examination program can improve coordination and optimize federal and state resources, while still maintaining the safety and soundness of federally insured, state-chartered credit unions. The pilot program will need to run approximately three years to evaluate one full alternating-year exam cycle. In addition, the NCUA is working to enter into Memorandums of Understanding with state regulators to minimize the burden on federally insured, state-chartered credit unions that results from having a separate prudential financial regulator and insurer.

The agency continues to research methods to conduct offsite as many aspects of the examination and supervision processes as possible. 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 significantly reduce



the frequency and scope of onsite examinations. The virtual examination team will deliver to the NCUA Board by the end of 2020 a report discussing alternative methods identified to remotely analyze aspects of the financial and operational condition of a credit union.

The NCUA is dedicated to ensuring its employees have safe workplaces and that the agency is prepared for emergencies that may affect its operations. The Office of Continuity and Security Management (OCSM) is responsible for the agency's continuity of operations and emergency management programs, physical security at NCUA facilities, personnel security, and national security and intelligence activities. In 2020, OCSM, in conjunction with E&I, will continue to link the intelligence community to the credit union system, by leading the NCUA's threat analysis and working with the Intelligence Community and other partners to communicate threats to those in the credit union system who might be impacted. Appendix C discusses cybersecurity threats in more detail and the actions the NCUA is taking to address these threats.

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 train all credit union examiners on its use
- Ensure the NCUA is equipped with reliable means of communication during natural or man-made disasters and that personnel are sufficiently trained to use these resources
- Deliver relevant and timely security, insider threat risk, and continuity of operations trainings to impacted staff
- Ensure that OCIO staff use industry and government best practices in project and acquisition management
- Strengthen the agency's cybersecurity and continue to ensure compliance with the Federal Information System Management Act
- Reduce solution delivery time and development costs through investments in enterprise architecture and expanded portfolio management support
- Review and remediate recommendations from the after-action report of Eagle Horizon 2019

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 Federal Employee Viewpoint Survey Question 36: "My organization has prepared employees for potential security threats."

Performance Goal 3.2.3

Implement secure, reliable and innovative technology solutions

Indicator

1. Conduct examinations and supervision contacts for all credit unions using the Modern Examination and Risk Identification Tool (MERIT), commencing December 1, 2020.

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. Enhance project and acquisition management practices by ensuring 70 percent of OCIO staff are certified as Level II Contracting Officer Representatives (CORs) and 30 percent are certified as Level III CORs by year-end.
3. Complete the selection of a Data Management Maturity Assessment model and develop a model implementation plan by December 31, 2020.
4. Improve the NCUA's annual NARA Records Management Self-Assessment score by 5 points in 2020.



Strategic Objective 3.3

Ensure Sound Corporate Governance

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

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

- Budget formulation and management
- Day-to-day financial management and accounting functions
- NCUA strategic planning and development of the annual performance plan
- Administration of the agency's enterprise risk management function
- Facilities management
- Acquisitions and procurement
- Administration of credit union operating fees and Share Insurance Fund capitalization deposits and operations

OCFO operations are critical to ensuring NCUA employees have the resources needed to perform their jobs. OCFO also provides various analyses and scheduled presentations to the NCUA Board and executive leadership team so they can make informed decisions, achieve the agency's mission objectives, and ensure the NCUA operates efficiently and effectively.

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

More generally, the NCUA employs an Enterprise Risk Management (ERM) program to inform executive leadership of various factors (both internal to the agency and external in the industry) that can affect the agency's performance relative to its mission,



vision, and performance outcomes. The NCUA's ERM Council provides oversight of the agency's enterprise risk management activities.

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

To ensure sound corporate governance in 2020, the NCUA will implement the following strategies and initiatives:

- Provide financial management expertise and support to external and internal customers
- 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
- Implement sound business processes that promote efficiency in operations, and support accountability and decision making
- Continue to strengthen the agency's financial reporting processes to promote efficiency and continuous improvement while improving internal controls
- Continue to mature the NCUA ERM program by formally integrating risk analysis into the agency's decision-making processes
- 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. Develop risk response plans for 75 percent of the NCUA's Tier 1 enterprise risks.
2. Complete at least 90 percent of OIG and GAO recommendations due in 2020 within the established timeframes.
3. 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

Indicators

1. Improve quality of services provided to internal NCUA stakeholders.
2. Continue maturation of the NCUA Enterprise Risk Management (ERM) program; reassess the agency's risk inventory and prioritization of 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.



Strategic Goal 3: Summary Performance Indicators and Targets

Goal	Indicator	2017 Actual	2018 Actual	2019q3 Actual	Target
3.1.1	Obtain at least an 85 percent average satisfaction rating in training class evaluations.	85%	85%	86%	85%
	Provide effective leadership development programs to NCUA staff.	NA	NA	NA	Establish baseline
	Initiate the acquisition of a new Learn Management System for NCUA employees and state examiners by December 31, 2020.	NA	NA	Delayed	Achieve
3.1.2	Improve the NCUA's score for the Partnership for Public Service's Support for Diversity Indicator (Employee Viewpoint Survey Questions 34, 45, and 55) by one percentage point. These questions measure the extent to which employees believe that actions and policies of leadership and management promote and respect diversity.	65.7	65.0	69.5	Increase by 1 percentage point
	Improve the NCUA's score for OPM's Inclusion Quotient by one percentage point. The Inclusion Quotient identifies behaviors that help create an inclusive environment.	65	63	65	Increase by 1 percentage point
3.1.3	Improve the NCUA's Federal Employee Viewpoint Survey Employee Engagement Index by two percentage points.	69	67	69	Increase by 2 percentage points
	Obtain at least an 89 percent (3.56 out of 4) average satisfaction rating in new employee surveys.	82%	89%	86%	Greater than or Equal to 89%
3.2.1	Develop workforce plans for NCUA offices to address the changing needs of the agency.	NA	NA	22%	75% or above
3.2.2	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 Federal Employee Viewpoint Survey Question 36 "My organization has prepared employees for potential security threats."	76%	76%	86%	Greater than or Equal to 75%



Goal	Indicator	2017 Actual	2018 Actual	2019q3 Actual	Target
3.2.3	Conduct examinations and supervision contacts for all credit unions using the Modern Examination and Risk Identification Tool (MERIT), commencing December 1, 2020.	NA	NA	MERIT released to ONES / Select States	100%
3.2.4	Achieve a Service Desk Tier 1 resolution rate (incidents resolved without transferring or escalating) of at least 70 percent.	NA	Baseline Established	68%	At least 70%
	Enhance project and acquisition management practices by ensuring 70 percent of OCIO staff are certified as Level II Contracting Officer Representatives (COR) and 30 percent are Certified as Level III CORs by year-end.	NA	67% COR I certified 48% COR II certified	86% COR I certified, 55% COR II certified	70% COR II certified, 30% COR III certified
	Complete the selection of a Data Management Maturity Assessment model and develop a model implementation plan by December 31, 2020.	NA	NA	NA	Achieve
	Improve the NCUA's annual NARA Records Management Self-Assessment score by 5 points in 2020.	NA	NA	NA	+ 5 points
3.3.1	Develop risk response plans for 75 percent of the NCUA's tier 1 enterprise risks.	NA	25%	50%	75%
	Complete at least 90 percent of OIG and GAO recommendations due in 2020 within the established timeframes.	NA	76%	83%	At least 90%
	Improve the NCUA leadership's assessment of the adequacy of the agency's internal controls environment.	NA	Baseline	3.93	Weighted average 4 out of 5
3.3.2	Improve quality of services provided to internal NCUA stakeholders.	NA	NA	NA	Establish survey and baseline
	Continue maturation of the NCUA Enterprise Risk Management (ERM) program; reassess the agency's risk inventory and prioritization of enterprise risks.	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.	NA	79%	92%	70%



Management Review

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

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

Program Evaluation and Research

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

Several performance indicators in this plan are new for 2020; 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 2020, the NCUA plans to provide for continued improvements to its data management system including further development of business intelligence tools and an enterprise data maturity assessment. Through these efforts, agency analysis and reporting will be strengthened.

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

Enterprise Risk Management

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

The NCUA is subject to a variety of risks that relate to its objectives, strategies, operations, reputation, and environment. To sustain success and continuity at the NCUA, an effective risk management approach requires a defined framework where specific risks and broader organizational risks are identified, measured, and monitored by functional owners and consolidated by an independent risk-management oversight function. Working collaboratively with functional owners, the risk-management apparatus prioritizes and optimizes risk management and mitigation on a consistent and continuous basis to increase the NCUA's success at achieving stated strategic goals. Effective internal controls, combined with robust measurement and communication are central to effective decision-making and risk optimization within the NCUA.

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

The NCUA's ERM Council provides oversight of the agency's enterprise risk management activities.

In 2020, the agency plans to implement several specific programmatic changes that resulted from the NCUA's enterprise risk management reviews, such as hiring new personnel focused on cybersecurity, acquiring data loss prevention and other network security tools, and strengthening analytical focus on emerging financial risks within the



credit union system. The NCUA will continue to mature its ERM program in 2020 by reassessing its inventory of enterprise risks and conducting additional risk reviews.

Hyperlinks

[*2018–2022 Strategic Plan*](#)

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

[NCUA Budget Documents](#)

[Enterprise Solution Modernization \(ESM\) Program](#)

[Cybersecurity Resources](#)

[Consumer Compliance Regulatory Resources](#)

[Examination Flexibility Initiative](#)

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



Appendix A – Budgetary Requirements by Strategic Goal

FY 2020 Budgeted Dollars by Strategic Goal (in millions)								
Strategic Goal 1		Strategic Goal 2		Strategic Goal 3		OIG		Total
Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars
\$228.1	65.7%	\$32.4	9.3%	\$83.1	23.9%	\$3.9	1.1%	\$347.5
FY 2020 Projected FTE by Strategic Goal								
Strategic Goal 1		Strategic Goal 2		Strategic Goal 3		OIG		Total
FTE	Percent	FTE	Percent	FTE	Percent	FTE	Percent	FTE ⁶
930	78.5%	115	9.7%	130	11.0%	10	0.8%	1,185
Expenses for the offices of Board, Executive Director, External Affairs and Communications, and Chief Financial Officer are allocated across all strategic goals.								

⁶ The NCUA’s 2020 positions are funded by three different sources: the Central Liquidity Facility funds three full-time equivalents, the Share Insurance Fund funds five full-time equivalents and NCUA's Operating Fund funds the remaining 1,177 full-time equivalents.



Appendix B – Performance Management Programs Process

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

The NCUA continues to strengthen planning and budget processes. The performance goals outlined in the strategic plan provide a framework for both the *Annual Performance Plan* and the budget request. The NCUA’s [2020-2021 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: <http://www.whitehouse.gov/omb/budget>.



Appendix C – External Factors 2020

The economic environment is a key determinant of credit union performance. For the past few years, the economy has supported solid performance of the credit union system. The U.S. economy is expected to grow over the next two years but at a slower pace than has prevailed in recent years. Employment is projected to rise, and the unemployment rate is expected to remain at a low level. Favorable economic conditions should remain a positive force for overall credit union lending, membership growth, and credit quality. While the consensus economic forecast appears largely supportive of credit unions, the risk of a downside surprise has increased. Some analysts are suggesting the current economic expansion—which passed the 10-year mark in July—could end during the plan’s performance period. A recession would likely be associated with rising delinquencies, reduced loan demand, and, potentially, an increase in shares as consumers move funds from riskier investments into safer, insured credit union deposits. Credit unions should plan and prepare for a range of economic outcomes that can affect their performance and determine resource needs.

In addition to the risks associated with movements in the general economy, credit unions should understand their increasing exposure to, and address risks associated with, ongoing technological and structural changes. Over the longer term, increased concentration of loan portfolios, development of alternative loan and deposit products, technology-driven changes in the financial landscape, continued industry consolidation, and ongoing demographic changes will continue to shape the environment facing credit unions.

Economy and Credit Unions

Some economists expect the U.S. economy could grow at a somewhat slower pace over the next two years, reflecting a variety of factors, including recently enacted tariffs, weaker global growth, and the waning effects of fiscal stimulus. Labor markets will likely remain tight, although the unemployment rate—which is below the level associated with full employment—is projected to edge higher as the pace of economic growth falls below its estimated long-term trend.

Interest rates are expected to remain low in the near term but eventually move higher, causing the Treasury yield curve to steepen. The yield curve flattened considerably in 2018, as short-term rates rose. In 2018, Federal Reserve policymakers raised the federal funds target rate four times, boosting it to a range of 2.25 to 2.50 percent in December. Short-term market interest rates followed the federal funds rate higher.



In July 2019, Federal Reserve policymakers reversed course, and lowered the federal funds rate to shore up the economy in the face of a deteriorating global growth outlook, ongoing trade policy tensions, the resolution of Brexit, and a number of geopolitical risks. Two additional rate cuts in subsequent months left the federal funds target rate in a range of 1.50 to 1.75 percent at the end of October 2019.

Longer-term rates also increased in 2018 but by less than short-term rates. In late 2018, longer-term rates started to fall and they continued to decline through much of 2019, reflecting a “flight to yield” as interest rates in other countries fell with deteriorating economic conditions. Between December 2018 and December 2019, the interest rate on a 10-year Treasury note declined nearly 100 basis points to an average of 1.86 percent.

Interest rates are expected to remain low in the near term. In their press release following the December 2019 Federal Open Market Committee meeting, Federal Reserve policymakers indicated that they will continue to monitor economic conditions and adjust their monetary policy stance if warranted to fulfill the Federal Reserve’s dual mandate to maintain maximum employment and low inflation. The most recent policymaker forecast, published in December 2019, showed the federal funds target rate holding steady through the end of 2020 and gradually moving higher in 2021, reaching 1.75 to 2.00 percent by the end of that year. Private-sector forecasters expect long-term interest rates to move higher in 2020 as the recent flight to yield reverses. A consensus of forecasters expects the 10-year Treasury rate to reach 2.3 percent by the end of 2021.

Interest Rate Risk

The consensus forecast suggests that 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 moved higher in response to the rising rate cycle that started in late 2015. Although short-term market rates declined in 2019 and will likely stay low in the near term, credit unions will remain under 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 nearly 20 percent of households using a credit union as their primary financial institution, 60 percent also use a bank for some type of financial service.⁷

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

⁷ Federal Reserve Board, 2016 *Survey of Consumer Finances*.



While the consensus forecast calls for a continuation of the current low rate environment over the next two years, slower-than-expected economic growth could cause interest rates to fall. Credit unions that rely primarily on investment income may find their net income remaining low or falling. In addition, credit unions could resume their “reach for yield,” by adding long-term and higher-risk assets to their portfolio. Finally, the sluggish economy that would likely be associated with continued low or falling interest rates could raise credit risk for almost all types of private instruments.

Risks to the U.S. Economic Forecast

Although the near-term outlook for the U.S. economy is positive, there are a number of risks on the horizon that could lead to slower-than-expected growth or a downturn. Growth in several major economies, including China and Europe, is weakening, and there are a number of unresolved policy issues that could have significant negative implications for the U.S. economy. These developments have created a high level of uncertainty, which is weighing on business investment and depressing output in the manufacturing sector in particular. Should the U.S. economy weaken, credit unions could experience reduced credit union loan demand and higher credit risk, among other consequences.

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

Other Emerging Risk Areas for Credit Unions

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

Lending Trends

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

Financial Landscape and Technology

New financial products that mimic deposit and loan accounts, such as mobile payment systems, pre-paid shopping cards, and peer-to-peer lending, are emerging. These



products pose a competitive challenge to credit unions and banks alike. Credit unions also face a range of challenges from financial technology (fintech) companies in the areas of lending and the provision of other services. For example, underwriting and lending may be automated at a cost below levels associated with more traditional financial institutions, but may not be subject to the same regulations and safeguards that credit unions and other traditional financial institutions face. The emergence and increasing importance of digital currencies may pose both risks and opportunities for credit unions. As these institutions and products gain popularity, credit unions may have to be more active in marketing their products and services and rethink their business models. Two working groups convened by NCUA in 2018—the Fintech Working Group and the Blockchain Working Group—continue to study these issues.

Technological changes outside the financial sector may also lead to changes in consumer behavior that indirectly affect credit unions. For example, the increase in on-demand use of auto services and the potential for pay-as-you-go on-demand vehicle rental could reduce purchases of consumer-owned vehicles. That could lead to a slowdown or reduction in the demand for vehicle loans, now slightly more than a third of the credit union system loan portfolio.

Smaller Credit Unions' Challenges and Industry Consolidation

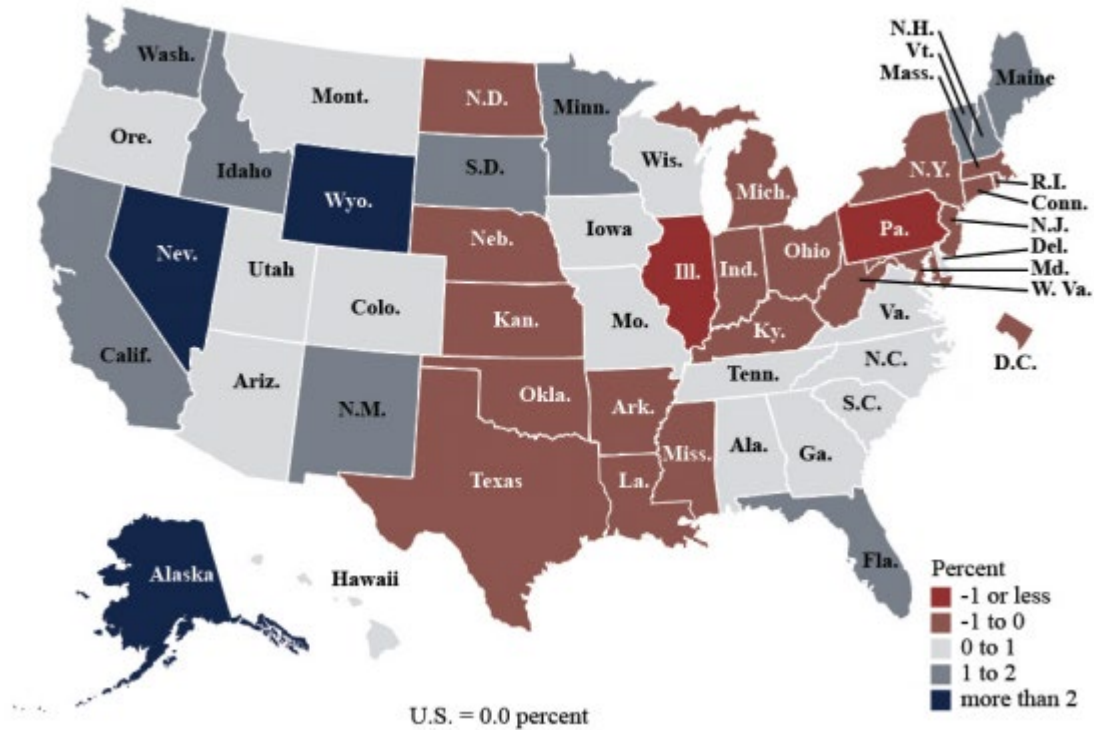
Small credit unions face challenges to their long-term viability for a variety of reasons, including lower returns on assets, declining membership, high loan delinquencies, and elevated non-interest expenses. If current consolidation trends persist, there will be fewer credit unions in operation and those that remain will be considerably larger and more complex. As of September 30, 2019, there were 574 federally insured credit unions with assets of at least \$500 million, 28 percent more than five years earlier. These 574 credit unions accounted for 73 percent of credit union members and 79 percent of credit union assets. Large credit unions tend to offer more complex products, services and investments. Increasingly complex institutions will pose management challenges for the institutions themselves, as well as the NCUA since consolidation means the risks posed by individual institutions will become more significant to the Share Insurance Fund.

Membership Trends

While overall credit union membership continues to grow strongly, almost half of federally insured credit unions had fewer members at the end of the third quarter of 2019 than a year earlier. All credit unions need to consider whether their product mix is consistent with their members' needs and demographic profile. For example, in some areas, to be effective, credit unions may need to explore how to meet the needs of an aging population or of a growing Hispanic population.



Median Annual Membership Growth



Cybersecurity

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

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

The Financial Stability Oversight Council (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 system. 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 its 2019 Annual Report, the FSOC emphasizes the ongoing importance of information sharing between the private sector and government to maintain a robust cybersecurity posture across the financial sector and to reduce the impact of any cybersecurity incidents. The report highlights the need for enhanced information security at third-party service providers and recommends that Congress pass legislation that would grant NCUA examination and enforcement powers to oversee these third-party service providers. 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.

To improve and standardize supervision related to cybersecurity, the NCUA is piloting new examination procedures in 2020, largely based on the Information Technology Risk Examination (InTREx) with an emphasis on Critical Security Controls (CSC). Additionally, the NCUA is continuing to execute the first of two four-year cycles of the Automated Cybersecurity Examination Toolbox (ACET) Maturity Assessment. The examination procedures and maturity assessments provide the NCUA with a repeatable, measurable and transparent process for assessing cyber preparedness across federally insured institutions. Both solutions incorporate appropriate standards and practices established for financial services and across the cybersecurity discipline, and will help credit unions more fully evaluate the evolution of their cyber preparedness using a transparent methodology.

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