



National Credit Union Administration

2019

ANNUAL REPORT



www.NCUA.gov



INDUSTRY AT A GLANCE

Prepared by the Office of External Affairs and Communication
For the quarter ending December 31, 2019

General Industry Statistics

Federally Insured Credit Unions:	5,236
Members:	120.4 million
Total Assets:	\$1.57 trillion
Average Credit Union Assets:	\$299 million
Return on Average Assets:	94 basis points
Total Insured Shares and Deposits:	\$1.22 trillion
Net Income (Year-to-Date):	\$14.1 billion
Net Worth Ratio:	11.37%
Average Shares per Member:	\$10,963

Loans

Total Loans:	\$1.1 trillion
Average Loan Balance:	\$15,669
Loan-to-Share Ratio:	84.0%
Mortgages/Real Estate:	50.4%
Auto Loans:	33.9%
Unsecured Credit Cards:	6.0%
Delinquency Ratio:	71 basis points

NCUA makes the complete details of its quarterly Call Report data available online in an Aggregate Financial Performance Report, as well as a Call Report Data Summary at: <https://www.ncua.gov/analysis/credit-union-corporate-call-report-data/quarterly-data>

National Credit Union Share Insurance Fund

Member deposits insured up to \$250,000	
Total Assets (of the NCUSIF):	\$16.7 billion
NCUSIF Reserves:	\$117.0 million
Equity Ratio:	1.35%
Insurance Loss Expense:	\$40.3 million
Net Income:	\$169.7 million
Failed Federally Insured Credit Unions:	2 (year-to-date)

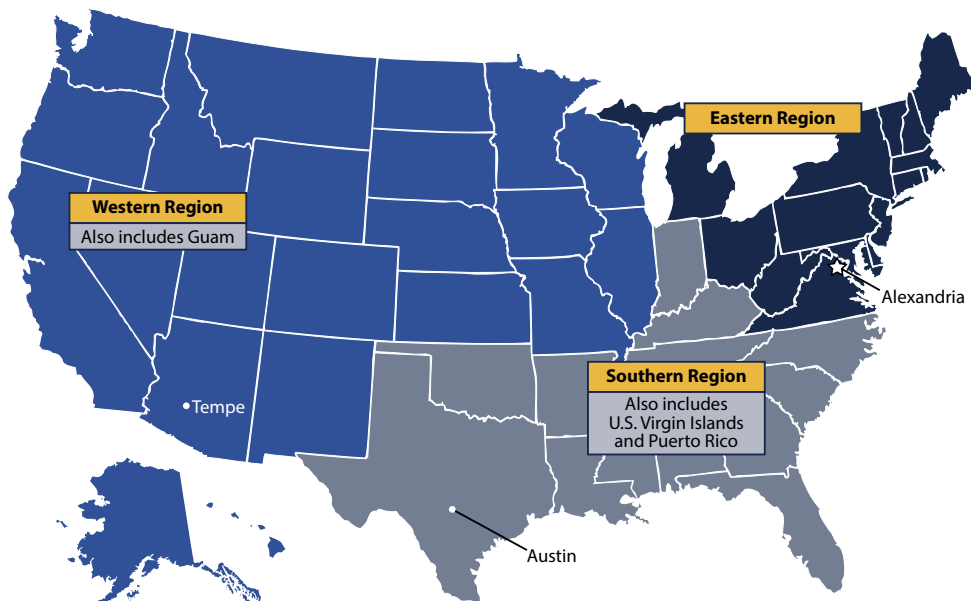
NCUA's 2018–2022 Strategic Goals

- Ensuring a safe and sound credit union system.
- Providing a regulatory framework that is transparent, efficient, and improves consumer access.
- Maximizing organizational performance to enable mission success.

NCUA Facts

Chairman: Rodney E. Hood
Board Member: J. Mark McWatters
Board Member: Todd M. Harper

2020 Operating Budget: \$315.9 million



● Eastern Region

CT, DE, DC, ME, MD, MA, MI, NH, NJ, NY, OH, PA, RI, VT, VA, WV
Director: John Kutchey
(703) 519-4600

● Southern Region

AL, AR, FL, GA, IN, KY, LA, MS, NC, OK, PR, SC, TN, TX, VI
Director: C. Keith Morton
(512) 342-5600

● Western Region

AK, AZ, CA, CO, GU, HI, ID, IL, IA, KS, MN, MO, MT, NE, NV, NM, ND, OR, SD, UT, WA, WI, WY
Director: Cherie Freed
(602) 302-6000

MAP KEY ● Eastern Region ● Southern Region
● Western Region ☆ Central Office

National Credit Union Administration
1775 Duke St., Alexandria, VA 22314-3418
Phone | (703) 518-6300
Website | www.ncua.gov
Consumer Website | www.MyCreditUnion.gov

About this Report



The National Credit Union Administration’s *2019 Annual Report* (also referred to as the Performance and Accountability Report) provides financial and high-level performance results for the agency and demonstrates to the President, Congress, and the public the agency’s commitment to its mission and accountability over the resources entrusted to it.

The *2019 Annual Report* focuses on the NCUA’s strategic goals and performance results and details the agency’s major regulatory and policy initiatives, activities, and accomplishments during the January 1, 2019 through December 31, 2019 reporting period. It also contains financial statements and audit information for the four funds the NCUA administers: the National Credit Union Share Insurance Fund, the NCUA Operating Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund.

This report and prior NCUA annual reports are available on the NCUA’s website at <https://www.ncua.gov/news/annual-reports>.

To comment on this report, email oeacmail@ncua.gov.

Certificate of Excellence in Accountability Reporting

The NCUA won the prestigious Certificate of Excellence in Accountability Reporting award from the Association of Government Accountants for its 2018 Annual Report.



How this Report is Organized

The *2019 Annual Report* begins with a message from the NCUA Chairman. This introduction is then followed by six main sections:

Management's Discussion and Analysis

The Management's Discussion and Analysis section provides an overview of the NCUA's performance and financial information. It includes a brief summary of the agency's mission and describes the agency's organizational structure and office functions. This section highlights challenges, accomplishments and results in key performance programs in 2019. It offers forward-looking information on trends and issues that will affect the credit union system and the NCUA in the coming years. The section also highlights the agency's financial results and provides management's assurances on the NCUA's internal controls.

Performance Results

The Performance Results section contains information on the agency's strategic and priority goals, and it details the NCUA's performance results and challenges during the calendar year.

Financial Information

The Financial Information section begins with a message from the Chief Financial Officer,

and details the agency's finances, including the NCUA's four funds. It also includes the audit transmittal letter and management challenges from the Inspector General, the independent auditors' reports, and the audited financial statements and notes.

Other Information

The Other Information section includes a summary of the results of the agency's financial statement audit and management assurances, payment integrity reporting details, and information on its civil monetary penalties.

Statistical Data

The Statistical Data section contains an overview of the credit union system's financial performance in 2019, as well as data on trends affecting the National Credit Union Share Insurance Fund and all federally insured credit unions.

Appendix

The Appendix contains biographic information for the agency's senior leadership and information about the functions of each NCUA office and region. In addition, you will find a glossary of key terms and acronyms, as well as a list of hyperlinks to additional information that appears in this report.

Table of Contents

About this Report.....	i
How this Report is Organized.....	ii
Message from the Chairman	v
Management’s Discussion and Analysis	1
About The Management’s Discussion and Analysis.....	1
NCUA in Brief.....	3
NCUA’s Regional Offices	4
Year in Review	10
Looking Forward.....	28
Performance Highlights.....	34
Financial Highlights	43
Management Assurances and Compliance with Laws.....	53
Performance Results.....	59
About the Performance Results Section	59
Performance Structure	61
Performance Planning and Process	62
Program Evaluation and Review	62
Cross-Agency Priority Goals	64
Performance Results by Strategic Goal.....	64
Validation and Verification of Performance Data.....	81
Financial Information	83
About the Financial Information Section.....	83
Message from the Chief Financial Officer	85
Message from the Office of Inspector General.....	87
National Credit Union Share Insurance Fund	91
National Credit Union Administration Operating Fund	127
National Credit Union Administration Central Liquidity Facility	143
National Credit Union Administration Community Development Revolving Loan Fund	156
Other Information	169
About the Other Information Section.....	169
Summary of Financial Statement Audits.....	170
Summary of Management Assurances.....	171
Improper Payments Elimination And Recovery Improvement Act.....	172
Fraud Reduction And Data Analytics Act.....	172
Civil Monetary Penalty Adjustment for Inflation.....	174

Statistical Data	177
National Credit Union Share Insurance Fund Ten-Year Trends	187
Credit Union Performance Five-Year Trends.....	188
Summary of Performance for Federally Insured Credit Unions	196
Appendix	197
NCUA Board Member Bios	197
Senior Staff Reporting to the NCUA Board.....	200
NCUA Offices and Regions	201
Key Terms and List of Acronyms	205
List of Hyperlinks to Additional Information by Report Section	210
Contact Information.....	213

Message from the Chairman



Rodney E. Hood

Chairman

On behalf of the National Credit Union Administration, I am pleased to present our *2019 Annual Report*.

In accordance with Section 102(d) of the Federal Credit Union Act, this annual report reviews the agency's performance in 2019 and includes the audited financial statements for the NCUA's four funds: the National Credit Union Share Insurance Fund, the NCUA Operating Fund, the Central Liquidity Facility, and the Community Development Revolving

Loan Fund. Each of these funds received an unmodified, or "clean," audit opinion and reported no material weaknesses. In addition, the

financial and performance data contained in this report are reliable and complete, consistent with the Office of Management and Budget Circulars A-11, A-123, and A-136, as applicable.

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.

The NCUA's [2018-2022 Strategic Plan](#) lists three agency goals:

- Ensure a safe and sound credit union system

Mission

Provide, through regulation and supervision, a safe and sound credit union system, which promotes confidence in the national system of cooperative credit.

- Provide a regulatory framework that is transparent, efficient, and improves consumer access
- Maximize organizational performance to enable mission success

In carrying out our first strategic goal, the NCUA examines credit unions to ensure they are operating in a financially sound manner and complying with all applicable laws and regulations. This ensures that millions of Americans can confidently use credit unions for their financial needs.

To meet our second strategic goal, the agency develops rules and regulations that strike a balance between mitigating potential risks to the credit union system and creating an environment that encourages innovation and growth. Additionally, through our chartering and field-of-membership initiatives, we ensure millions of consumers — including those in rural and underserved areas — can gain access to safe and affordable financial services.

Our third strategic goal focuses on the NCUA's operations. We understand the resources of federally insured credit unions and their members finance our agency's budget. We endeavor to structure the agency's operations so they are efficient and effective. And we are making critical investments in new technology and in our human capital to ensure the NCUA keeps pace with a dynamic financial services marketplace.

Vision

Protecting credit unions and the consumers who own them through effective supervision, regulation and insurance.

This annual report discusses in detail the NCUA's many activities relating to its strategic goals, so I want to summarize some of the agency's accomplishments over the last year and provide a glimpse of what we intend to do in 2020. I will focus on three areas: regulatory and supervisory modernization, financial inclusion, and cybersecurity.

Creating a Modern Regulatory and Supervisory Environment

Since becoming Chairman in April 2019, modernizing our regulatory and supervisory frameworks has been among my top priorities. Over the past year, the NCUA has been guided by a basic principle: regulation should be effective, but not excessive.

I believe the NCUA Board is obligated to consider the compliance burdens and

the costs our institutions shoulder on a daily basis. As a result, we are reducing, streamlining, and eliminating outdated or overly burdensome regulations where possible, so credit unions can simultaneously stay competitive in the changing environment and continue to provide affordable financial services to their members and communities.

We continue to improve the regulatory environment without compromising our fundamental obligation to protect the safety and soundness of the credit union system.

During the year, the NCUA Board took several strong, positive steps in this area, including:

- Approving a two-year delay of the implementation of the agency's risk-based capital rule, thus providing additional time to consider holistic improvements.
- Finalizing a rule that raised the threshold on the amount of public unit and nonmember shares a federally insured credit union can receive. This rule provides responsible regulatory relief and greater flexibility to eligible credit unions to determine the most appropriate funding structure to support their operations.
- Issuing a final rule that clarified and updated federal credit union bylaws to provide significant flexibility in governance, balanced by the considerations of member rights and engagement.
- The agency issued new guidance on secondary capital plans for low-income designated credit unions. The guidance helps low-income credit unions better understand the secondary capital plan submission process. The information provides these credit unions with additional clarity about the NCUA's regulatory and safety and soundness expectations for secondary capital, a valuable resource to some low-income credit unions that allows them to provide much-needed lending and other member services to underserved communities.
- In July, the NCUA Board finalized a rule that updated the agency's commercial real estate appraisal thresholds, raising it from \$250,000 to \$1 million. The rule also formalized the rural exemption for residential appraisals provided by the Economic Growth, Regulatory Relief, and Consumer Protection Act. This rule will be a significant benefit to rural areas with few qualified real estate appraisers.

The NCUA continues to partner closely with fellow federal financial regulators to update and improve interagency supervisory

Values

Integrity—Adhere to the highest ethical and professional standards.

Accountability—Accept responsibilities and meet commitments.

Transparency—Be open, direct and frequent in communications.

Inclusion—Foster a workplace culture that values diverse backgrounds, experiences and perspectives.

Proficiency—Deploy a workforce with a high degree of skill, competence and expertise to maximize performance.

guidance. In particular, the NCUA has worked closely with the bank regulators, Treasury, and the Financial Crimes Enforcement Network to improve the transparency, efficiency, and effectiveness of the Bank Secrecy Act / Anti-Money Laundering (BSA/AML) regime in the United States. In July 2019, the agencies issued a joint statement clarifying the consistent risk-focused approach used by the federal financial regulators, including the NCUA, during examinations. Also, in 2019 the NCUA began enhancing its coordination and communication with law enforcement to identify how credit unions can improve their suspicious activity reporting and anti-money laundering approaches, and better incorporate law enforcement priorities.

In 2019, we continued to make strides in modernizing the agency examination program. During the last quarter of the year, we pilot tested our new Modern Examination and Risk Identification Tool, or MERIT, and our new and secure user portal, NCUA Connect, with a

select group of credit unions. These systems are part of the NCUA's broader efforts to reduce the agency's footprint in credit unions and make the examination process more efficient through technology. The NCUA plans to fully deploy these tools to our examination staff, state regulators, and credit unions in 2020.

MERIT will not only upgrade the technology we currently use to do examinations, but it will provide the agency with additional opportunities to enhance our supervision process. Over the last year, the NCUA has worked to create a more effective exam program. Specifically, the agency has updated the quality assurance process for examination reports and improved the guidance and training for examiners on writing reports. The agency will continue efforts to identify ways to improve the examination and supervision program by streamlining processes and adopting innovative supervisory techniques.

Fostering Greater Financial Inclusion

As NCUA Chairman, I have described financial inclusion as the civil rights issue of our time. "Inclusion" means not only expanding access to safe and affordable financial services for unbanked and underserved people and communities but also broadening employment and business opportunities. I would like to highlight the following actions tailored to help rural America and underserved communities have greater access to affordable financial services and economic opportunity:

- In September, the Board adopted a final rule that enhances the successful Payday Alternative Loans program. The new rule gives federal credit unions additional flexibility to provide short-term, small-dollar loans, and it provides families a safer option to deal with financial situations in which they might otherwise have turned to traditional payday loans.

- In November, the Board approved a final policy statement to extend “second chance” opportunities to job applicants with criminal records for minor, non-violent offenses. As policymakers and corporate leaders rethink punitive hiring practices, the NCUA is doing what we can within our authority to create new opportunities for these individuals to return to the economic and financial mainstream.
- In addition, the agency was the first federal financial institutions regulator to issue interim guidance to the institutions it oversees on providing financial services to legally operating hemp businesses within their fields of memberships. Legal hemp businesses can provide new opportunities for rural communities, and this interim guidance is a first step in giving this industry access to critical financial services and needed capital.

In November, the agency hosted a one-day Diversity, Equity, and Inclusion Summit attended by more than 100 representatives from credit unions, trade associations, and other stakeholders. The event was well-received and featured individual speakers, panel discussions, and exercises covering a variety of topics, particularly best practices for credit unions to foster greater diversity, equity, and inclusion within their organizations. The NCUA will make this an annual event.

As part of our efforts to promote diversity and inclusion within the agency, we created a Culture Council in 2019 to increase staff engagement. The council will assess the agency’s current culture and make recommendations to promote a positive, high performing organizational culture to help us achieve our safety and soundness mission — helping to demonstrate the NCUA is committed to the values equity, diversity, inclusion, and employee engagement.

Enhancing Cybersecurity

As the nation’s financial system becomes increasingly dependent on technology, the threat of cyberattacks on credit unions, their members, and regulators becomes ever more acute. Cybersecurity has been an NCUA priority for several years, both in terms of modernizing the agency’s own systems and offering guidance, information resources, and — to eligible, low-income-designated credit unions — technical assistance grants to help institutions improve their cybersecurity programs.

The agency’s current emphasis is in four areas:

- Advancing consistency, transparency, and accountability within our cybersecurity examination program;
- Encouraging due diligence when it comes to managing third-party service providers at credit unions;
- Providing credit unions with information and resources to improve their preparedness and resiliency; and
- Ensuring the NCUA’s systems and the collected, controlled, unclassified

information within those systems remain secure.

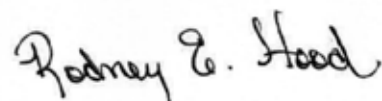
Early in my tenure as Chairman, I appointed a cybersecurity advisor to provide strategic counsel directly to me on cybersecurity matters and to coordinate with other federal financial institutions regulators and industry stakeholders on efforts to enhance our capacities in this area. The NCUA's Cyber Threat Working Group is studying initiatives to detect emerging threats, enhance information sharing, identify mitigation measures, and improve resilience and response measures.

The NCUA created the Automated Cybersecurity Examination Tool, or ACET to assess credit unions' ability to detect, withstand, and recover from cyberattacks. In 2019, we continued to refine the tool further and used it to assess credit unions with over \$250 million in assets that had not previously received an assessment. In 2020, the agency will deploy an updated version of this tool. In addition, the agency will pilot new procedures to evaluate critical security controls during examinations of all credit unions. Those evaluations will be scaled to the size and risk profile of these institutions.

The Road Ahead

This year, the NCUA will celebrate its 50th anniversary. The agency's mission – to provide, through regulation and supervision, a safe and sound credit union system, which promotes confidence in the national system of cooperative credit – is still as appropriate

as ever. The agency remains committed to maintaining a modern regulatory structure that fulfills our obligations to credit unions and their members, fosters innovation and inclusion, and protects the National Credit Union Share Insurance Fund.



Rodney E. Hood
Chairman
February 14, 2020

Management's Discussion and Analysis



About The Management's Discussion and Analysis

The National Credit Union Administration enhanced the content quality, report layout, and public accessibility of the 2019 Annual Report by improving graphics and providing more useful and easily understood information about the NCUA's programs, financial condition, and performance. Hyperlinks to relevant web content are embedded in the body of the report to provide additional information about the NCUA's programs. To take advantage of these links, the NCUA recommends accessing this report through the [NCUA website](#).

This section highlights information on the NCUA's performance, financial statements, systems and controls, compliance with laws and regulations, and actions taken or planned to address select challenges.

The NCUA in Brief

The NCUA in Brief provides information about the NCUA's mission, an overview of its history, and describes the agency's organizational structure. The full list of offices with a description by function can be found in the Appendix section of this report.

Year in Review

The Year in Review highlights challenges, accomplishments, and performance results in key programs in 2019.

Looking Forward

The Looking Forward section describes the trends and issues that will affect the credit union system and the NCUA in the coming years as well as actions taken by the NCUA to address any risks or uncertainties.

Performance Highlights

The Performance Highlights section provides a brief summary of the NCUA's performance goals and results for 2019. Additional information can be found in the Performance Results section of the report.

Financial Highlights

The Financial Highlights section provides a high-level perspective of the NCUA's financial results, position, and condition. Additional information for NCUA's four funds can be found in the Financial Information section of the report.

Management Assurances and Compliance with Laws

The Management Assurances and Compliance with Laws section provides management assurances related to the Federal Managers' Financial Integrity Act. The NCUA's internal control framework and its assessment of controls, in accordance with Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, provide assurance to NCUA leadership and external stakeholders that financial data produced by the NCUA's business and financial processes and systems are complete, accurate, and reliable.

NCUA in Brief

Created by the U.S. Congress in 1970, the National Credit Union Administration is an independent federal agency that insures deposits at federally insured credit unions, protects the members who own credit unions, and charters and regulates federal credit unions. The NCUA protects the safety and soundness of the credit union system by identifying, monitoring, and reducing risks to the National Credit Union Share Insurance Fund. Backed by the full faith and credit of the United States, the Share Insurance Fund provides up to \$250,000 of federal share insurance to more than 120 million account holders in all federal credit unions and the overwhelming majority of state-chartered credit unions. No credit union member has ever lost a penny of deposits insured by the Share Insurance Fund.

A three-member Board of Directors oversees NCUA's operations by setting policy, approving budgets, and adopting rules.¹ 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 liquidity needs when funds are unavailable

from standard credit sources. The NCUA Community Development Revolving Loan Fund provides loans and grants to low-income-designated credit unions.

As detailed in the [2018–2022 Strategic Plan](#), NCUA's strategic goals in 2019 were to:

- Ensure a safe and sound credit union system
- Provide a regulatory framework that is transparent, efficient and improves consumer access
- Maximize organizational performance to enable mission success

The NCUA also plays a role in helping to ensure broader financial stability as a member of the Federal Financial Institutions Examination Council. This council is responsible for developing uniform principles, standards, and report forms, and for promoting uniformity in the supervision of depository financial institutions. The NCUA's Chairman is also a voting member of the Financial Stability Oversight Council, an interagency body tasked with identifying and responding to emerging risks and threats to the financial system.

The agency operates its headquarters in Alexandria, Virginia; its Asset Management and Assistance Center in Austin, Texas, to liquidate credit unions and recover assets; and three regional offices—Eastern, Southern, and Western—which carry out the agency's supervision and examination program.

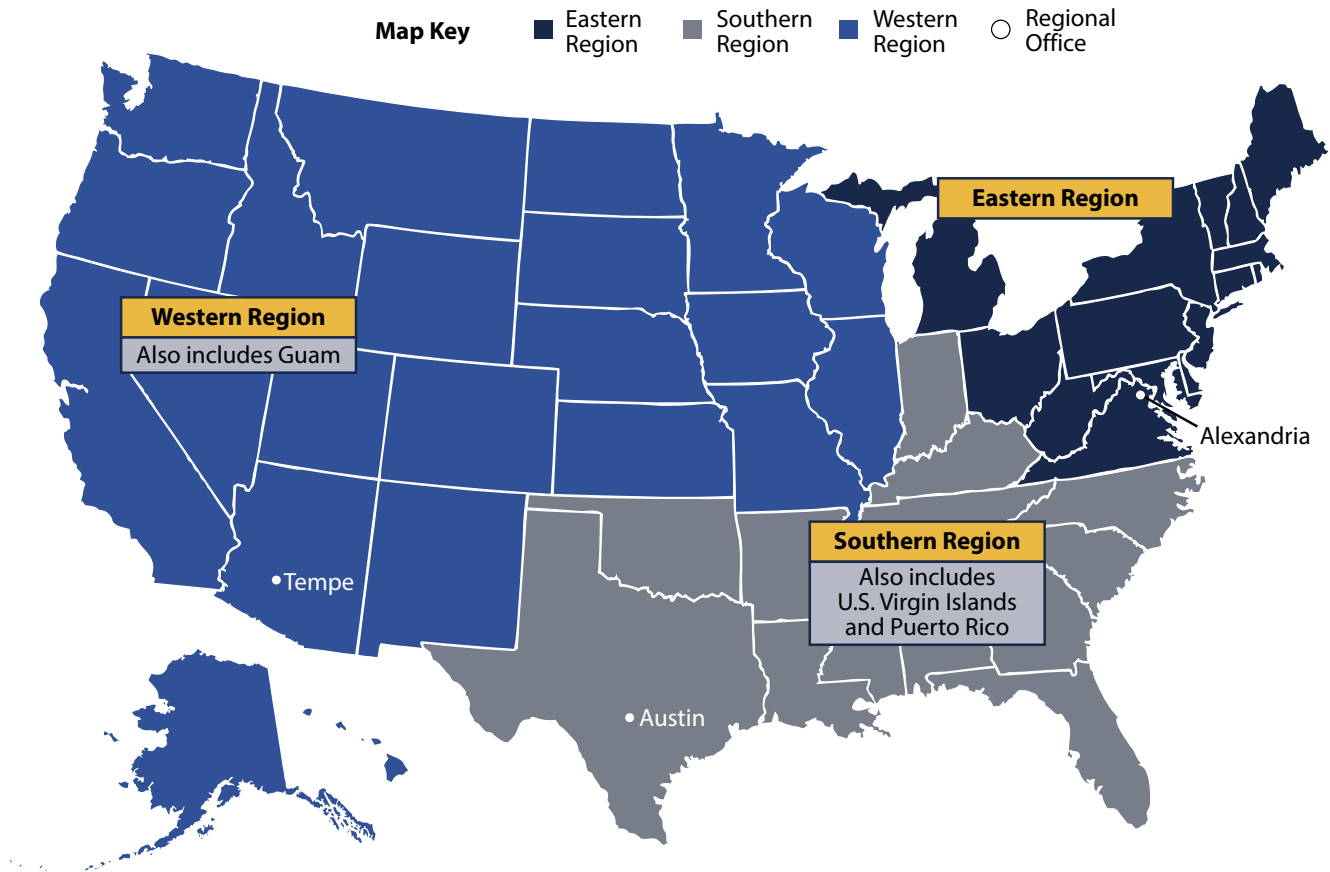
¹ Each Board Member is appointed by the President and confirmed by the Senate. The President also designates the Chairman of the NCUA Board. No more than two Board members can be from the same political party, and each member serves a staggered six-year term.

Reporting to these regional offices, the NCUA has credit union 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.

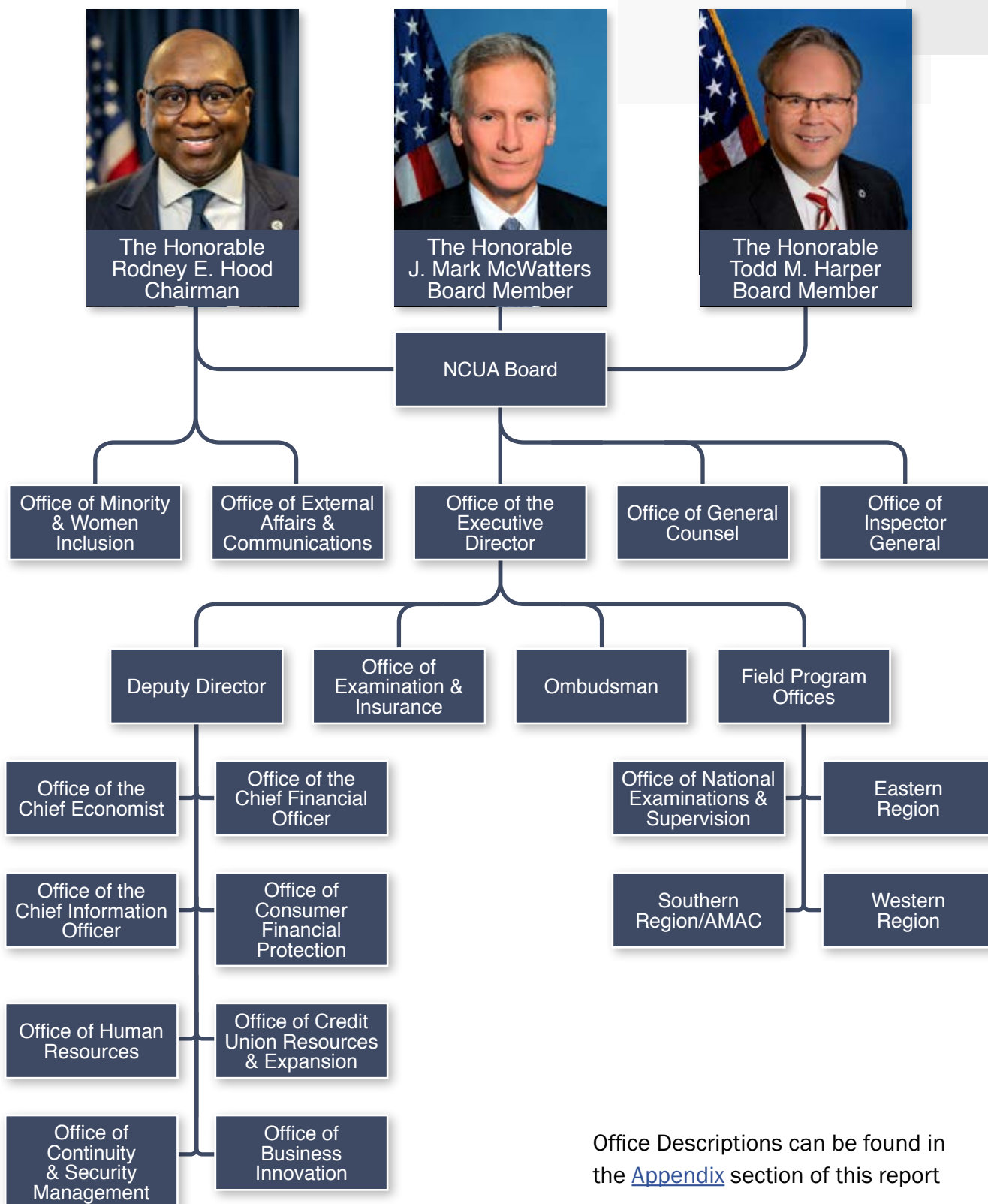
NCUA’s Regional Offices

NCUA Regional Structure





National Credit Union Administration Organizational Chart



Office Descriptions can be found in the [Appendix](#) section of this report

85th Anniversary of the Federal Credit Union Act

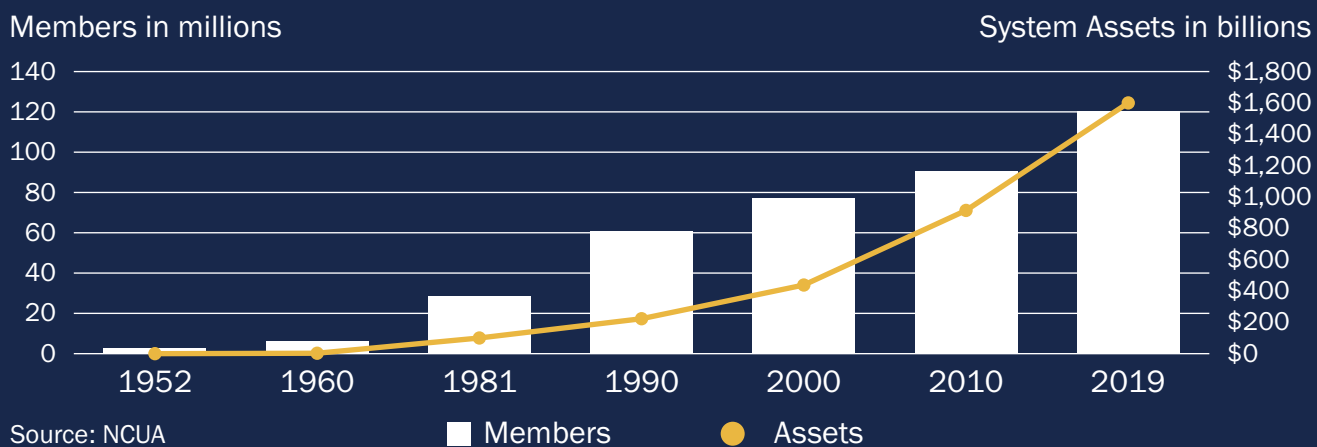


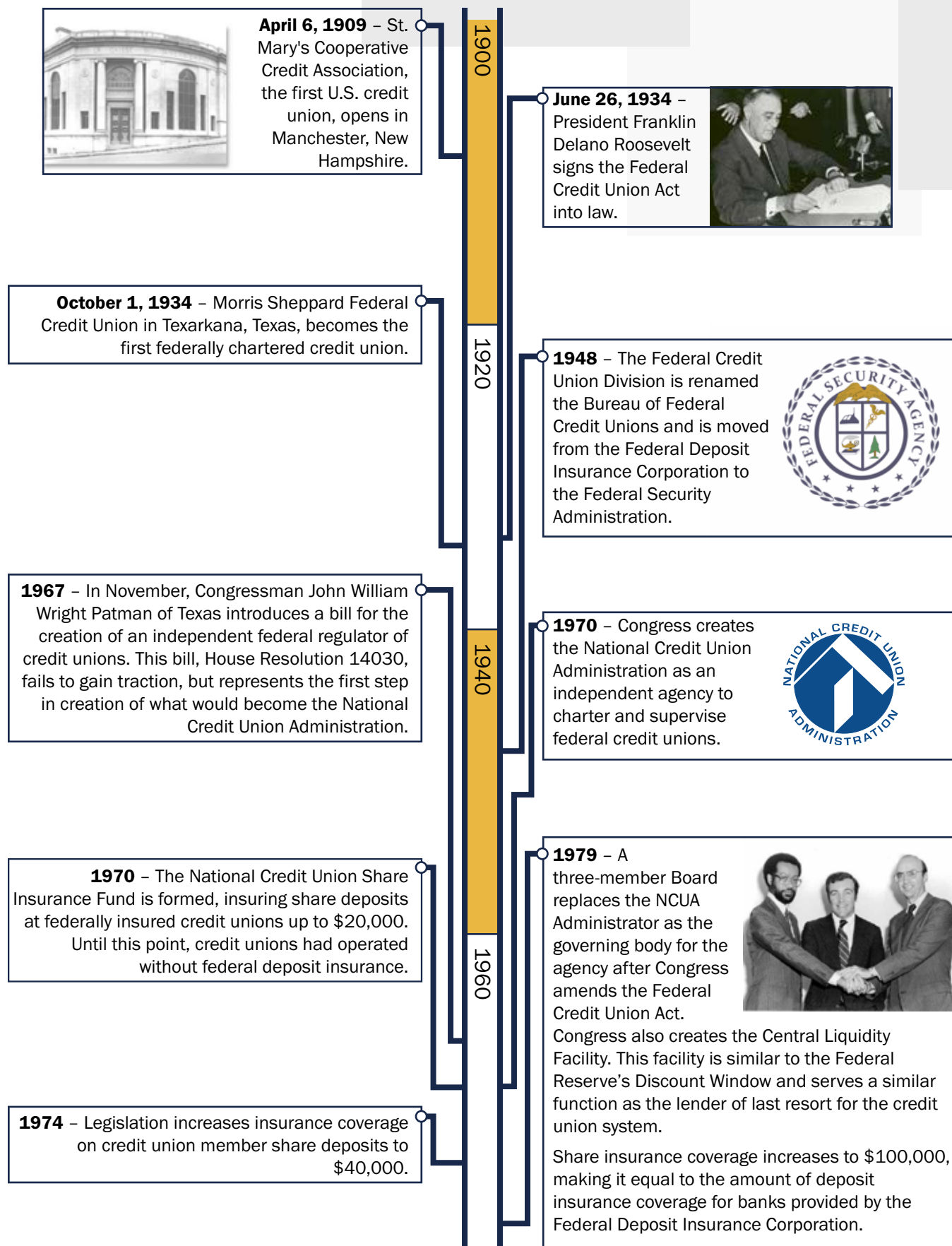
For more than 100 years, credit unions have provided financial services to their members in the United States. Credit unions are unique depository institutions created not for profit, but to serve their members as cooperatives.

On June 26, 2019, the NCUA celebrated the 85th Anniversary of President Franklin Roosevelt’s signing of the Federal Credit Union Act. The law was enacted during the Great Depression, in 1934, enabling credit unions to be organized throughout the United States under charters approved by the federal government. The purpose of the federal law was to make credit available to Americans and promote thrift through a national system of nonprofit, cooperative credit unions. In the years since the passage of the Federal Credit Union Act, credit unions have evolved and are larger and more complex today than those first institutions. Despite these changes and changes in the financial system more broadly, credit unions continue to provide affordable financial services to millions of Americans.

As of December 31, 2019, the NCUA was responsible for the regulation and supervision of 5,236 federally insured credit unions with more than 120.4 million members and approximately \$1.57 trillion in assets across all states and U.S. territories.

Growth in Credit Union Members and Credit Union Systems Assets





1980

1981 – The NCUA's Central Liquidity Facility and U.S. Central Credit Union, at the time the nation's largest corporate credit union, sign an agreement nearly quadrupling the Central Liquidity Facility's membership and giving 90 percent of credit unions a permanent source of backup liquidity.

1984 – Administration of the Community Development Revolving Loan Fund is transferred to NCUA from the Department of Health and Human Services. Today, the Community Development Revolving Loan Fund provides grants and loans to low-income credit unions.

1987 – On January 1, Governor Bruce Sundlun announces the Rhode Island Share Deposit Indemnity Corporation is insolvent and declares a "bank holiday" for 35 state-chartered credit unions and 10 state-chartered banks. The event precipitates a flood of insurance applications from privately insured credit unions nationwide. By 1991, 432 state-chartered credit unions converted to federal insurance coverage.

July 18, 1984 – The Deficit Reduction Act of 1984 is signed into law, recapitalizing the National Credit Union Share Insurance Fund, which had been experiencing financial stress for several years. Federally insured credit unions submit \$850 million, or 1 percent of system assets, at the time to fully capitalize a new, restructured Share Insurance Fund.

1990

1989 – The Asset Liquidation and Management Center in Austin, Texas, is created to deal with problem assets the NCUA acquires from both operating and liquidating credit unions. Over the years, the office's role expands to include providing consulting services to the NCUA regional offices on such topics as lending analysis, records reconstruction, and fraud investigation. Renamed the Asset Management and Assistance Center in 1996, it also provides training to both NCUA and state credit union examiners.



August 7, 1998 – President Bill Clinton signs the Credit Union Membership Access Act into law, which restores expansion privileges and provides for multiple common-bond credit unions. The act also requires the NCUA to create a system of prompt corrective action. This system sets the minimal capital ratios that a credit union must maintain and establishes triggers that limit the activities of a federally insured credit union should it drop below those levels.

October 3, 2008 – President George W. Bush signs the Emergency Economic Stabilization Act, creating the \$700 billion Troubled Asset Relief Program and temporarily raising FDIC and NCUA deposit insurance coverage from \$100,000 per depositor to \$250,000 per depositor through Dec. 31, 2009.

2000



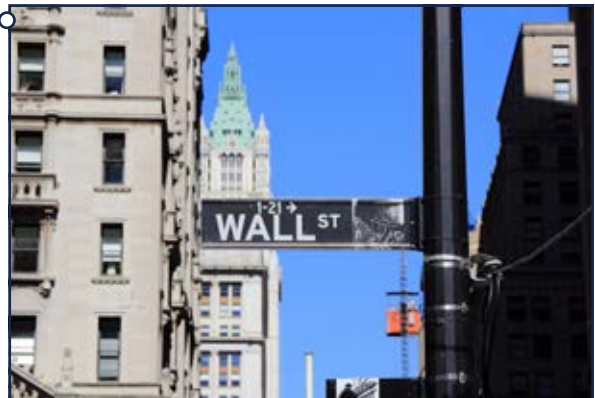
September 30, 2008 – President George W. Bush signs the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, 2008, which contains provisions temporarily removing a cap of \$1.5 billion on the Central Liquidity Facility, allowing the facility to borrow up to its authorized limit to lend to credit unions to meet short-term liquidity needs. The lending limit increases to \$41.5 billion.

January 28, 2009 – The NCUA Board announces the Temporary Corporate Credit Union Share Guarantee Program, providing a full faith and credit guarantee of uninsured shares at all corporate credit unions through February 2009 and establishing a voluntary guarantee program for uninsured shares of credit unions through December 2010. The Board also approves a \$1 billion capital purchase in U.S. Central Federal Credit Union.

July 21, 2010 – President Barack Obama signs into law the Dodd-Frank Wall Street Reform and Consumer Protection Act that made permanent the \$250,000 insurance protection for shares and deposits.

September 24, 2010 – The NCUA Board announces the Corporate System Resolution Program, a multi-stage plan for stabilizing the corporate credit union system, conserving an additional three corporate credit unions, providing short-term and long-term funding to resolve a portfolio of residential mortgage-backed securities, commercial mortgage-backed securities, other asset-backed securities and corporate bonds held by the failed corporate credit unions, and establishing a new regulatory framework for corporate credit unions.

2010



September 28, 2017 – The NCUA Board approves the closing of the Stabilization Fund on Oct. 1, 2017.

June 20, 2011 – The NCUA becomes the first federal financial institutions regulator to file suit in federal court against Wall Street firms to recover losses from sales of faulty mortgage-backed securities. The first lawsuits are filed against J.P Morgan Securities LLC and RBS Securities Inc. The agency eventually files 26 suits against 32 defendants in federal courts in California, Kansas, and New York related to corporate credit union losses. Net recoveries of these legal actions, to date, exceed \$5.1 billion.

February 15, 2018 – The NCUA Board approves a Share Insurance Fund distribution of \$736 million to eligible federally insured credit unions that was paid in the third quarter of 2018.

Year in Review

Federally insured credit unions continued to perform well in 2019. By year's end, credit union membership grew to more than 120.4 million members, assets in the credit union system increased to \$1.57 trillion, and the system's aggregate net worth ratio stood at 11.4 percent, well above the 7-percent statutory level for being considered well capitalized.

As credit unions provided their members with essential financial services, the NCUA executed its congressionally mandated mission to provide safety and soundness to the credit union system. The following is a discussion of the NCUA's significant activities in 2019, as outlined in the [2018-2022 Strategic Plan](#), as well as some of the challenges facing the credit union system and the NCUA in the near future. The [Performance Results](#) section of this report provides additional information about how the agency met its strategic goals and objectives.

Ensuring a Safe and Sound Credit Union System

The NCUA's primary mission is to ensure that the nation's system of cooperative credit remains safe and sound. To achieve this mission, the NCUA's examination program focuses on risks to the credit union system and the National Credit Union Share Insurance Fund.

For most small federal credit unions with less than \$50 million in total assets and CAMEL ratings of 1, 2, or 3, the NCUA uses its Small Credit Union Examination Program. This streamlined examination program focuses on the most pertinent areas of risk in these types

of institutions. The NCUA's three regional offices oversee and examine consumer credit unions with less than \$10 billion in assets. For larger credit unions with assets less than \$10 billion, the agency conducts risk-focused examinations that review areas with the highest potential risks, new products and services, and compliance with federal regulations, among others.

The agency's Office of National Examinations and Supervision (ONES) oversees and examines consumer credit unions with \$10 billion or more in assets. The large credit union program includes a continuous supervision model, including enhanced off-site monitoring and data analysis. During these examinations, field staff focus on interest rate risk; evaluate lending and credit practices; and assess information technology, cybersecurity, and payment system risks. In addition, these institutions undergo annual stress tests to assess their capital levels under a series of adverse financial and economic scenarios. The examinations conducted in large consumer credit unions are also subject to heightened quality control, which is conducted by the NCUA's Office of Examination and Insurance.

ONES also supervises 11 corporate credit unions, which range in size between \$125 million and \$4.5 billion in assets. Each of these institutions acts as a "credit union for credit unions" by providing a number of critical financial services for consumer credit unions, including payment processing. The NCUA assesses these institutions' capital levels, interest rate risk, cybersecurity preparedness, and other critical areas.

What is the CAMEL Rating System?

The CAMEL rating system is based on an evaluation of five critical elements of a credit union's operations. It is designed to take into account and reflect all significant financial, operational, and management factors examiners assess in their evaluation of a credit union's performance and risk profile. Examiners assign a numeric rating between 1 and 5 to each of the CAMEL components based on his or her evaluation of five critical elements of a credit union's operations over the course of an exam:



Capital – A credit union is expected to maintain capital commensurate with the nature and extent of risk to the institution and the ability of management to identify, measure, monitor, and control these risks. The effect of credit, market, and other risks on the credit union's financial condition is considered when evaluating capital adequacy.



Asset quality – The asset quality rating reflects the quantity of existing and potential credit risks associated with the loan and investment portfolios, other real estate owned, and other assets, as well as off-balance-sheet transactions. The ability of management to identify, measure, monitor, and control credit risk is also reflected here.



Management – The capabilities of the board of directors and management, in their respective roles, to identify, measure, monitor, and control the risks of a credit union's activities and to ensure a credit union's safe, sound, and efficient operation in compliance with applicable laws and regulations is reflected in this rating.



Earnings – This rating reflects the adequacy of current and future earnings to fund capital commensurate with the credit union's current and prospective financial and operational risk exposure, potential changes in economic climate, and strategic plans.



Liquidity/asset-liability management – This rating considers current and prospective sources of liquidity compared to funding needs and the adequacy of asset-liability management practices relative to the credit union's size, complexity, and risk profile.

Each year, the NCUA outlines its primary areas of focus for its risk-focused exam program. In 2019, [the agency's supervisory priorities](#) were:

- **Bank Secrecy Act Compliance**—The NCUA remains vigilant in ensuring

the credit union system is not used to launder money or finance criminal or terrorist activity. Examiners reviewed credit unions' compliance with the Bank Secrecy Act and completed related examination questionnaires at every examination.

- **Concentrations of Credit**—Examiners continued to focus on large concentrations of loan products and concentrations of specific risk characteristics that have the potential to produce losses large enough to threaten a credit union's health.
- **Consumer Compliance**—Examiners performed targeted evaluations of selected consumer financial protection laws and regulations, including credit unions' compliance with the Military Lending Act and the Home Mortgage Disclosure Act.
- **Current Expected Credit Losses (CECL)**—Examiners assessed efforts a credit union has taken to prepare for the new accounting standard and whether a credit union has performed analysis for how CECL would alter the Allowance for Loan and Lease Losses funding needs.
- **Information Systems and Assurance**—The security, confidentiality, and integrity of credit union member information remains a key supervisory priority for the NCUA. Additionally, for 2019 the assessment of credit union IT risk management and oversight of service provider arrangements to ensure credit unions implement effective risk-based supply chain management was an area of focus.
- **Liquidity and Interest Rate Risks**—An effective liquidity and interest

rate risk management program is a key component of a credit union's safety and soundness. The projected economic fluctuations in 2019 made this an increased area of emphasis. Rising rates put pressure on credit unions to raise deposit rates in order to maintain deposit account volume.

In 2019, our field staff completed 5,035 supervisory contacts and reported 547,939 examination hours, compared to 5,571 supervisory contacts and 554,296 examination hours in 2018. The decrease in contacts and examination hours was primarily due to the decrease in the number of federally insured credit unions from 5,573 at the start of 2018 to 5,236 at the end of 2019.

Distribution from the Share Insurance Fund

In May 2019, the NCUA distributed \$160.1 million in Share Insurance Fund dividends to more than 5,500 eligible institutions. This is the second equity distribution since the [closure of the Temporary Corporate Credit Union Stabilization Fund](#) and transfer of its assets to the Share Insurance Fund in 2017.¹

Prior to the Board's action in September 2017, the Stabilization Fund was scheduled to expire in 2021. A distribution became possible after the agency won legal recoveries of more than \$5.1 billion on behalf of the five failed corporate credit unions, materially decreasing the costs to the Stabilization Fund resulting from those failures.

1 The Federal Credit Union Act gives the NCUA Board authority to close the Stabilization Fund at its discretion prior to the fund's expiration date. The NCUA is required by law to distribute funds, property and other assets of the Stabilization Fund at its closing to the Share Insurance Fund. See https://www.ncua.gov/Legal/Documents/fcu_act.pdf.

Resolving Troubled Credit Unions

When prudent, the NCUA uses its conservatorship authority provided in the Federal Credit Union Act to resolve operational problems that could affect a credit union’s safety and soundness. During a conservatorship, the credit union remains open; members may transact business; and accounts remain insured by the National Credit Union Share Insurance Fund. In all, the NCUA was the conservator of two credit unions at various times throughout 2019. As of December 31, 2019, there were two credit unions operating under the NCUA’s conservatorship.²

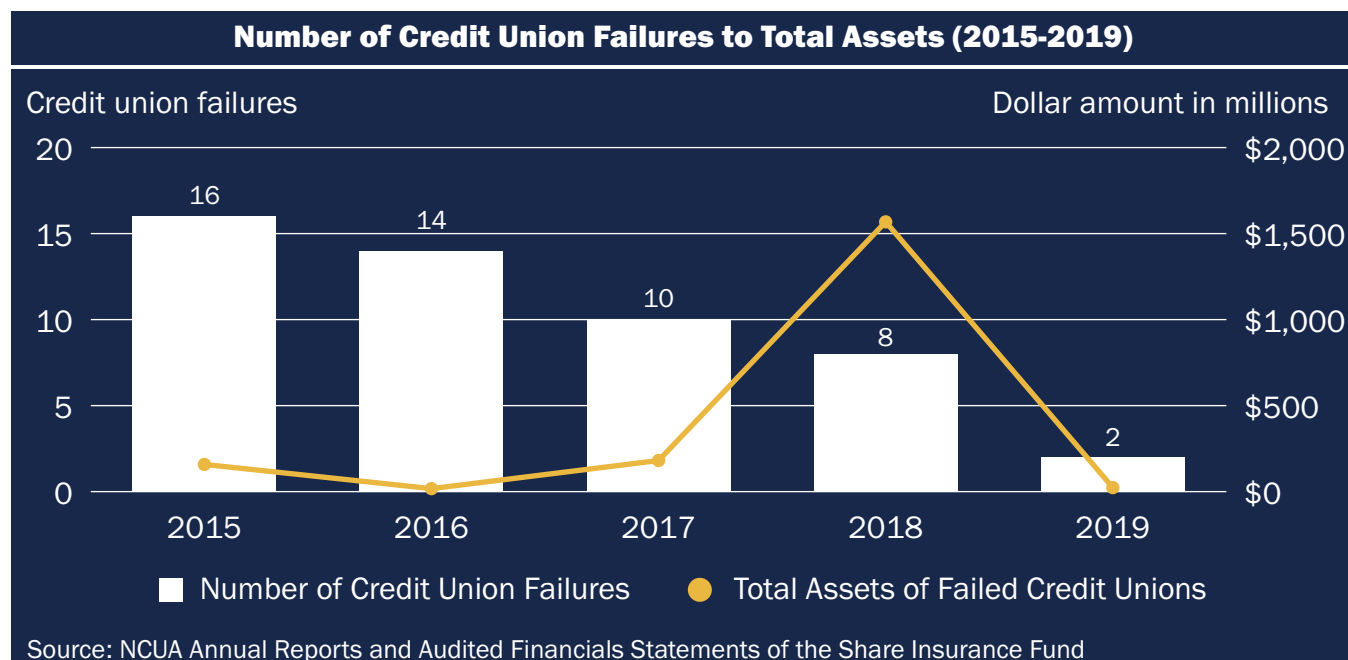
Protecting Member Deposits

For 2019, there were two credit union failures compared to eight failures in 2018. The Share Insurance Fund insures member deposits at all federally insured credit unions up to

\$250,000. As a result, the members of the two federally insured credit unions that failed in 2019 suffered no losses on their insured deposits. Verified shares were paid out within five days of a closure.

The cost to the Share Insurance Fund of these failures was \$40.3 million, a decrease from \$785.0 million in 2018. The loss figure will change depending on the performance of the remaining assets of the liquidated credit unions. The NCUA continues to evaluate all courses of action that will maximize potential recoveries from the assets of the liquidated credit unions and minimize losses to the Share Insurance Fund. The fund remains financially strong and has sufficient equity and reserves to cover anticipated losses.

Gross assets managed by the NCUA’s Asset Management and Assistance Center (AMAC), which are comprised primarily of loans, were



² As of December 31, 2019 the NCUA was the conservator of [Municipal Credit Union](#), located in New York City, and [Mid East Tennessee Community Credit Union](#) in Decatur, Tennessee.

approximately \$1.9 billion at the end of 2019, a decrease from \$2.1 billion at the end of 2018. The decrease in gross assets managed was due to the resolution of loans and real estate owned assets.

Providing High-Quality and Efficient Supervision

The NCUA has several initiatives in process to improve and modernize how the agency conducts examinations and provides supervision to the credit union system. The goals of these initiatives are to replace outdated, end-of-life examination systems, streamline existing processes, adopt enhanced examination techniques, and leverage new technology and data to maintain high-quality supervision of insured credit unions with less onsite presence.

In 2018, the NCUA-State Supervisor Working Group created an [alternating examination pilot program](#) that began in 2019. The NCUA and six state regulators are piloting an alternating examination program for federally insured, state-chartered credit unions. This pilot will provide 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. This pilot program will also explore potential improvements that can lead to better consistency and communication between the NCUA, as the insurer, and the prudential state regulatory agencies.

In 2019, the NCUA adopted the best practices from the Flexible Examination Pilot Program that began in 2017. The NCUA updated its National Supervision Policy Manual to include these best practices as offsite examination procedures and to allow examiners to remotely perform portions of an examination for well-run credit unions that have the technology and platforms to provide electronic data securely. This program reflects the NCUA's most immediate solution to the agency's efforts to reduce, but not eliminate, onsite presence during exams.

In 2019, the NCUA completed the Automated Cybersecurity Examination Tool (ACET) Maturity Assessment for federally insured credit unions with assets greater than \$250 million. The focus of the ACET implementation was to baseline individual credit unions' cybersecurity maturity consistently while benchmarking the entirety of the sector. The ACET provides the NCUA with a repeatable, measurable, and transparent process that improves and standardizes the agency's supervision related to cybersecurity in all federally insured credit unions.

Using Supervisory Tools to Address Compliance Concerns

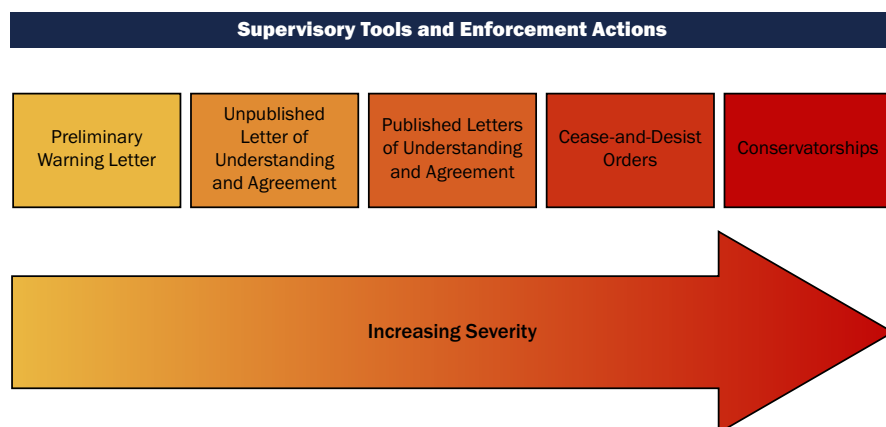
To protect the credit union system and the Share Insurance Fund from losses, the NCUA employs several supervisory tools and enforcement actions depending on the severity of the situation. The number of total outstanding enforcement actions for federally insured credit unions decreased from 278 at the end of 2018, to 227 at the end of 2019.

Outstanding Enforcement Actions at Year-end (2015-2019)					
	2015	2016	2017	2018	2019
Federal Credit Unions					
Preliminary Warning Letters	48	56	51	47	38
Unpublished Letters of Understanding and Agreement	171	135	145	142	119
Published Letters of Understanding and Agreement	0	0	0	0	0
Cease-and-Desist Orders	0	1	0	0	2
Conservatorship	3	2	1	0	1
Federal Credit Union Totals	222	194	197	190	160
Federally Insured, State-Chartered Credit Unions					
Preliminary Warning Letters	16	11	13	14	6
Unpublished Letters of Understanding and Agreement	115	91	77	69	54
Cease-and-Desist Orders	6	8	7	5	6
Conservatorship	3	2	2	0	1
Federally Insured, State-Chartered Credit Union Totals	140	112	99	88	67
Federally Insured Credit Unions Totals	362	306	296	278	227

Source: NCUA Examination Data

In addition, the NCUA assesses civil monetary penalties against credit unions that fail to file a Call Report on time. In 2019, the agency assessed 28 credit unions \$18,062, in penalties. In comparison, 31 credit unions were assessed \$12,907 in penalties in 2018. As required by law, the NCUA remitted all funds collected from late filers to the United States Treasury. For more information on the civil monetary penalties the NCUA can impose, please see the [Other Information](#) section of this report.

In 2019, the NCUA issued administrative actions prohibiting 40 individuals from participating in the affairs of any federally insured financial institution, the same number issued in 2018.



Provide a Regulatory Framework that is Transparent, Efficient, and Improves Consumer Access

As a prudential regulator, the NCUA's goal is to issue balanced, clear, and straightforward regulations, while addressing emerging adverse trends in a timely manner. The agency also plays a critical role in ensuring that credit unions comply with all federal consumer financial protection laws and regulations. The agency promotes the importance of financial literacy through its consumer website, [MyCreditUnion.gov](https://www.nCUA.gov/MyCreditUnion.gov), and participates in national financial literacy initiatives and programs. The NCUA assists in expanding access to affordable financial services through its chartering and field-of-membership initiatives, especially to individuals and communities in rural and underserved areas.

Deliver an Effective and Transparent Regulatory Framework

The NCUA is striving to reduce the regulatory, reporting, and examination burdens facing credit unions without sacrificing the safety and soundness of the credit union system and, in turn, the Share Insurance Fund. In 2019, the NCUA completed five substantive changes to the NCUA's regulatory structure to help credit unions stay competitive in the changing environment and continue to provide financial services to their members and communities.

- **Bylaw Modernization**—In September, the NCUA Board issued a final rule to update, clarify, and simplify the federal credit union bylaws. This final rule is the result of an extensive, collaborative effort with the credit union industry dating back to 2013. The rule clarifies and updates the bylaws and provides

significant flexibility in governance, balanced by the consideration of member rights and engagement. One of the more significant changes was to permit federal credit unions to conduct hybrid annual and special meetings. Allowing members to participate virtually, in addition to in-person meetings, has the potential to expand member engagement greatly.

- **Public Unit and Nonmember Shares**—The Board finalized a rule that raised the threshold on the amount of public unit and nonmember shares a federally insured credit union can receive. This rule delivers on the goals of extending responsible regulatory relief and giving greater flexibility to eligible credit unions to determine the funding structure most appropriate to support their operations. Individual credit unions will have additional flexibility regarding funding options without materially increasing the aggregate level of public unit and nonmember shares and borrowings the credit union system can collectively utilize.
- **Commercial Real Estate Appraisals**—In July, the Board approved a final rule to update the agency's commercial real estate appraisal standards for credit unions, raising the threshold below which appraisals are not required from \$250,000 to \$1 million. There are areas in the country that experience a scarcity of certified property appraisers, which means the process of getting a loan to buy commercial property can get extended many weeks

to enable time for a certified appraiser to provide the necessary physical inspection and estimate the property's value. The higher appraisal threshold will be met with enhanced standards for written estimates of market value containing sufficient information to support the credit decision.

- **Field of Membership**—In October, the Board approved a proposed rule to better explain its decision to eliminate the core area service requirement for federal credit unions that serve a community based on a core-based statistical area, emphasizing that such a decision would increase flexibility to applicants for community charters, and thus, increase the likelihood of providing financial services for low- and moderate-income individuals.
- **Payday Alternatives**—The NCUA Board approved a final rule to provide federal credit unions with an additional option to offer payday alternative loans, or PALs. These loans have fewer fees and are offered at lower rates compared to rates charged by online and storefront payday lenders. This rule does not replace the current PALs rule, known as PALs I. Rather, it is an alternative option, with different terms and conditions, for federal credit unions to offer PALs to their members. Specifically, this PALs II rule, as the new option is called, differs from PALs I by modifying the minimum and maximum amount of the loans, eliminating the minimum period of membership required before a borrower may obtain a PALs II loan,

and increasing the maximum maturity for these loans.

In addition to these final actions, in 2019 the NCUA Board:

- Issued a proposed rule to raise the residential real estate appraisal threshold from \$250,000 to \$400,000;
- Delayed the effective date of NCUA's risk-based capital rule to January 1, 2022, providing more time to consider improvements;
- Facilitated, 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; and
- Issued interim guidance on credit unions doing business with the legal hemp industry, the first federal financial institutions regulator to do so.

A full listing and description of the final and proposed rules approved by the NCUA Board in 2019 is available on the NCUA's [website](#).

Cross-Agency Collaboration

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

with access to critical financial and market information and opportunities to share information on critical issues and threats to the nation's financial infrastructure, among other benefits.

Enforce Federal Consumer Financial Protection Laws and Regulations

In 2019, the NCUA's Office of Consumer Financial Protection spent 4,222 hours examining 25 credit unions for compliance with fair lending laws and regulations. Agency staff spent an additional 1,005 hours performing 43 offsite supervision contacts to review credit unions' loan policies and, if necessary, provide recommendations to bring them into compliance with fair lending laws.

Another part of the NCUA's enforcement of consumer financial protection laws and regulations is our [Consumer Assistance Center](#), which receives and handles consumer complaints and does its own investigation to determine compliance with applicable federal consumer financial protection laws and regulations. During the year, the Consumer Assistance Center assisted 47,784 consumers and recorded more than \$925,000 in monetary benefits for complainants.³

Empower Consumers with Information to Make Independent and Informed Financial Decisions

While credit unions serve the needs of their members and promote financial literacy within the communities they serve, the NCUA reinforces credit union efforts and raises consumer awareness about the importance of

saving and having a strong understanding of the concepts of financial literacy and personal finance.

In December 2018, the NCUA launched an updated version of its consumer website, [MyCreditUnion.gov](#), featuring a mobile-responsive design, enhanced search functions, and improved navigation for easy access to consumer financial protection and financial literacy topics. Although visits to the English- and Spanish-language versions of [MyCreditUnion.gov](#) increased between 2017 and 2018, they decreased by 16 percent in 2019. In 2020, the NCUA will evaluate strategies to increase digital consumer financial literacy through search engine optimization and other outreach approaches.

Expanding Access to Affordable Financial Services

Generally, federal credit unions can only grant loans and provide services to persons who have joined the credit union. The field-of-membership defines those persons and entities eligible for membership to a credit union. The table on the next page shows the number of applications to modify federal credit union fields of membership that were approved by the NCUA during the year. This will provide consumers and businesses with greater access to the national system of cooperative credit.

The NCUA issued two new federal credit union charters in 2019, to [Otoe-Missouria Federal Credit Union](#) in Red Rock, Oklahoma, and [Maine Harvest Federal Credit Union](#) in Unity, Maine.

³ This figure includes restitution by the credit union, relief from an alleged monetary obligation imposed by the credit union, and access to disputed credit or financial services products otherwise not available to the member by the credit union.

Expansion of Credit Union Eligible Members (2015–2019)

TYPE	2015	2016	2017	2018	2019
Multiple Common-Bond Expansion	8,098	9,236	9,632	9,732	7,171
Community Expansion	30	29	52	53	52
Community Charter Conversion	13	21	21	18	24
Underserved Area Expansion	30	23	20	16	43

Facilitate Access to Federally Insured Credit Union Financial Services

Small credit unions, low-income designated credit unions, and minority depository institutions (MDIs) play a critical role in providing affordable financial services to millions of Americans. Often, these credit unions are the only federally insured financial institutions in underserved communities. Yet, they face the challenges of increased competition, stagnant membership, and lagging earnings.

Small credit unions, defined as those with less than \$100 million in assets, made up 70 percent of all federally insured credit unions. These 3,641 credit unions had 11.0 million members and held more than \$95.3 billion in assets at year-end 2019.

A critical component of NCUA's efforts to support these credit unions is the low-income designation. To qualify as a low-income designated credit union, the majority of a credit union's membership must meet certain low-income thresholds based on data available from the American Community Survey done by the U.S. Census Bureau.

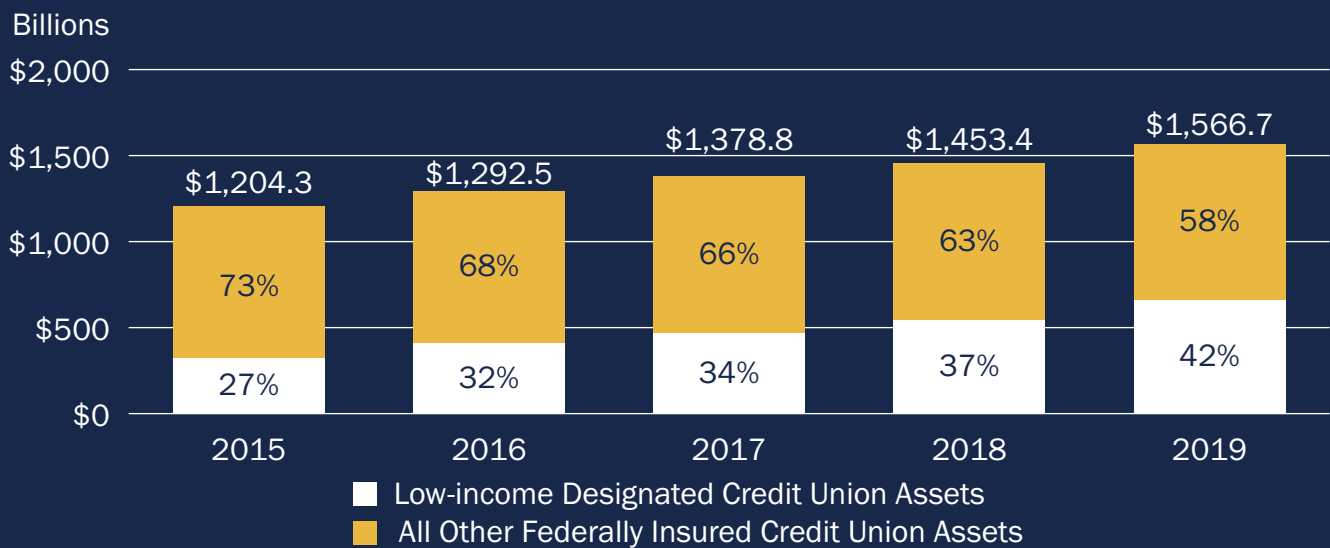
There are several benefits for credit unions that carry a low-income designation, including:

- An exemption from the statutory cap on member business lending, which expands access to capital for small businesses and helps credit unions diversify their portfolios;
- Eligibility for grants and low-interest loans from the Community Development Revolving Loan Fund;
- Ability to accept deposits from non-members;
- An authorization to obtain supplemental capital; and
- Consulting assistance.

By the end of 2019, there were 2,605 low-income credit unions, up from 2,544 at the end of 2018. This means 50 percent of all federally insured credit unions have a low-income designation. Together, low-income credit unions had 56.3 million members and \$661.6 billion in assets at the end of 2019, compared to 48.6 million members and \$542.4 billion in assets at the end of 2018.

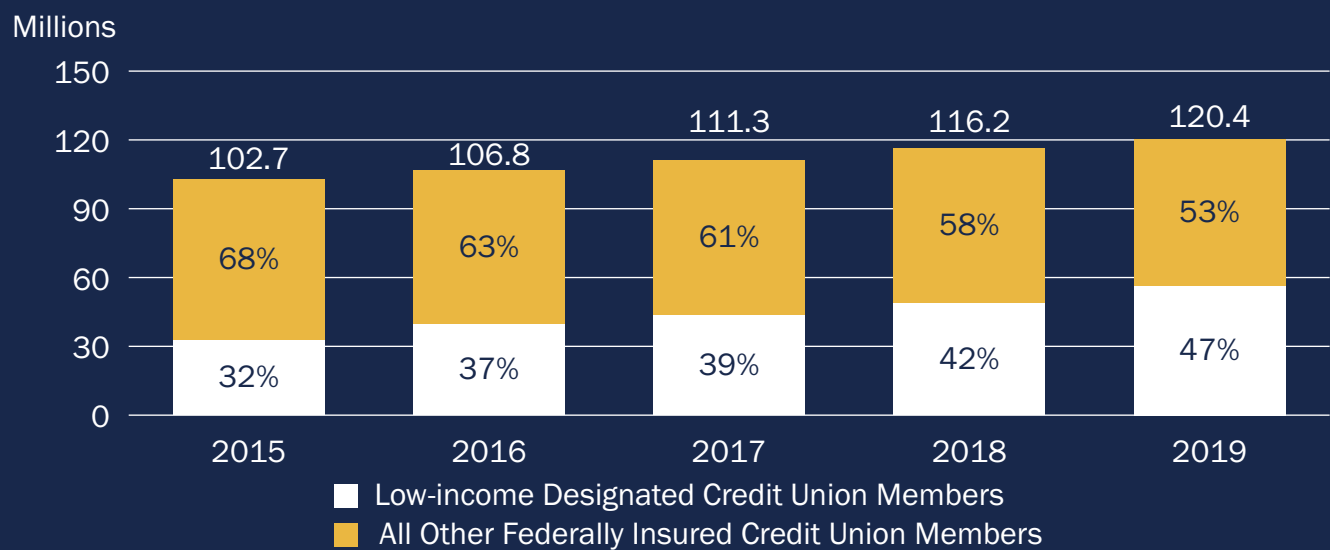
Another initiative the NCUA uses to support credit unions is its program to preserve MDIs. These credit unions play an important role in serving the financial needs of historically underserved populations such as African Americans, Hispanic Americans, Native Americans, and Asian Americans. In 2019, the NCUA created a new pilot mentoring program for small low-income credit unions

Distribution of Credit Union Assets by Income Designation (2015-2019)



Source: NCUA Call Report Data

Distribution of Credit Union Members by Income Designation (2015-2019)



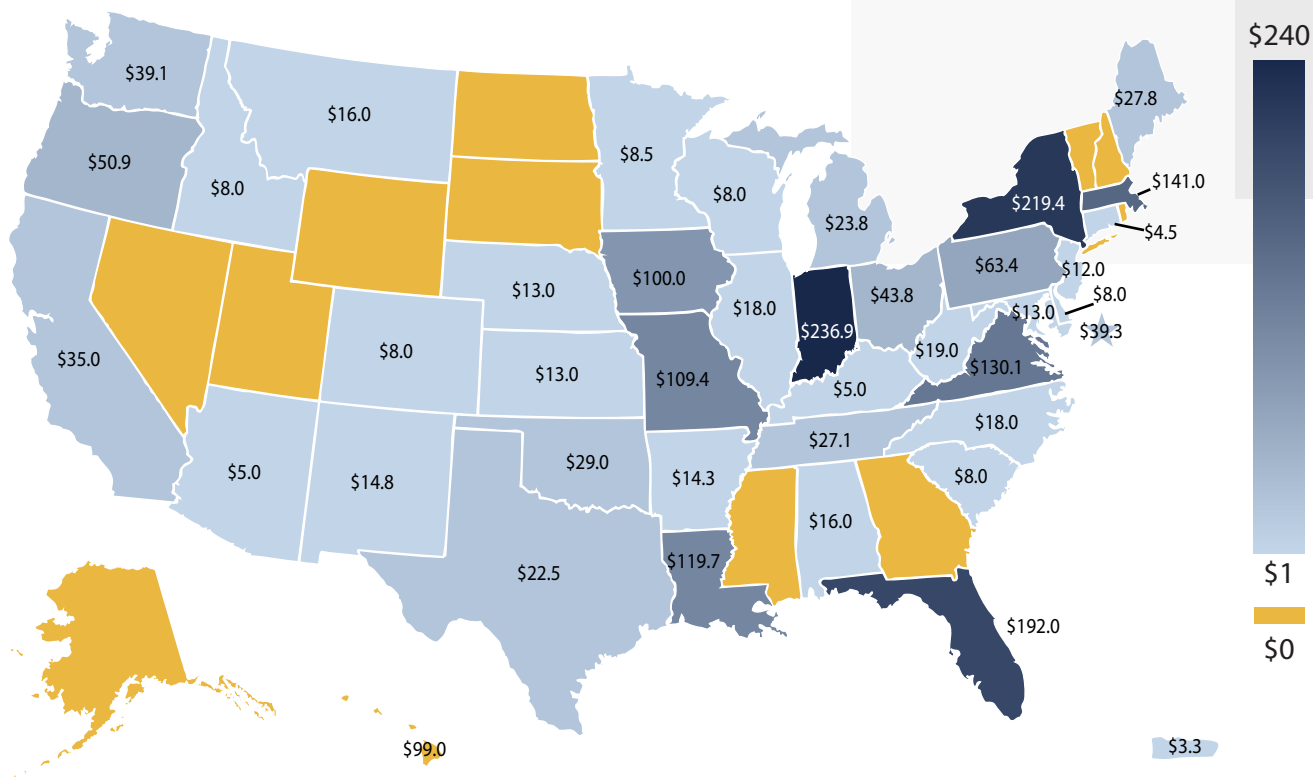
Source: NCUA Call Report Data

that are also designated as MDIs to establish relationships with larger institutions to help them grow.

The NCUA further supported these credit unions by:

- Offering technical assistance grants and training sessions;
- Facilitating mentor relationships between credit unions;
- Negotiating financial support to sustain minority depository institutions;

Map of Technical Assistance Grants Funding by Dollar Amount (in thousands)



- Delivering guidance to groups establishing new minority depository institutions; and
- Approving new charter conversions and field-of-membership expansions to facilitate new opportunities for growth, among other forms of support.

By the end of 2019, 515 federally insured credit unions had self-certified as MDIs. These credit unions served 4.0 million members, held more than \$40.5 billion in assets and represented 9.8 percent of all federally insured credit unions.

The NCUA also supports credit union growth by assisting with certifications for community development financial institutions, or CDFIs. CDFI-certified credit unions are eligible to apply for multiple funding programs offered by the U.S. Treasury, including grants and

bond guarantees. This funding can lay the foundation for greater access to affordable financial services and more investment in local communities, especially in areas with limited options. During 2019, staff helped 17 credit unions become [qualified to use the CDFI Fund’s](#) streamlined application process.

The NCUA also provides technical assistance grants and low-interest loans to support credit union growth through the Community Development Revolving Loan Fund. In 2019, the NCUA awarded more than \$2.0 million in technical assistance and urgent needs grants to 166 low-income designated credit unions. Recipients of these funds used them to increase their digital services and improve their levels of cybersecurity preparedness, engage in leadership and career development, and improve access to financial services in

underserved areas. In addition, four credit unions received \$1.0 million in low-interest loans during the year to expand product offerings to their members.

Maximize Organizational Performance to Enable Mission Success

The NCUA's most important resource is a highly qualified and skilled staff. To maximize staff contributions to the agency's mission, the NCUA's operations must be supported by efficient processes, effective tools, and leading-edge technology. Throughout 2019, the agency took a number of steps to develop its human capital and to improve its systems and processes.

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

As a financial services regulator, the NCUA requires not only employees with expertise in accounting and finance but also those who understand commercial and residential lending, consumer financial protection laws and regulations, payment systems, and cybersecurity trends and risks.

The NCUA prioritizes diversity and inclusion as a strategic business imperative. The NCUA outlined its commitment to diversity and inclusion in its [2018 - 2022 Diversity and Inclusion Strategic Plan](#). In November, the NCUA hosted its first Credit Union Diversity, Equity, and Inclusion Summit, bringing together industry leaders, regulators, and policy experts for a daylong series of workshops and conversations focused on what the credit union industry can do to better advance our commitment to a financial system that serves everyone.

Promoting diversity of backgrounds and experiences within 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 NCUA's mission and helps drive innovation and collaboration. A diverse workforce and inclusive work environment build a stronger agency.

In 2019, the NCUA increased the percentage of both women and minorities in senior staff positions. The number of women remained similar to 2018, increasing by only 0.5 percentage points (45.8 percent in 2019 compared to 45.3 percent in 2018), while minorities in the senior staff ranks increased by 6.1 percentage points (25.0 percent in 2019 compared to 18.9 percent in 2018). Overall, the participation rate for minorities in the NCUA workforce was 29.9 percent in 2019, a slight increase from the 29.7 percent participation rate reported in 2018.

Self-reported rates of NCUA employees with disabilities exceeded the federal goals in 2019 as well. The federal goal is 12.0 percent for people with disabilities and 2.0 percent with targeted disabilities. NCUA continues to exceed those goals, 12.5 percent and 3.0 percent of employees have self-reported as having a disability or targeted disability, respectively.

The NCUA has incorporated other initiatives aimed at fostering inclusion, such as the special emphasis program, a mentorship program, diversity-focused leadership panels, monthly diversity talks, and a monthly diversity newsletter. The agency has a robust

initiative to build inclusive behaviors among all employees, particularly leadership.

The NCUA also understands the importance of developing and maintaining a base of suppliers and contractors where a diverse group of businesses is well-represented. The agency's supplier diversity efforts promote the inclusion of minority- and women-owned businesses in NCUA's contracting opportunities. The chart on the next page shows NCUA's progress over the last five years.

In 2019, 43.0 percent of the agency's reportable contracting dollars were awarded to minority- and women-owned businesses, a slight decrease of 2.0 percentage points from 45.0 percent in 2018. This performance represents a strong, sustained showing for the NCUA and keeps us in the company of top

NCUA's Employee Resource Groups

To promote an inclusive work environment, which is critical to the recruitment and retention of the agency's workforce, the agency chartered Employee Resource Groups (ERGs) in 2018 and 2019. These resource groups facilitate the creation and maintenance of a work culture and environment that recognizes, appreciates, and effectively encourages the use of the talents, skills, and perspectives of all employees in the achievement of the NCUA's mission. The NCUA ERGs established in 2018 and 2019 included:



CULTURA (Creating Unity, Learning To Understand, Recognizing All) is the Hispanic employee resource group. CULTURA's goals include: fostering a diverse and inclusive workforce by developing Latino leadership; bridging the connection between field and support staff; providing professional and career development opportunities; building cultural awareness; and supporting retention of Latino employees.



NCUA PRIDE (People Recognizing Individual Differences Equally) is the agency's group supporting the LGBTQ community. The resource group is committed to providing a safe and supportive environment for members, providing LGBTQ-relevant informational resources, supporting members' career development, serving as an advocate to help the NCUA become more LGBTQ-inclusive, and supporting outreach efforts both within and outside the agency.



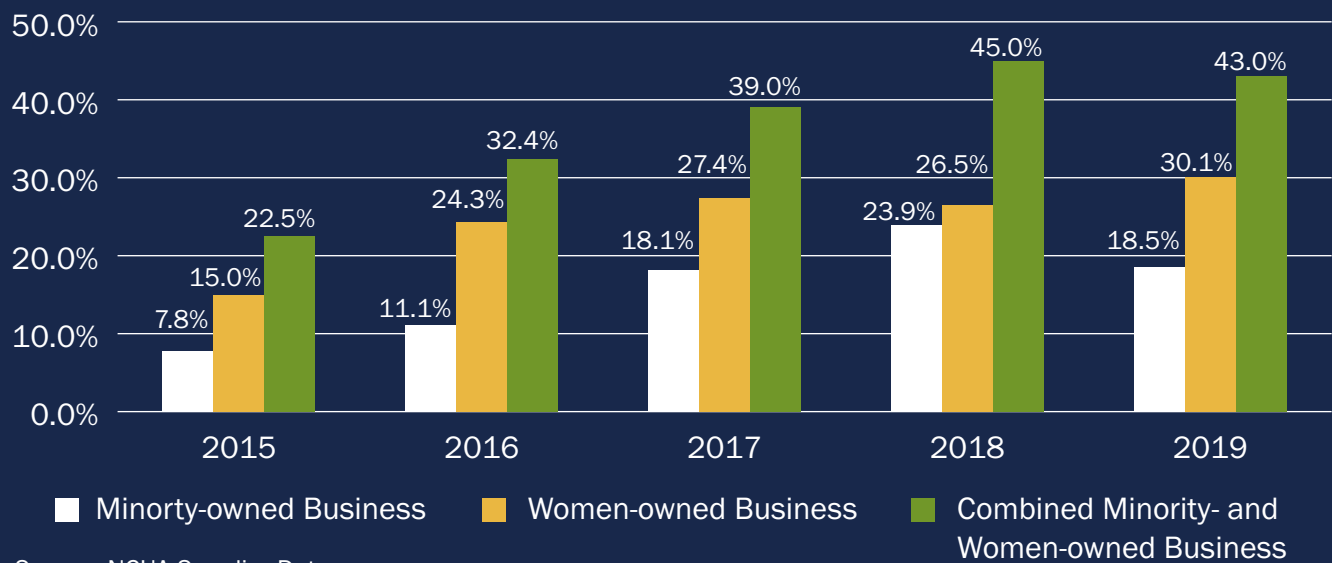
Umoja, which means "unity" in Swahili, is the Black employee resource group. Umoja's primary purpose is to be an ongoing, reliable resource to the NCUA for talent, innovation, and insight in support of the agency's goals for building and sustaining a diverse and inclusive environment in all aspects of agency business.



VANS (Veterans at NCUA Serving) is the agency's group for employees who have served in the military or those who support our nation's veterans. The group's main purpose is to foster a diverse and inclusive workforce, provide professional and career development opportunities, build cultural awareness, and support retention of veteran employees.



SWAN (Supporting Women at NCUA) is the agency's group to support and expand network, education, and outreach programs that primarily emphasize women's personal and professional development.

Supplier Diversity as a Percentage of Total Awards (2015-2019)

performers among federal financial regulatory agencies.

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

In July 2017, the NCUA's executive leadership committed to a comprehensive plan that would invest in the agency's future, make critical organizational alignment changes, and improve the NCUA's efficiency, effectiveness, and focus on its core mission responsibilities. In 2019, the NCUA completed the last phases of the realignment.

- Examination reports have been improved through enhanced quality measures.
- Two regional offices closed in January 2019.
- AMAC's staffing has been reduced and support functions have been consolidated with other agency support to take advantage of economies of scale.

The NCUA's realignment plan positions the agency to meet the ongoing changes in the industry it regulates and insures. The agency will continue to examine how best to shape its workforce to meet future needs and look for ways to streamline operating costs to create a more efficient organization.

Implementing Secure, Reliable and Innovative Technology Solutions

In 2019, the NCUA continued its efforts to modernize its technology solutions through our [Enterprise Solution Modernization Program](#) (ESM), which supports examination, data collection and reporting functions with a goal to improve key, integrated business processes. Modernizing the NCUA's technology will facilitate greater collaboration and enhance the exchange of information between credit unions, credit union service organizations, state supervisory authorities, and the NCUA. It will also allow the NCUA to more proactively manage risks to the credit union system, adapt to changes in the financial services environment, and create a

more effective, less burdensome examination process.

To better manage the complexity of the ESM Program, the NCUA established three sub-programs to modernize the NCUA's technology solutions and create an integrated examination and data environment that facilitates a safe and sound credit union system.

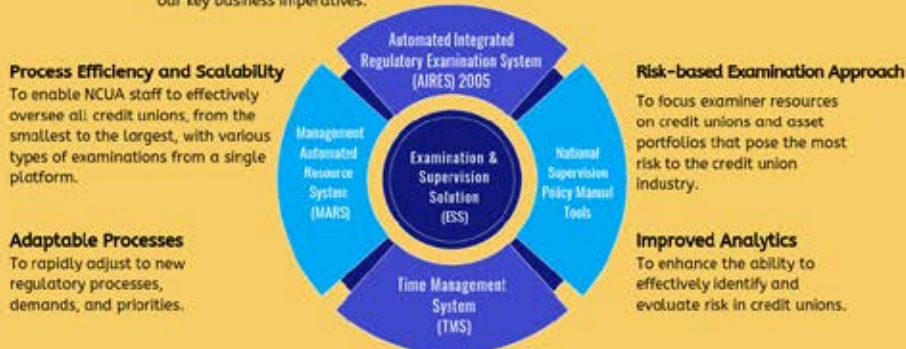
- Examination & Supervision Solution (ESS) – replace the existing legacy examination system and related supporting systems.
- Data Collection & Sharing (DCS) – define capabilities required for a common platform to securely collect and share financial and non-financial data.
- Enterprise Data Reporting Solution (DRS) – implement business intelligence tools and establish a data warehouse to enhance analytics and provide more robust data reporting.

To deploy ESS, the NCUA first acquired the necessary infrastructure to support the full modernization program. The ESS program capabilities

ENTERPRISE SOLUTION MODERNIZATION PROGRAM

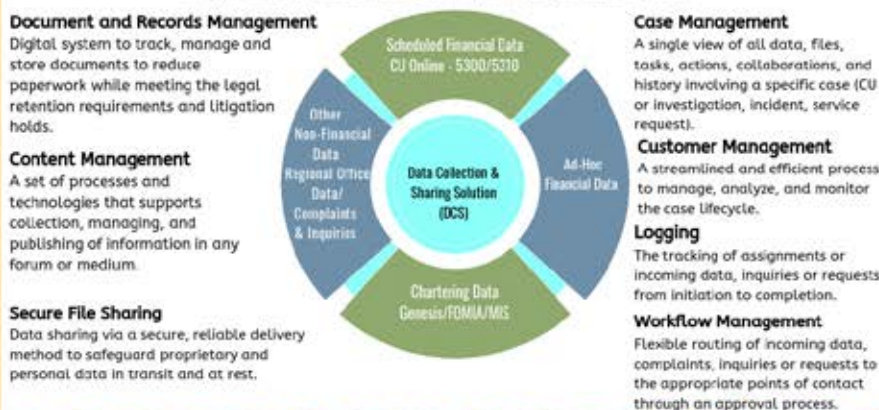
The Examination & Supervision Solution (ESS) Project:

The Examination & Supervision Solution (ESS) will replace the existing legacy examination system and related supporting systems such as AIREs, TMS, MARS, and NSPM tools. The image below reflects the four applications integrated under ESS with our key business imperatives.



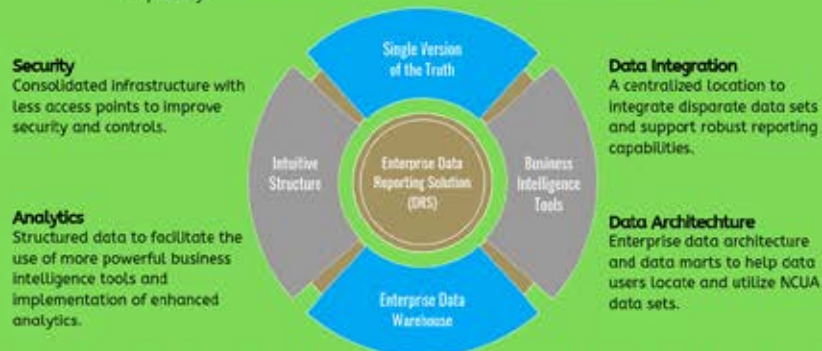
The Data Collection and Sharing Solution (DCS) Project

The Data Collection and Sharing Solution (DCS) project will define capabilities required for a common platform to securely collect and share financial and non-financial data. The image below reflects the legacy systems that are part of the DCS solution project along with the capabilities we are seeking in meeting the needs of NCUA.



The Enterprise Data Reporting Solution (DRS)

The Enterprise Data Reporting Solution (DRS) will evaluate and implement business intelligence tools and establish a data warehouse to enhance analytics and to improve data reporting. The image below reflects enhanced functionality and analytic capabilities the NCUA will realize by transitioning to an Enterprise Central Data Repository.



have been deployed in part in 2019 and will be rolled out nationwide in 2020. The new examination solution, which is named the Modern Examination and Risk Identification Tool (MERIT), was released to the Office of National Examinations and Supervision in September 2019, while the release to the remaining regional staff is scheduled for the summer of 2020.

Though not originally included as part of the initial ESM plan, the agency has incorporated a robust business intelligence solution into the MERIT deployment, which advances the agency's analytic capabilities during this phase. The need for better analytics is central to the strategy to shift more exam work offsite. In addition to better data analytics, MERIT provides numerous improvements over the legacy AIREX examination system, including:

- Better controlled access to examination data across the organization;
- Faster and well-organized ability to request and submit items for the examination;
- Collaboration and real-time information for examiners, team members, and supervisors, including state supervisory authorities on joint exams;
- Opportunities for credit union users to manage examination findings and view completed examination reports; and
- Business process improvements to achieve exam efficiencies, including less data redundancy, and relational support between scope tasks, questionnaires, and findings.

Ensure Sound Corporate Governance

Sound corporate governance requires integrity in financial management and appropriate stewardship of the fees paid by the credit union system to finance the NCUA's operations. It also implements efficient and effective business processes to accomplish the agency's mission and to achieve its strategic goals. The NCUA works to maximize the use of its resources by continually improving its operations and strengthening its internal controls.

A foundation of sound corporate governance is the awareness of risks and the appropriate planning and investment to address those challenges or opportunities. The NCUA employs an enterprise risk management (ERM) program to inform executive leadership of various factors 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.

The NCUA's budget formulation starts with a review of the agency's goals and objectives set forth in the strategic plan with the actions planned to address risks identified through the ERM program. The strategic plan is a framework that sets the agency's direction and guides resource requests. The ERM process helps senior executives identify priority investments necessary to ensure strategic goals and objectives are met. Budget submissions from individual

offices are structured to align resources and the workforce to the agency's priorities and initiatives. In 2019, the budget included investments to strengthen agency process management and internal controls, improve tools and facilities for the NCUA staff, and acquire technological enhancements, including new systems to improve operational effectiveness and efficiency.

Given the agency's unique financing authorities, the NCUA Board considers both the resources required for the agency to achieve its goals and the impact that these expenditures will have on the credit union system that pays for the agency's operations. The Board balances the needs for robust and effective supervision and insurance operations with the responsibility to be good stewards of fees collected from the credit union system and ultimately paid by credit union members.

As required by law, the NCUA has made draft budgets available for public comment

in the [Federal Register](#) and on the NCUA's [website](#) to solicit public comments before presenting final budget recommendations for the Board's approval. The NCUA is the only Financial Institutions Reform, Recovery, and Enforcement Act agency that publishes such a detailed draft budget and solicits public comments at a meeting with its Board or other agency leadership.

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. The Office of the Chief Financial Officer partners with leadership across the agency to improve the quality of controls and encourages risk self-identification and resolution when improvement opportunities are identified. This enterprise-focused approach to internal controls ensures that all offices within the NCUA are responsible for ensuring sound management practices.

Looking Forward

The economic environment is a key contributor to credit union performance. In addition to the risks associated with movement in the general economy, the NCUA and credit unions need to understand and adapt to technological and structural changes facing the credit union system. The following areas of concern will continue to shape the environment facing credit unions and will determine the resource needs of the NCUA.

Growing Cyber Threats

Credit unions' increasing use of technology exposes the credit union system to increasing cyber-attacks. Malware, ransomware, distributed denial of service 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 Council 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. As financial institutions increasingly adopt new technologies like cloud computing and artificial intelligence, the 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 will pilot new examination procedures in 2020, largely based on the Information Technology Risk Examination with an emphasis on critical security controls. Additionally, the NCUA is continuing to execute the first of two four-year cycles of the Automated Cybersecurity Examination Toolbox 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.

The NCUA will continue to work with the other federal financial institutions regulators to develop and issue updated guidance and information on emerging cyber threats and how best to address them.

Technology-driven Changes to the Financial Landscape

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 new products pose a competitive challenge to credit unions and banks alike. Credit unions also face a range of challenges from financial technology or fintech companies in lending and the provision of other services. For example, underwriting and lending may be automated at a cost below levels associated with more traditional financial institutions, but may not be subject to the same regulations and safeguards that credit unions and other traditional financial institutions face. The emergence and increasing importance of

digital currencies may pose both risks and opportunities for credit unions. As these institutions and products gain popularity, credit unions may have to be more active in marketing their products and services and rethink their business models. In 2019, the NCUA's Fintech Working Group looked at ways federally insured credit unions can adopt and embrace fintech so they can effectively compete in the changing financial services industry. Finally, the NCUA will continue to promote technical assistance programs that low-income credit unions can use to support the acquisition and development of fintech-related digital services.

Technological changes outside the financial sector may also lead to changes in consumer behavior that indirectly affect credit unions. For example, the increase in use of on-demand 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 potential slowdown or reduction in the demand for vehicle loans, which comprised slightly more than a third of the credit union system's loan portfolio at the end of 2019.

Managing Interest Rate Risk and Liquidity Risk

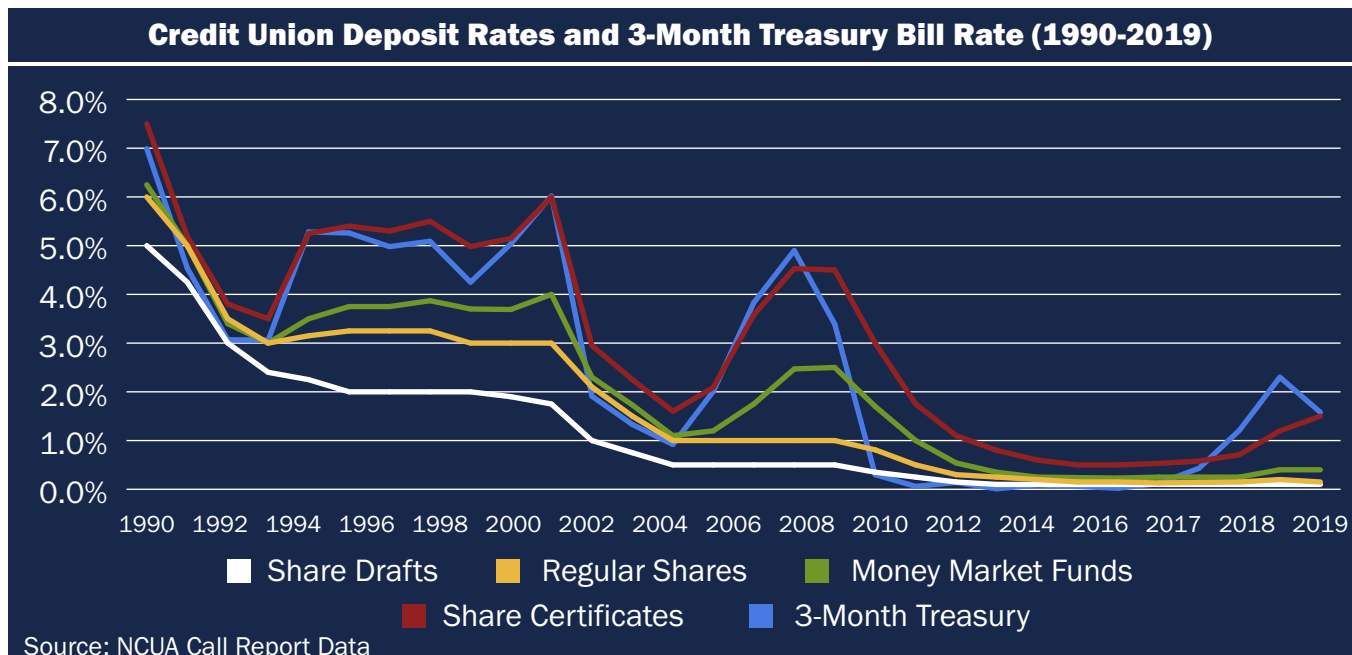
The NCUA and credit unions will need to continue to manage and mitigate the potential for interest rate risk in 2020. Absent an external shock, forecasts for the next two years suggest the economy will remain relatively strong but grow at a slower pace as the effects of the fiscal stimulus that boosted growth in 2018 disappear. Labor markets will remain tight; employment will continue to rise and the unemployment rate – which

is already below the level associated with full employment – will remain near five-decade lows. Inflation is expected to stabilize near the Federal Open Market Committee’s (FOMC) 2-percent target. The FOMC has lowered the federal funds target rate by 75 basis points since July 2019. Its most recent forecast, released in December, suggests it could leave the federal funds rate unchanged from its current range of 1.50 percent to 1.75 percent through the end of this year. Analysts are expecting the federal funds target rate and other short-term interest rates, which largely determine the interest payments credit unions make, to hold steady near their current levels through the end of 2021. Longer-term rates, which largely determine the interest payments credit unions receive, are expected to edge higher in over the next two years, as last year’s flight to safety reverses.

If realized, the interest rate environment expected by forecasters is largely positive for credit unions, implying little pressure on deposit rates but the possibility of higher loan

rates and thus wider net interest margins going forward. If the economy performs better than expected, short-term interest rates could move higher. In a rising interest rate environment, credit unions may face pressure to raise their deposit rates to retain shares, as regular and money market shares are the most sensitive to interest rate changes. Members may reallocate their savings to higher-yielding products within the credit union, or transfer their money to competitors offering higher rates. The increased prevalence of web-based and mobile banking options available to consumers may reduce the transition costs they face when changing accounts and make them more likely to move their funds, even if rates at other institutions are only slightly higher.

However, slower-than-expected economic growth could keep interest rates down or cause them to fall. A continuation of the low interest rate environment also presents risks to credit unions. Credit unions that rely primarily on investment income may find



their net income remaining low or falling. In addition, credit unions could resume their “reach for yield” by adding long-term and higher-risk assets to their portfolio. Finally, the sluggish economy that would likely be associated with continued low interest rates could raise credit risk for almost all types of private instruments. Credit union managers will need to take appropriate actions to ensure their balance sheets remain stable in a variety of interest rate environments.

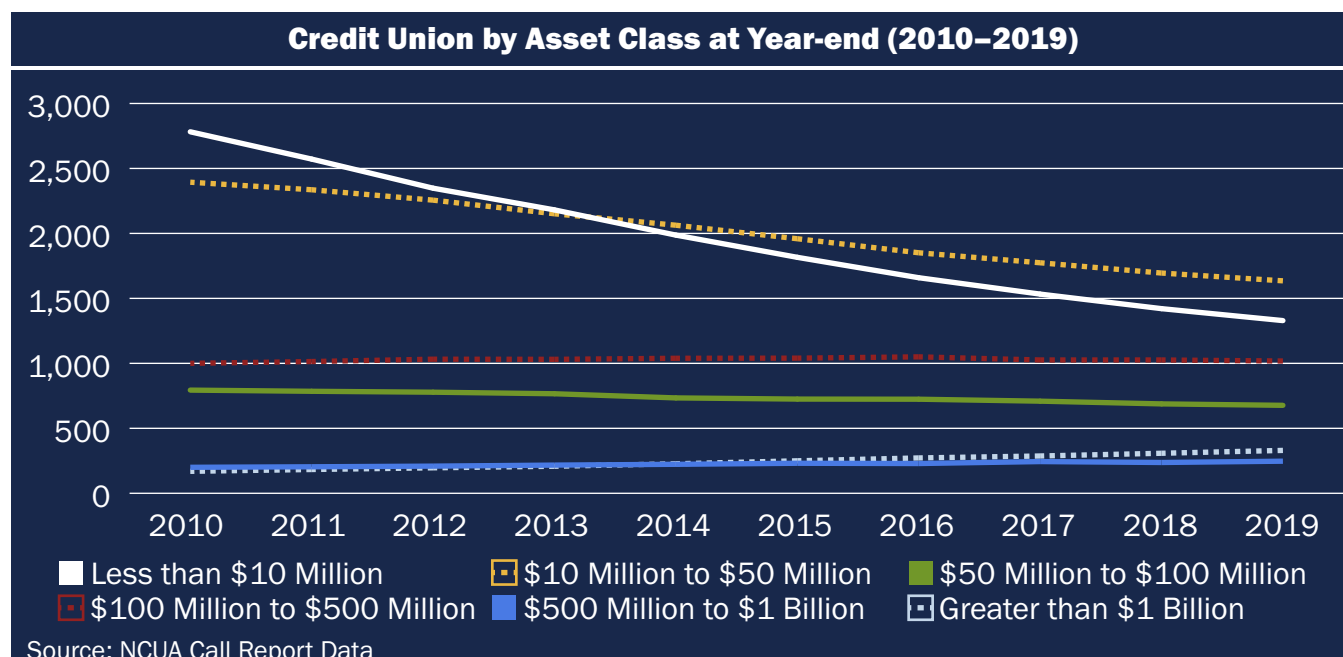
Membership Trends

While overall credit union membership continues to grow strongly, almost half of federally insured credit unions had fewer members at the end of the fourth 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.

The NCUA seeks to promote financial inclusion to better serve a changing population and economy. The Office of Credit Union Resources and Expansion provides an array of technical assistance to credit unions, including chartering and field-of-membership expansions, grants and loans training, and the preservation program for minority credit unions. 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.

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. By the end of 2019, there were 577 federally insured credit unions with assets of at least \$500 million, 28 percent more than five years earlier. These 577 credit unions accounted for 74 percent of credit union members and 79 percent of credit union assets. Large credit unions tend to offer more complex products and services and make more complex 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.

Providing Regulatory Relief

The NCUA established a Regulatory Reform Task Force in March 2017 to oversee implementation of the agency's regulatory reform agenda. In 2018, the NCUA's Regulatory Reform Task Force released its second and final report providing an updated blueprint for the agency's regulatory agenda. This document outlines the agency's blueprint for future regulatory reform, establishes potential priorities for future action by the Board and develops a mechanism for the public to view our progress in meeting these goals. In 2019, the agency made progress advancing its regulatory reform agenda by issuing final rules implementing recommendations made by the task force. In 2020, the agency will continue to initiate implementation of regulatory amendments and conduct three-year rolling reviews of its regulations. NCUA will post [progress reports](#)

on its reform efforts on NCUA.gov every six months.

Enhancing the Examination Program

Strengthening the agency's data security and IT system safeguards and controls to address emerging threats will continue in 2020 and beyond. In 2019, the NCUA continued to implement future-facing technology solutions for the NCUA's workforce and business processes. An integral part of these efforts is identifying how quality processes and systems can drive greater efficiency. In 2020, the NCUA will:

- Deploy the agency's MERIT system, replacing the outdated AIRES system and integrating business intelligence tools into the supervision function. This system is a critical and primary information source for documenting the industry's safety and soundness.
- Implement the new Enterprise Data Program to enhance how the agency governs and reports on its data.

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 will continue to evaluate in 2020 are the alternating examination pilot program and a virtual examination program. 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. As part of the virtual examination program, the agency is researching methods to conduct

offsite as many aspects of the examination and supervision processes as possible. The virtual exam project team is exploring ways to harness new and emerging data, advancements in analytical techniques, innovative technology, and improvements in supervisory approaches.

Additionally, the NCUA continues to evaluate the addition of an "S" rating for sensitivity into its CAMEL rating system. Presently, the NCUA assesses interest rate risk as part of the liquidity rating as described in the Year in Review section of this report.

Building the Workforce to Supervise an Evolving Credit Union Environment

Like many agencies in the federal government, the NCUA's workforce is changing and evolving. The NCUA needs more than just examiners; it increasingly needs cybersecurity specialists and experts in capital markets, commercial lending, consumer financial protection, and payment systems. The agency has a large percentage of employees who have reached, or will soon reach, retirement age, including many in senior levels of management. Finding appropriate successors who can lead the agency and employees

who have the requisite skills and expertise is essential to ensuring that the NCUA can continue to achieve its mission effectively.

The NCUA established a Chief Human Capital Officer position to oversee the agency's human capital and workforce management and the agency will continue to make critical investments in its human capital. This includes providing the agency's workforce with new training, developing and mentoring the next generation of agency leaders, and continuing to foster a diverse and inclusive environment. To supervise federally insured credit unions properly, all staff must receive the training necessary to develop their skills and abilities for identifying and mitigating risk. In 2020, the NCUA plans to procure a new learning management system to better enable access to on-demand training for all employees. 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. The agency is also focused on developing and executing training to support the implementation of MERIT and the new NCUA multi-year leadership development strategy.

Performance Highlights

The performance information contained in this report is organized around the strategic goals and objectives identified in NCUA's [2018–2022 Strategic Plan](#). The strategic plan outlines our efforts to provide, through regulation and supervision, a safe and sound credit union system, which promotes confidence in the national system of cooperative credit. The strategic goals and objectives outlined below serve as the foundation for all of the agency's operations.

Managing Performance

The NCUA's strategic plan is the foundation of the agency's performance management process. The strategic plan defines our mission, long-term goals, planned strategies, and the approaches the NCUA will use to monitor its progress addressing the challenges and opportunities related to our mission.

The annual performance plan functions as the agency's operational plan. It outlines our annual or short-term objectives, strategies, and corresponding performance goals that contribute to the accomplishment of our established strategic goals.

The NCUA's three strategic goals are supported by eight strategic objectives. These objectives contribute to the broader impact described for each strategic goal and indicate how the strategic goal will be achieved. Accomplishment of these objectives is assessed by 21 performance goals, which are measurable outcomes of what the NCUA plans to achieve within the performance year. The performance goals include one or

more specific indicators that demonstrate quantitative performance targets or results to be achieved within a specific timeframe.

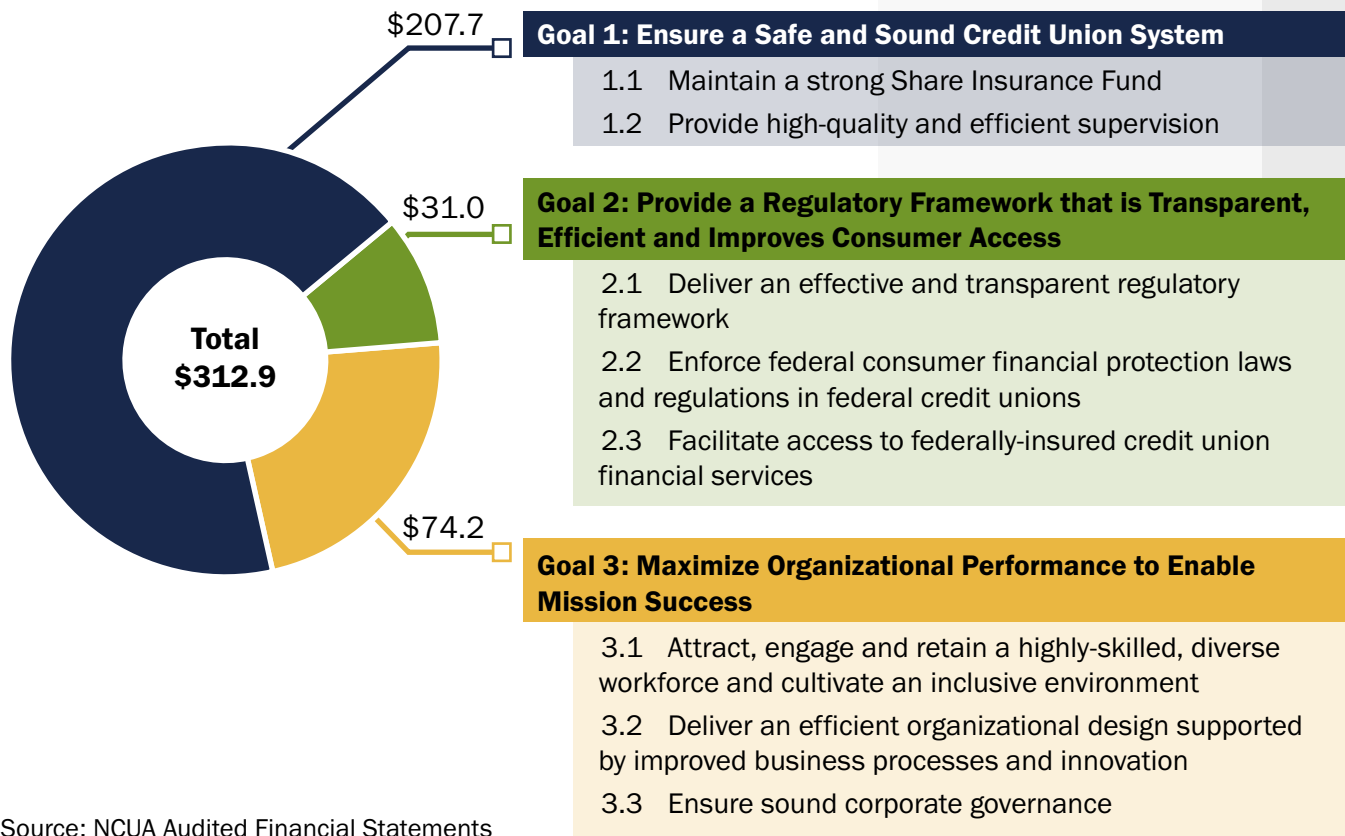
The agency routinely measures and reports its progress in meeting its performance goals. During 2019, senior executives submitted quarterly data on the progress made toward achieving the performance measures and targets for which they were accountable. The data was reviewed and analyzed throughout the year to monitor the agency's progress toward accomplishing its planned outcomes. These results are the basis for the performance information presented in this report.

Resource Allocation by Strategic Goal

The NCUA is working to create a stronger link between resources and performance. As part of the agency's continued efforts to strengthen our planning and budgetary processes, the development of the agency's annual performance plan and budget occurs simultaneously. This link helps the NCUA focus on accomplishing its priorities within the context of assessing the costs and benefits of doing so. The performance goals outlined in the strategic plan provide a framework for the development of both the budget request and the annual performance indicators and targets.

The NCUA's costs for 2019 totaled \$312.9 million. The agency allocated the majority of this cost, \$207.7 million, for Strategic Goal 1-related programs, followed by \$74.2 million for Strategic Goal 3-related programs. These goals are largely comprised of our supervision

The NCUA's 2019 Strategic Goals with Resource Allocation (in millions)



Source: NCUA Audited Financial Statements

and examination programs and talent management and information technology programs, respectively.

Remaining costs were \$31.0 million for Strategic Goal 2-related programs. The NCUA proportionally allocated general and administrative costs across all three strategic goals.

The majority of the NCUA’s workforce in 2019 was allocated to Strategic Goal 1, followed by Strategic Goal 3. At the end of 2019, the NCUA had 1,129 employees on board.

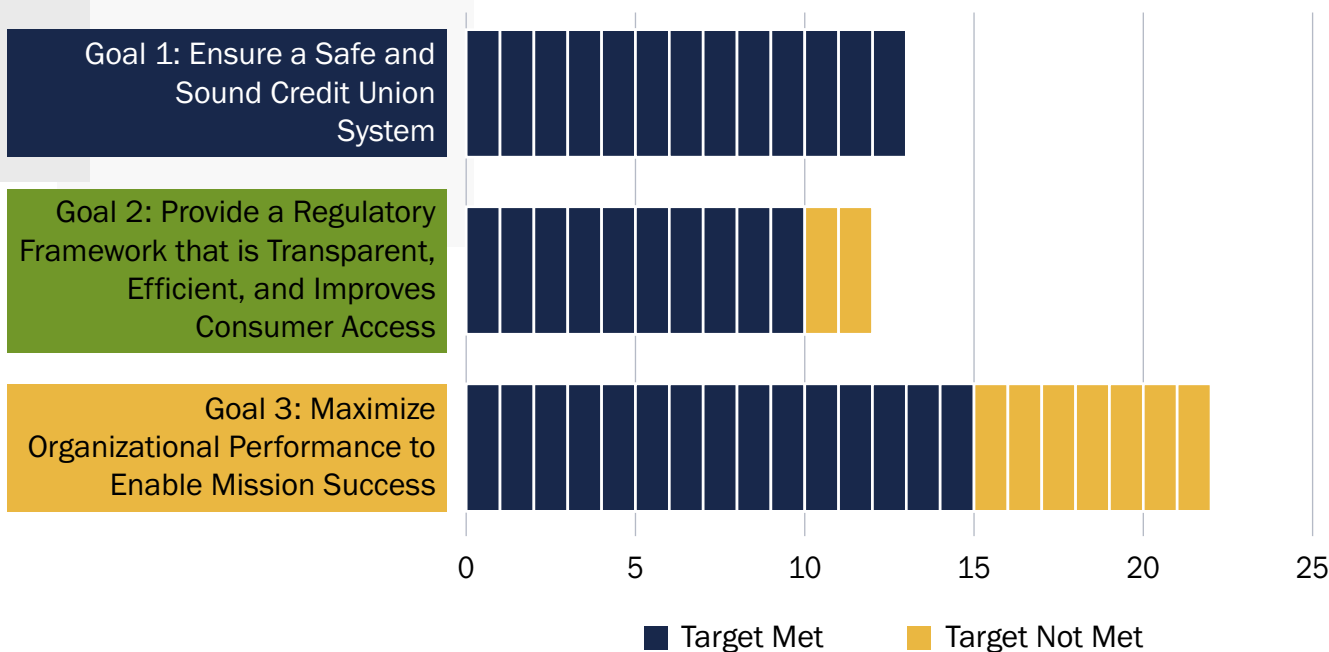
Performance at a Glance

The NCUA identified 47 measures to help evaluate and assess 2019 progress

towards the goals stated in the *2018–2022 Strategic Plan*. The agency made steady progress against the goals it set during the year, meeting or exceeding the target for 38 performance measures.

The NCUA’s overall performance in 2019 is summarized in the following chart. The performance measures are grouped below by strategic goals. The [Performance Results](#) section of this report includes a complete discussion of the agency’s progress toward meeting these goals and objectives and discusses causes of variance or changes in trends for each performance indicator.

2019 Performance by Strategic Goal



Source: NCUA Performance Data

Summary Results of Agency Priority Goals

The NCUA’s agency priority goals are its highest-priority performance goals. In 2019, the agency focused on three agency priority

goals; each supporting one of the strategic goals. The following charts and tables show the priority goals, their associated measures, and whether performance targets were met or not in 2019.

Target Met	NCUA is implementing its plans to achieve the strategic objective. Strategies and activities have been executed on or ahead of schedule, and the target outcome was achieved.	✓
Target Not Met	Current strategies have not had the intended impact, and an increased focus is needed by the agency to improve performance on the strategic objective. Some strategies and activities may have been executed, but more progress is needed to advance the strategic objective.	✗

Strategic Goal 1: Ensure 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. 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 more than \$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 in 2017, as prescribed by the Federal Credit Union Act, and the current 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. The NCUA continues to 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.

To maintain a strong Share Insurance Fund, the NCUA also 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 emerging risks that may affect the entire credit union system. Active risk management, early detection of problems, and timely resolution is critical to preserving the system.

In 2019, the agency used three performance indicators to gauge its efforts to fully and efficiently execute the requirements of the agency’s examination and supervision program:

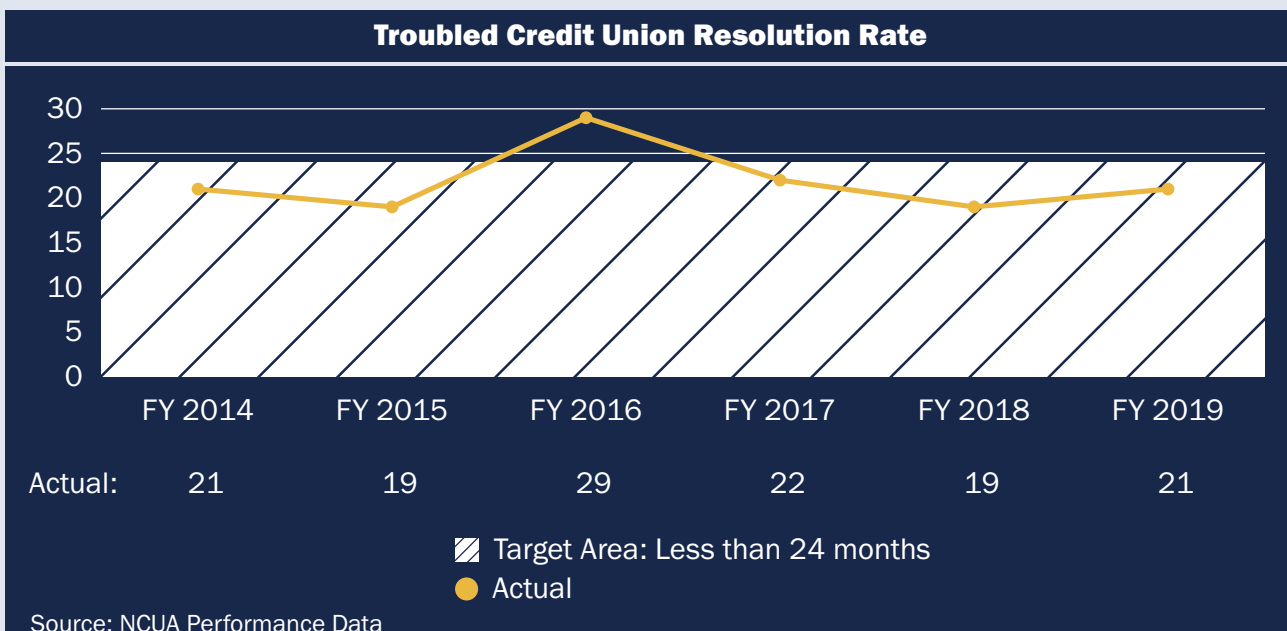
Performance Indicators	2014	2015	2016	2017	2018	2019 Target	2019 Result	Status
1.1.1 Fully and efficiently execute the requirements of the agency’s examination and supervision program—Agency Priority Goal								
Resolve troubled credit unions within an average of 24 months of initial downgrade	21	19	29	22	19	24	21	✓
Maintain the corporate credit union leverage ratio above five percent ¹	7.7%	7.6%	5.6%	7.1%	8.8%	> 5%	8.3%	✓
At least 98.0 percent of the total number of credit unions are well capitalized according to prompt corrective action	97.6%	97.9%	97.8%	97.7%	98.6%	98.0%	98.5%	✓

1 Definitions for the terms “Corporate Credit Union” and “Leverage Ratio” can be found [here](#).

Discussion. 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:

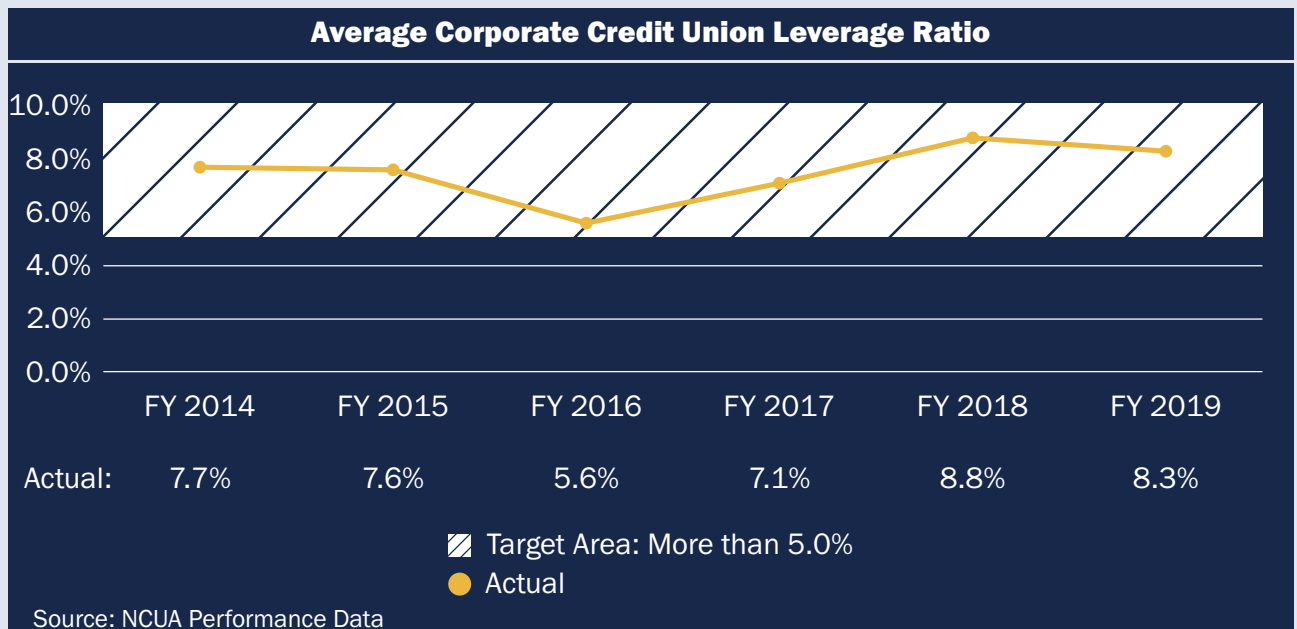
- Identify and mitigate current and emerging risks
- Ensure credit unions are in compliance with applicable laws and regulations
- Initiate appropriate corrective actions supported by a sufficiently detailed administrative record
- Facilitate timely resolution of supervisory concerns

A program priority includes identifying and resolving risk concerns through examinations and regulatory enforcement including providing guidance through various publications, taking administrative actions, and conserving or liquidating severely troubled institutions as necessary to manage risk. In 2019, the NCUA resolved troubled credit unions within an average of 21 months of an initial CAMEL composite downgrade, a decline of two months compared to 2018 results. Credit unions with a troubled condition generally means those with a CAMEL composite rating of a 4 or 5 or a credit union that has been granted assistance under section 208 of the Federal Credit Union Act that remains outstanding.

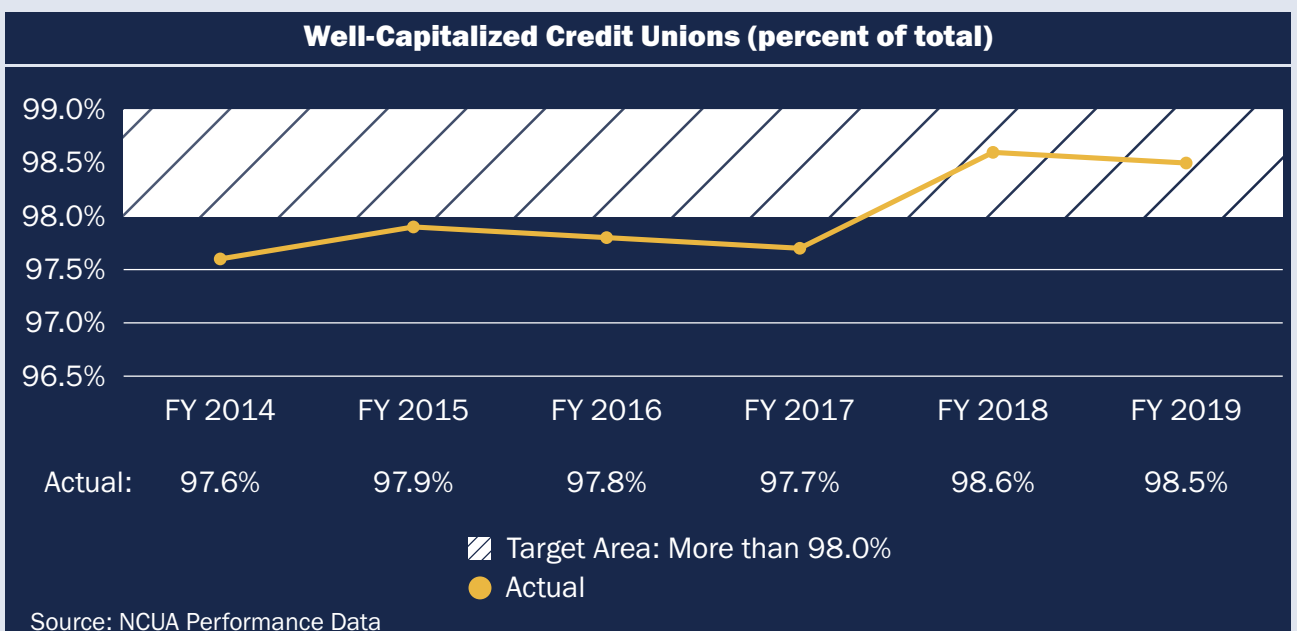


Discussion. The NCUA expects credit unions to maintain capital commensurate with the nature and extent of risk to the institution and the ability of management to identify, measure, monitor, and control these risks. Adequate capital levels ensure credit unions can continue to serve their members during an economic downturn and prevent or mitigate losses to the Share Insurance Fund.

The average corporate credit union leverage ratio decreased 0.5 percentage points from 8.8 percent in 2018 to 8.3 percent in 2019. All corporate credit union leverage ratios exceeded the four percent minimum requirement.



Discussion. As of December 31, 2019, 98.5 percent of credit unions were well-capitalized as defined in NCUA’s Rules and Regulations. A credit union is well-capitalized if it has a net worth ratio of 7 percent or greater and meets any applicable risk-based net worth requirements.



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

Strategic Objective 2.1 – Deliver an effective and transparent regulatory framework

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

The NCUA improves the effectiveness and transparency of its regulations by increasing communications with credit unions and examiners to ensure greater understanding and fair application of these regulations. New or revised rules and regulations are generally issued for a minimum of 30 days for public comment, with most issued for 60 days of public comment. The NCUA evaluates and considers comments received from stakeholders to understand the impact regulations may have on credit union operations. In 2019, the agency used two performance indicators to gauge its efforts for this priority goal:

Performance Indicators	2014	2015	2016	2017	2018	2019 Target	2019 Result	Status
2.1.1 Promulgate efficient, targeted regulation tailored to offer meaningful relief without undermining safety and soundness –Agency Priority Goal								
Initiate implementation of all remaining Tier 1 amendments recommended by the Regulatory Reform Task Force	–	–	–	–	Tier 1 Amendments Began	Achieve	Achieved	✓
Review one third of all regulations, annually	–	–	Achieved	Achieved	–	Achieve	Achieved	✓

Discussion. The NCUA’s Regulatory Reform Task Force released its second and [final report](#) in 2018, providing an updated blueprint for the agency’s regulatory agenda. The report outlines updated recommendations and prioritizations for the amendment or repeal of regulatory requirements the Task Force believes

are outdated, ineffective, or excessively burdensome.

All 24 Tier 1 Amendments have been initiated or completed. In 2019, the agency advanced its regulatory reform agenda by issuing final rules implementing recommendations made by the Task Force, including final rules addressing supervisory

committee audits and verifications and payday alternative loans. The agency also issued proposed regulations and advanced notices of proposed rulemaking as part of its reform agenda, including proposals addressing compensation in connection with loans to members and real estate appraisals. Two Tier 1 Amendments were

deemed worthy of further evaluation prior to issuance of any proposed rulemaking.

In 2019, the NCUA also returned to its former practice of conducting three-year rolling reviews of its regulations. The NCUA is preparing a report on its findings for delivery to NCUA leadership in 2020.

Strategic Goal 3: Maximize Organizational Performance to Enable Mission Success

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 through the agency’s capital budget and staff to provide the analytical tools and technology the workforce needs to achieve the NCUA’s mission.

In 2019, the agency used two performance indicators to gauge its efforts for this priority goal:

Performance Indicators	2014	2015	2016	2017	2018	2019 Target	2019 Result	Status
3.2.3 Implement secure, reliable and innovative technology solutions –Agency Priority Goal								
Conduct ONES examinations and supervision contacts for all federal credit unions with assets greater than \$10 billion and joint exams with state regulators in federally insured, state-chartered credit unions with assets greater than \$10 billion in Washington and North Carolina, using the Modern Examination and Risk Identification Tool, commencing October 7, 2019	–	–	–	–	–	100%	100%	✓
Complete the replacement of end-of-life telephone system with scalable, integrated voice over internet protocol system	–	–	–	–	–	Fourth Quarter 2019	Delayed	✗

Discussion. The NCUA's Office of Business Innovation (OBI) and Office of the Chief Information Officer (OCIO) partner to implement future-facing technology solutions for the agency's workforce and business processes. An integral part of OBI's efforts is identifying how quality processes and systems can drive efficiency at the NCUA. OBI and OCIO have been working to modernize the agency's examination platform. This modernization provides a series of improvements to streamline the examination process for credit unions and examiners. The Modern Examination and Risk Identification Tool (MERIT) replaces the Automated Integrated Regulatory Examination System (AIRES), the legacy examination program that is more than 20 years old. A few of the improvements include:

- Secure file transfer within the context of an examination;
- Ability for credit unions to provide status updates and request due date changes on examination findings; and

- Online, secure access to completed examination reports.

MERIT was released to NCUA examiners in the agency's Office of National Examinations and Supervision and to select state regulators in the fourth quarter of 2019. Broader use of MERIT will begin in mid-to-late 2020.

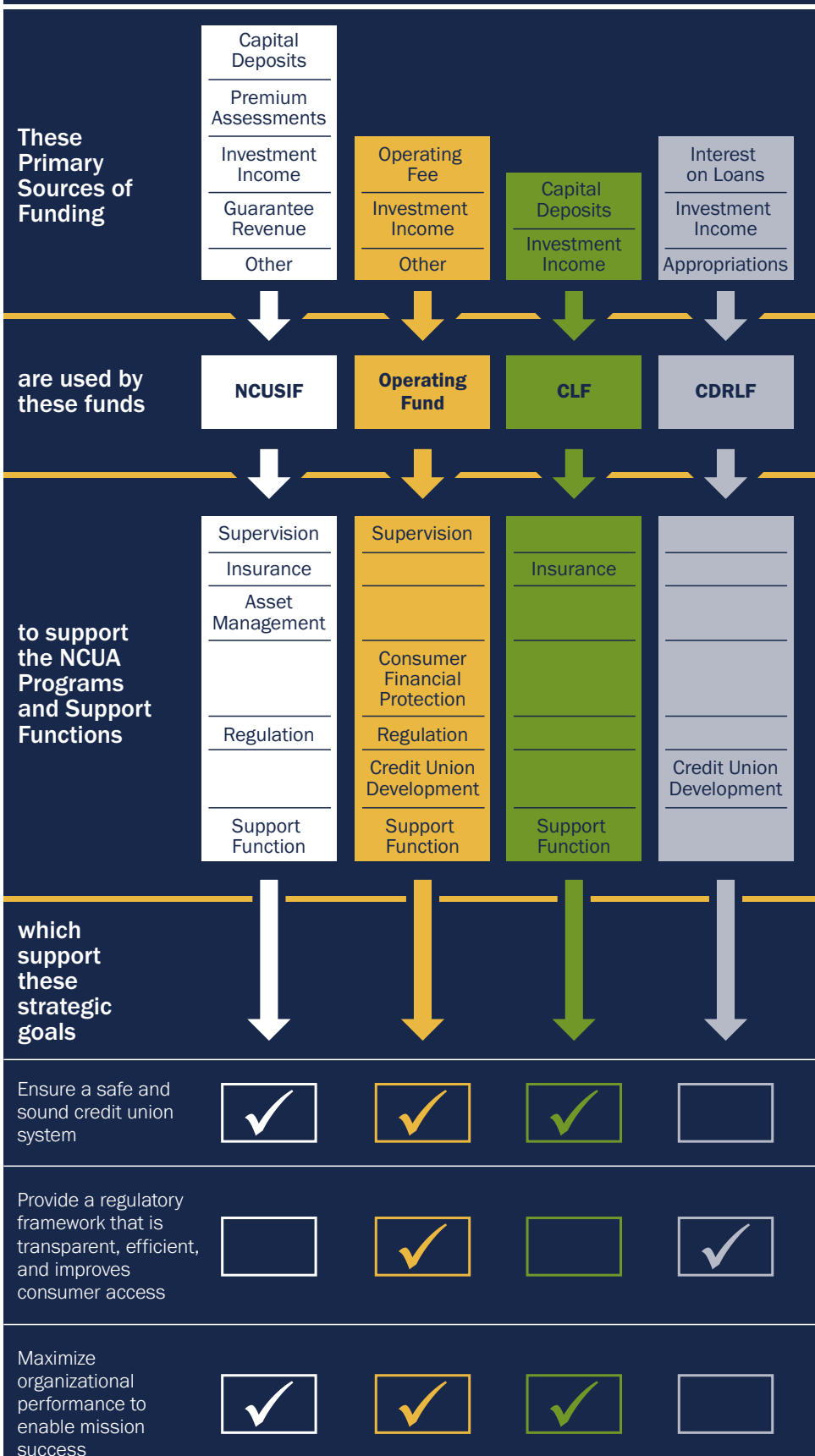
In addition to its partnership with OBI, OCIO provides secure, innovative information technology services and solutions to the entire NCUA enterprise. The continued and growing reliance of the NCUA and the credit union system on technology makes OCIO critical for ensuring organizational effectiveness, creating business efficiencies, and supporting mission success. With a variety of high priority initiatives in process, the replacement of the agency's end-of-life telephone system with scalable, integrated voice over internet protocol system was postponed. Project execution is scheduled to begin in 2020. After an initial vendor/product solicitation, OCIO will conduct technical assessments and complete implementation.

Financial Highlights

The NCUA Board manages four funds: the National Credit Union Share Insurance Fund (NCUSIF), the Operating Fund, the Central Liquidity Facility (CLF), and the Community Development Revolving Loan Fund (CDRLF). Each fund is integral to the performance of the NCUA's mission to provide a safe and sound credit union system. The Operating Fund supports the other three funds by providing office space, information technology services, and supplies as well as paying employee salaries and benefits. The NCUSIF and the CLF reimburse the Operating Fund for certain administrative support while support for the CDRLF is not reimbursed.

As a federal financial institutions regulator, the NCUA is committed to transparency, accountability, and effective stewardship. As a demonstration of this commitment, the NCUA once again received unmodified or "clean" audit opinions by an independent auditor on its financial statements for each

NCUA Resources and How They are Used



of these funds for the years ending December 31, 2019 and 2018.¹

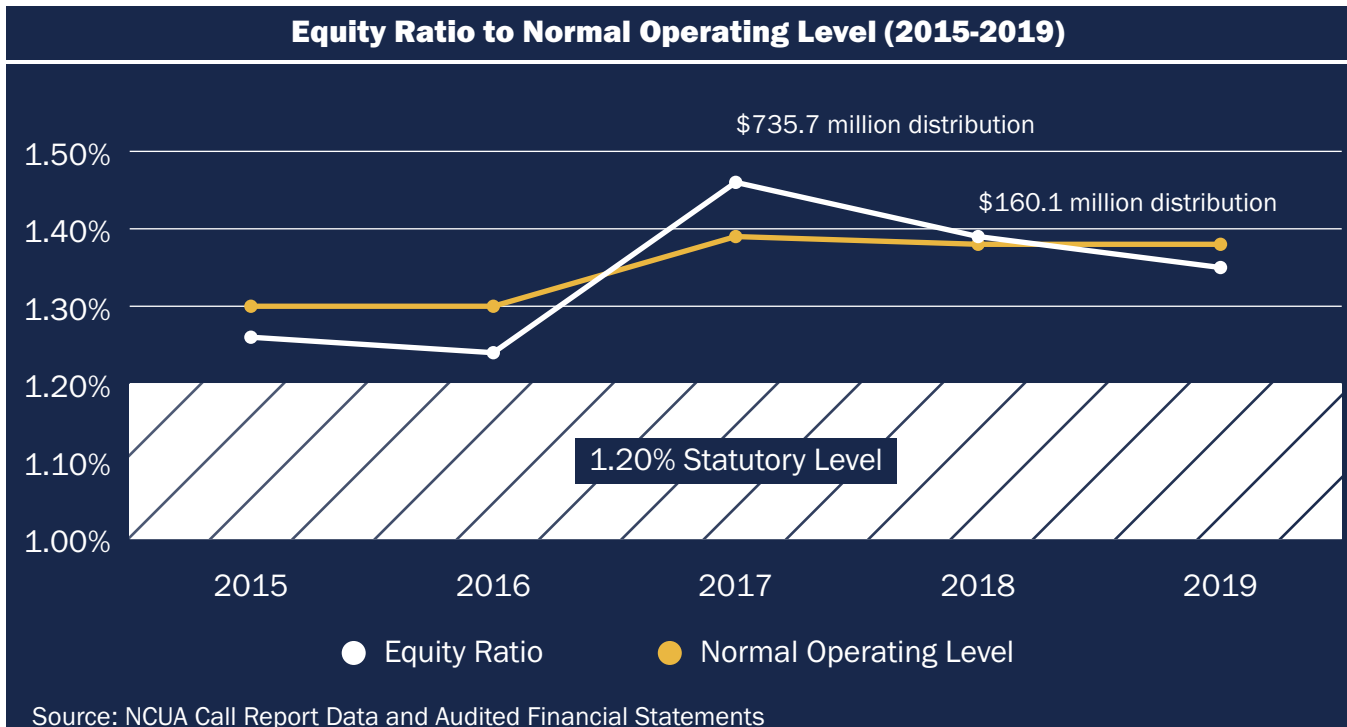
The following highlights provide an overview of the NCUA’s 2019 financial statements. The complete financial statements, including the independent auditors’ reports, are located in the [Financial Information](#) section of this report.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

Created by Congress in 1970, the NCUSIF is backed by the full faith and credit of the United States and insures the deposits of more than 120.4 million members at federally insured credit unions up to \$250,000. As

of December 31, 2019, the NCUSIF insured approximately 5,236 credit unions, with insured member shares reaching \$1.2 trillion. These federally insured credit unions held nearly \$1.57 trillion in total assets at the end of 2019.

The financial performance of the NCUSIF can be measured by comparing the equity ratio to the normal operating level. The normal operating level is the desired equity level for the Share Insurance Fund. The NCUA Board sets the normal operating level between 1.20 percent and 1.50 percent. On December 12, 2019, the NCUA Board set the normal operating level at 1.38 percent, equal to



1 The Federal Credit Union Act provides the overarching legal requirements regarding the NCUA’s annual audited financial statements. Separate financial reporting provides transparency for each fund’s particular stakeholders and complies with the intent of the Federal Credit Union Act. The NCUA files its four separately audited financial statements as Annual Management Reports per the Government Corporation requirements under OMB Circular A-136.

the previous level of 1.38 percent set on December 13, 2018.²

The equity ratio is the overall capitalization of the Share Insurance Fund to protect against unexpected losses from the failure of credit unions. When the equity ratio falls below or is projected within six months to fall below 1.20 percent, the NCUA Board must assess a premium or develop a restoration plan. When the equity ratio exceeds the normal operating level and available assets ratio at year-end, the Share Insurance Fund may pay a pro-rata equity distribution in the form of a dividend.

The equity ratio at the end of 2019 was 1.35 percent, which is below the normal operating level. As of December 31, 2018, the equity ratio was 1.39 percent, which was above the established normal operating level of 1.38 percent.

As a result, the NCUA Board approved a Share Insurance distribution of \$160.1 million to eligible institutions. This distribution was paid in the second quarter of 2019.

The NCUSIF’s net position is comprised of capital deposits, which represent the total balance of all federally insured credit unions’ 1.0 percent capitalization deposits and cumulative results of operations. The NCUSIF ended 2019 with a net position of \$16.6 billion, an increase of 5.6 percent, or \$878.3 million, from 2018. The increase is primarily attributable to an increase in the carrying amount of investments.

In accordance with the Federal Credit Union Act, the NCUA invested its capital deposits collected from all member credit unions in U.S. Treasury securities and earned interest revenue of \$306.5 million in 2019, an increase of \$21.8 million from 2018. The increase in interest income over the prior year was primarily due to the increase in the rate of interest earned on investments. The average interest rate earned for the years ending in December 31, 2019 and 2018, was 1.98 percent and 1.80 percent, respectively, and reflects an increase in the weighted average maturity of U.S. Treasury securities from 2.4 years to 2.9 years. Investments in U.S. Treasury securities account for approximately 95.8 percent of total NCUSIF assets.

NCUSIF Financial Position			
<i>Dollars in thousands</i>	2019	2018	Percentage Change
Total Assets	\$16,721,557	\$15,846,682	5.5%
Total Liabilities	\$ 121,596	\$ 125,056	-2.8%
Net Position	\$16,599,961	\$15,721,626	5.6%

The NCUSIF’s net cost of operations is primarily comprised of operating expenses and the provision for insurance losses, slightly offset by exchange revenue. The provision for insurance losses represents anticipated losses from the failure of insured credit unions. Operating expenses are primarily administrative services provided by the NCUA Operating Fund. Net cost of operations for 2019 were \$136.8 million, an increase

2 The equity ratio is calculated as the ratio of the contributed 1 percent deposit, plus the cumulative results of operations, excluding net cumulative unrealized gains and losses on investments, to the aggregate amount of the insured shares in all insured credit unions.

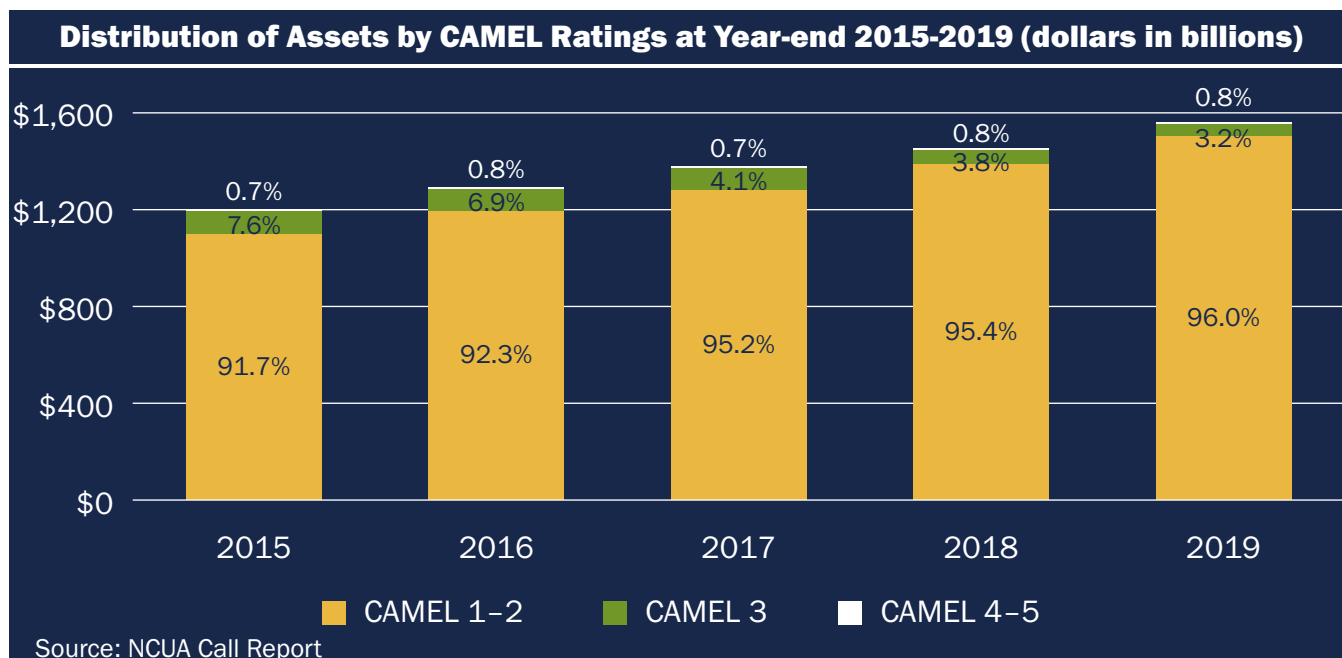
of \$78.6 million from 2018. The increase is primarily attributable to an increase in the provision for insurance losses.

The provision for insurance losses consists of the reserve expense and a bad debt allowance for the natural person credit union (NPCU) and corporate credit union (CCU) asset management estates (AMEs). The reserve expense increased by \$52.8 million, which reflects the overall risk of projected losses for actual and potential credit union failures. The bad debt allowance for the AMEs increased by \$20.4 million, reflecting an improvement in asset recovery rates for failed credit unions.³

The credit union industry remained stable during 2019. The aggregate net worth ratio increased during the year, ending at 11.4

NCUSIF Results of Operations			
<i>Dollars in thousands</i>	2019	2018	Percentage Change
Gross Costs:			
Operating Expenses	\$ 191,077	\$ 187,395	2.0%
Provision for Insurance Losses	(40,595)	(113,826)	64.3%
Other Losses	87	2,786	-96.9%
Total Gross Costs	\$ 150,569	\$ 76,355	97.2%
Exchange Revenue	\$ 13,768	\$ 18,158	-24.2%
Total Net Cost of Operations	\$ 136,801	\$ 58,197	135.1%

percent versus 11.3 percent on December 31, 2018. The NCUA’s field staff use the CAMEL rating system to evaluate a credit union’s performance and risk profile. CAMEL ratings range from 1 to 5, with 1 being the best rating. Assets in CAMEL composite 3, 4, and 5 rated credit unions decreased to \$52.5 billion



³ Natural person credit unions provide financial services primarily to individual people, as opposed to corporate credit unions which provide financial services to natural person credit unions.

at the end of 2019 versus \$66.9 billion at the end of 2018.⁴

NCUA OPERATING FUND

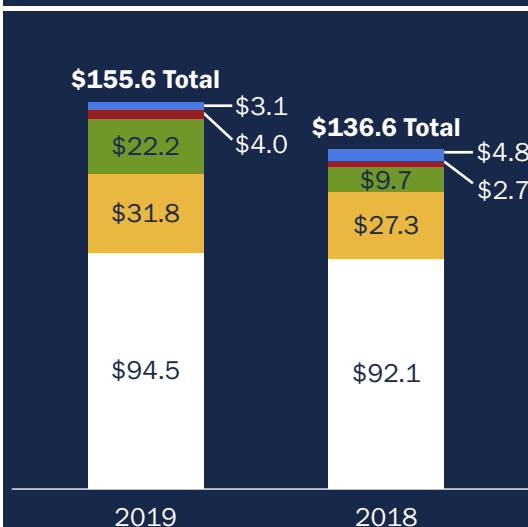
Created by the Federal Credit Union Act, the NCUA Operating Fund provides administration and service to the federal credit union system. At year-end, the total number of federal credit unions was 3,283 with \$803.0 billion in total assets. Funding for the NCUA’s operations comes through operating fees paid by federal credit unions and through reimbursements from the NCUSIF. Each federal credit union is required to pay this fee based upon a fee schedule that is applied to its assets reported as of the preceding year-end. The Office of the Chief Financial Officer administers the

methodology approved by the NCUA Board for calculating operating fees and setting the fee schedule each budget cycle.

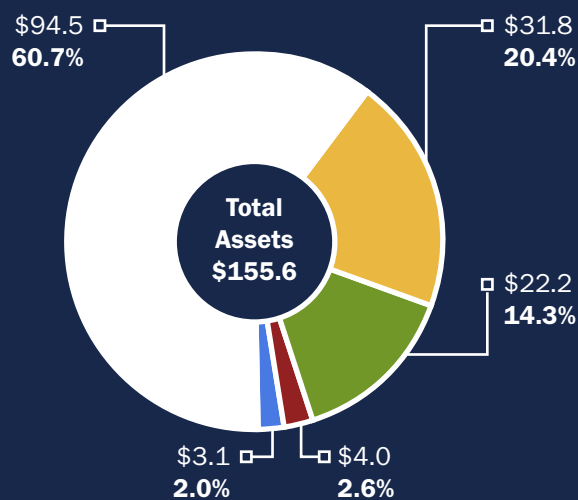
The Operating Fund ended 2019 with a fund balance of \$106.0 million, an increase of \$21.9 million from 2018. This change was attributed primarily to an increase in intangible assets related to NCUA’s Enterprise Solution Modernization.

Operating Fund Financial Position			
<i>Dollars in thousands</i>	2019	2018	Percentage Change
Total Assets	\$ 155,598	\$ 136,595	13.9%
Total Liabilities	49,647	52,531	-5.5%
Fund Balance	\$ 105,951	\$ 84,064	26.0%

Operating Fund Assets Comparison 2019 and 2018 (dollars in millions)



Operating Fund Assets by Type 2019 (dollars in millions)

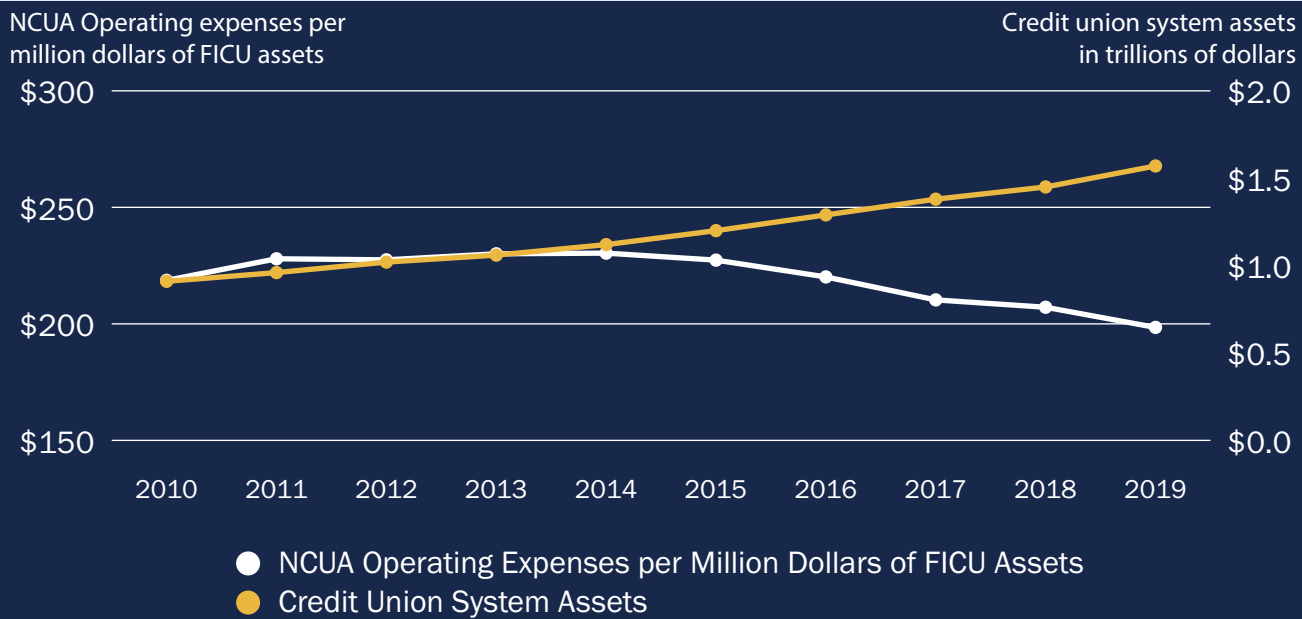


Cash and Cash Equivalents
 Fixed Assets, Net
 Prepaid Expenses
 Intangible Assets, Net
 Other

Source: NCUA Audited Financial Statements

⁴ Additional information for the CAMEL rating system can be found on page 11.

NCUA Operating Expense per Million Dollars of Federally Insured Credit Union Assets



Source: NCUA Audited Financial Statements and NCUA Call Report Data

NCUA operating expenses per million dollars of federally insured credit union (FICU) assets is calculated as the sum of current year NCUA Operating Fund expenses, NCUSIF Operating Expenses, and CLF reimbursement received by the Operating Fund for support services divided by the current year’s end-of-year FICU assets (e.g., 2019 Operating Fund Expenses (\$119.3M) + 2019 NCUSIF Operating Expenses (\$191.1M) + 2019 CLF reimbursement (\$0.5M) / FICU assets as of 2019Q4 (\$1.57T) = \$198 of NCUA operating expenses per \$1M in FICU assets).

Employment-related costs are the single largest driver of NCUA expenses. The NCUA continues to assess and balance its mission workload needs with the financial costs the agency imposes on the credit union system. Although the number of credit unions continues to decline nationwide, the NCUA must also consider the increasing complexity and growing asset base of the entire credit union. Consolidation in the industry has led to growth in the number of large credit unions, specifically those with more than \$10 billion in assets. This results in additional complexity in the balance sheets of such credit unions, and a corresponding increase in the supervisory review required to ensure the safety and soundness of such large institutions.

As shown in the chart above, the relative size of the NCUA Operating Expenses (white line) continues to decline when compared to balance sheets at federally insured credit unions (gold line). This trend illustrates the greater operating efficiencies the NCUA has attained in the last several years relative to the size of the credit union system.

Budgetary Resources

The NCUA’s budget formulation process ensures all office requirements are justified and consistent with the agency’s overall strategic plan. All office budget submissions within the agency undergo reviews by the responsible regional and central office directors, the Chief Financial Officer, and the Executive Director. Additionally, mid-year budget reviews occur annually to identify

whether program resource requirements have changed due to emergent priorities or other factors.

In the 2019 mid-session budget analysis presented to the Board, the NCUA estimated that its spending would be \$4.2 million below the approved operating budget level.⁵ Nearly all of this reduction was because of lower spending on pay and benefits resulting from lower-than-planned staffing levels. Although hiring accelerated in May and June, the NCUA started the year with more than 80 vacancies in Regional Offices and the Central Office. By the end of 2019, the NCUA had 1,129 on-board staff compared to the 2019 budget level of 1,178.

In 2019, the NCUA spent \$293.0 million of its operating budget, of which \$182.9 million was reimbursed from the Share Insurance Fund for insurance-related activities. This spending was \$11.4 million, or 3.7 percent, less than the Board-approved level for the year. Employee pay and benefits were below the approved budget level by \$8.2 million, or 3.7 percent. Travel spending was \$2.7 million, or 11.4 percent, less than the budgeted level. Combined, spending for the remaining budgetary categories was below the approved budget levels by \$0.4 million, or 0.8 percent. As discussed in the mid-session analysis, the agency's relatively high vacancy rate at the start of 2019 was the primary driver of reduced spending on personnel compensation and travel. Other spending below the budgeted levels reflect the NCUA's efforts to

administer its programs in a cost-efficient manner.

The NCUA also maintains a discrete capital budget. In 2019, the Board approved \$22.0 million for a variety of projects related to information technology and NCUA-owned facilities. Of this amount, the agency spent \$18.9 million, or 85.9 percent. Many of the agency's capital projects require multiple years of planning and implementation before completion. The NCUA expects that any unspent capital funding available at the end of 2019 will be utilized in future years to complete planned projects.

CENTRAL LIQUIDITY FACILITY

The CLF is a mixed-ownership government corporation under the Government Corporation Control Act. The CLF exists within the NCUA and is managed by the NCUA Board. The CLF's purpose is to improve the general financial stability of credit unions by serving as a liquidity lender to credit unions experiencing unusual or unexpected liquidity shortfalls. The CLF accomplishes its purpose by lending funds to members, subject to certain statutory limitations, when a liquidity need arises. The two primary sources of funds for the CLF are stock subscriptions from credit unions and borrowings from the Federal Financing Bank (FFB).⁶

A credit union becomes a member by purchasing shares of the CLF's capital stock. Membership in the CLF is open to all credit unions that purchase a prescribed amount of capital stock. Currently, only natural person

⁵ Spending includes incurred financial obligations, such as the value of a contractual agreement to purchase goods or services from an outside vendor, and outlays, such as amounts paid for employee salaries and benefits.

⁶ The CLF's borrowing arrangement is exclusively with the FFB. The NCUA maintains a note purchase agreement with Federal Financing Bank with a current maximum principal amount of \$2.0 billion.

credit unions are subscribed as regular members and may borrow from the CLF directly. As of December 31, 2019, the CLF had 278 members that contributed \$288.7 million of capital stock. As of December 31, 2018, the CLF had 270 members that contributed \$274.6 million of capital stock.

Total members' equity at December 31, 2019, was \$323.7 million, an increase of \$15.1 million from 2018. This change was attributed primarily to an increase in the carrying amount of investments partially offset by an increase in stock redemption payable and member deposits. Member deposits represent amounts remitted by members over and above the amount required for membership. Interest is paid on member deposits at a rate equivalent to the dividend rate paid on required capital stock.

Net income for the year ended December 31, 2019 was \$5.7 million, an increase of \$1.0 million from 2018. This increase was attributed to an increase in investment income. Investments totaled \$318.5 million at year-end, and investment income totaled \$6.3 million, which funded operations and paid \$4.7 million in dividends to members.

Dividends on capital stock are declared based on available earnings and the dividend policy set by the NCUA Board. The dividend rates paid on capital stock for regular members change quarterly. For 2019, the dividend rates were \$0.75 per share for the first and second quarters and \$0.875 per share for

CLF Financial Position

<i>Dollars in thousands</i>	2019	2018	Percentage Change
Total Assets	\$ 333,926	\$ 314,264	6.3%
Total Liabilities	10,272	5,747	78.7%
Total Members' Equity	\$ 323,654	\$ 308,517	4.9%

CLF Results of Operations

<i>Dollars in thousands</i>	2019	2018	Percentage Change
Total Revenues	\$ 6,351	\$ 5,230	21.4%
Total Expenses	672	558	20.4%
Net Income	\$ 5,679	\$ 4,672	21.6%

the third and fourth quarters. For 2018, the dividend rates were \$0.50 per share for the first quarter, \$0.625 per share for the second and third quarters, and \$0.75 per share for the fourth quarter.

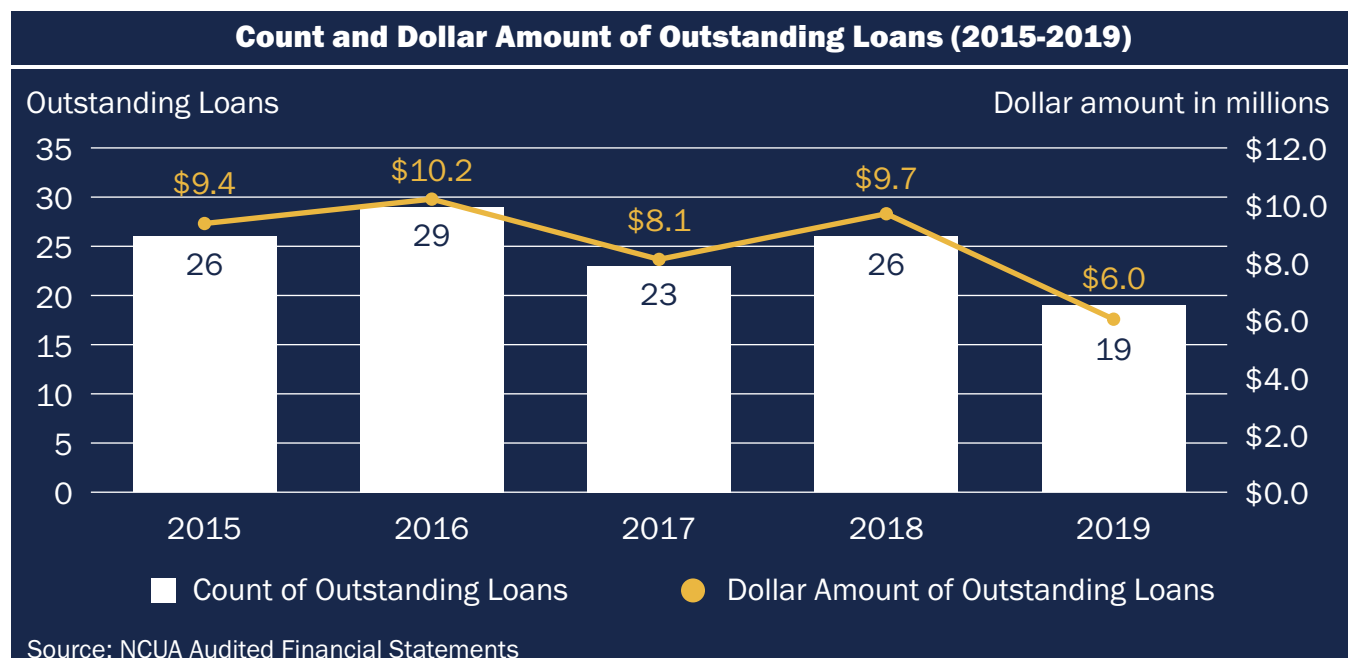
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

The CDRLF is the only NCUA fund that receives an annual appropriation from Congress and was established to promote economic development in low-income communities. Through its loan and technical assistance grant program, the CDRLF stimulates economic activities in the communities served by low-income-designated federal and state-chartered credit unions. These financial awards are intended to support credit unions in their efforts to provide basic financial services to residences in their communities, enhance their capacity to better serve their members, and respond to emergencies.

CDRLF Financial Position			
<i>Dollars in thousands</i>	2019	2018	Percentage Change
Total Assets	\$ 19,728	\$ 18,563	6.3%
Total Liabilities	3,803	3,030	25.5%
Fund Balance	\$ 15,925	\$ 15,533	2.5%

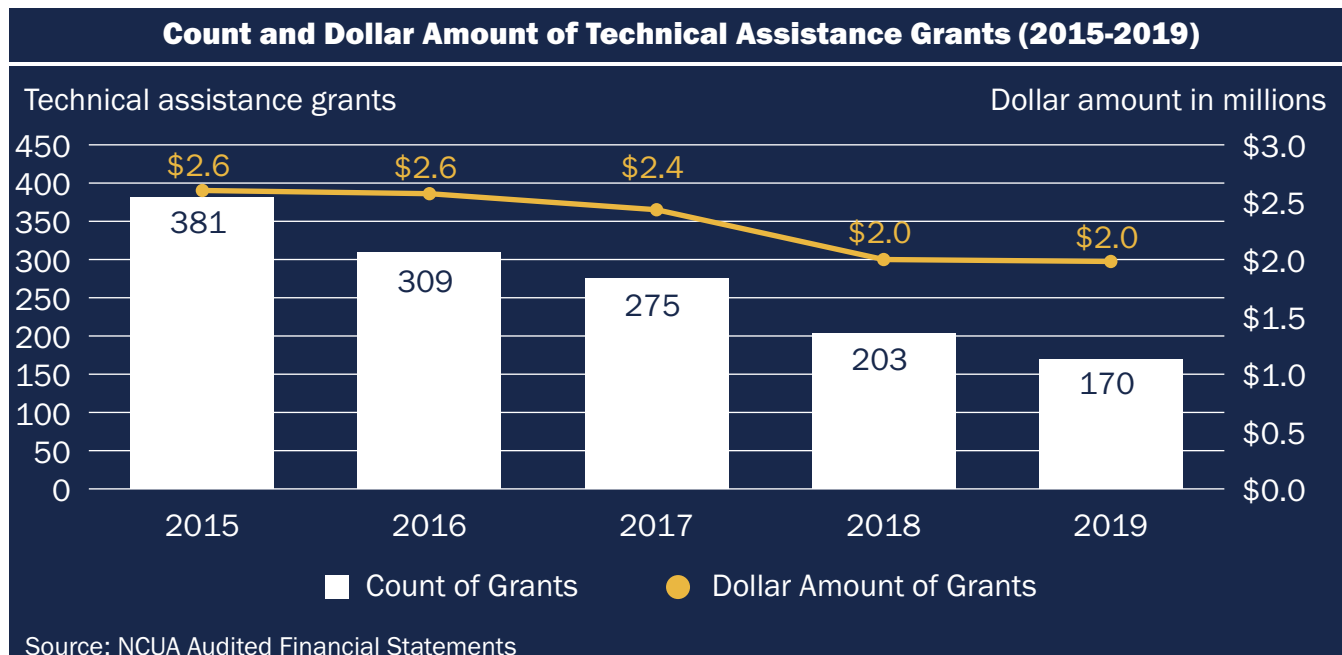
The CDRLF fund balance at December 31, 2019, was \$15.9 million, an increase of \$0.4 million from 2018. This change was attributed to an increase in loan repayments received in 2019 partially offset by an increase in accrued technical assistance grants.

The NCUA’s policy is to revolve loans to eligible credit unions as often as practical to maximize the economic benefits achieved by participating credit unions. These loans have a maximum term of five years and are subject to the interest rate provided by the CDRLF Loan Interest Rate Policy, which is reviewed annually. As of December 31, 2019, the CDRLF loan portfolio had \$6.0 million in outstanding loans: 19 loans outstanding to 19 credit unions.



Congress granted multi-year appropriations of \$2.0 million in both 2019 and 2018 for the technical assistance program. These grants are typically provided on a reimbursement basis to ensure that grant awards are appropriately used. In 2019, the fund made 170 technical assistance awards totaling \$2.0 million from the multi-year

appropriations received. Recipients of these funds used them to increase their digital services and improve their levels of cybersecurity preparedness, engage in leadership and career development, and improve access to financial services in underserved areas.



Management Assurances and Compliance with Laws



National Credit Union Administration

Rodney E. Hood
Chairman

February 14, 2020

President Donald J. Trump
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear Mr. President:

The National Credit Union Administration (NCUA) management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the *Federal Managers' Financial Integrity Act*. The NCUA conducted its assessment of risk and internal control in accordance with Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, NCUA can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of December 31, 2019.

Sincerely,

Rodney E. Hood
Chairman

1775 Duke Street • Alexandria, VA 22314-6113 • 703-518-6300

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act establishes management's responsibility to annually assess controls in accordance with prescribed guidelines and provide a Statement of Assurance to the President and Congress on the effectiveness of controls. The Federal Managers' Financial Integrity Act further requires agencies to establish controls that reasonably ensure obligations and costs comply with applicable laws; assets are safeguarded against waste, loss, unauthorized use, and misappropriation; and revenues and expenditures are properly recorded and accounted for to maintain accountability of the assets. The Office of Management and Budget (OMB) provides guidance for implementing the act through OMB Circular A-123.

The NCUA continued to demonstrate our commitment to maintain a strong internal control environment. Enterprise risk management and internal controls are embedded in the agency's management of activities and operations that achieve strategic goals and objectives. In 2019, NCUA management conducted reviews including annual internal control assessments to verify that controls effectively mitigated programmatic risks to ensure effective and efficient operations, reliable reporting, compliance with laws, and safeguarding of assets. While no material weaknesses in the agency's internal controls were identified in the assessments, the NCUA remains committed to enhancing and improving its systems of internal controls and operational efficiencies. As a result of these assessments and annual internal reviews, the NCUA

Chairman can provide reasonable assurance that the NCUA has no material weaknesses.

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act requires certain agencies and executive branch departments to report on their substantial compliance with federal financial management system requirements, federal accounting standards, and the U.S. Standard General Ledger at the transaction level. The purpose of the Federal Financial Management Improvement Act is to advance federal financial management by verifying that financial management systems provide accurate, reliable, and timely information in order to manage daily operations, produce reliable financial statements, maintain effective internal control, and comply with legal and statutory requirements.

Management's Assessment Of Internal Control

Internal control is an essential component of effective management, providing reasonable assurance regarding the achievement of objectives, in three categories: effectiveness and efficiency of operations, reliability of reporting, and compliance with laws and regulations. The NCUA's internal control program is designed to achieve compliance with the objectives and requirements of the Federal Managers' Financial Integrity Act and other applicable federal laws and regulations.

NCUA managers routinely monitor and assess internal controls and report on the results of the assessment annually. Office directors perform internal control assessments that support the central and regional offices

and the Asset Management and Assistance Center's assurance statements of compliance. Although some offices noted deficiencies, these did not rise to the level of a material weakness, either individually or collectively. The NCUA offices are addressing these issues through corrective action plans, and the NCUA will monitor each office's development and implementation of mitigating controls through the next reporting year.

In addition to the results of the assurance statements noted above, the NCUA considered the following other sources of information when assessing the agency's internal control environment:

- An entity-level control survey;
- Results of internal control testing under OMB Circular A-123, Appendix A, "Management of Reporting and Data Integrity Risk;"
- Qualitative and quantitative risk assessments in accordance with OMB Circular A-123, Appendix C, "Requirements for Payment Integrity Improvement;"
- Process cycle reviews;
- Results of independent evaluations performed by the Government Accountability Office and the NCUA's Office of Inspector General;
- Corrective action taken to enhance controls or mitigate process risk;
- Reports pursuant to the Federal Information Security Management Act and OMB Circular A-130, "Managing Federal Information as a Strategic Resource;" and
- Other internal management reviews or assessments performed.

With respect to internal controls over financial reporting, the NCUA conducted a risk-based assessment over the most material financial statement line items across the four funds, in accordance with OMB Circular A-123, Appendix A, "Management of Reporting and Data Integrity Risk." The NCUA documented the end-to-end processes, identified key controls, and conducted tests of design and effectiveness. The NCUA examined deficiencies, both individually and in the aggregate, to determine if material weaknesses existed in the financial reporting processes. No deficiencies, or combination of deficiencies, rose to the level of a material weakness.

In 2019, the NCUA Office of Inspector General issued a report on the agency's information technology inventory process with recommendations related to strengthening policies and enhancing process controls. In response to these recommendations, the NCUA issued updated guidance for the receipt, transfer, and disposal of accountable property acquired in accordance with the *NCUA Acquisition Policy Manual*. In addition, the NCUA established the policies, business processes and procedures, and supporting guidance for the use of an asset management system, as well as specific roles and responsibilities of staff involved in administering the property life cycle for accountable property management at the NCUA. These policies and procedures provide guidance for activities related to the physical control of accountable property and is intended to:

- Standardize guidance for accountable property management activities throughout the property life cycle.

- Clarify roles and responsibilities for personnel regarding accountable property management duties.
- Identify the authorizing guidance and documents for accountable property.

The Chairman's assurance statement is supported by the processes and reviews described above, which were carried out in 2019. The assurance statements from all NCUA Office directors (which are supported by the offices' internal control assessments), the evaluation of other sources of information described above, and the results of the internal controls over financial reporting assessment serve as support for senior management to advise the Chairman as to whether the NCUA has deficiencies in internal control significant enough to be reported as a material weakness.

The Chairman's 2019 assurance statement for the Federal Managers' Financial Integrity Act and internal controls over financial reporting provides reasonable assurance that the necessary objectives—efficient and effective operations, reliability of reporting and compliance with applicable laws and regulations—were achieved. Included in this report is a Summary of Financial Statement Audits and Management Assurances in the Other Information section, as required by OMB Circular A-136, "Financial Reporting Requirements."

Federal Information Security Modernization Act

As required by the Federal Information Security Management Act, the NCUA developed, documented, and implemented an agency-wide information security program for the information and systems that support the

operations and assets of the agency, including those provided or managed by another agency, contractor, or other source. The Act also requires federal agencies to conduct annual assessments, develop and implement remediation efforts for identified weaknesses and vulnerabilities, and report compliance to the Office of Management and Budget.

The NCUA Chief Information Officer, Inspector General and Senior Agency Official for Privacy conducted a joint annual assessment using the CyberScope automated system as required by OMB Memorandum 19-02, "Fiscal Year 2018–2019 Guidance on Federal Information Security and Privacy Management Requirements." The NCUA submitted the annual Federal Information Security Management Act report for fiscal year 2019 to the Office of Management and Budget on October 31, 2019.

As prescribed by the Act, the Office of Inspector General performs an annual independent evaluation of the NCUA information security and privacy management programs and controls for compliance with the Federal Information Security Management Act. The Office of Inspector General completed the fiscal year 2019 audit in October 2019.

Financial Management System Strategy

The NCUA partners with the Enterprise Services Center within the U.S. Department of Transportation to provide the agency with financial operations support services. Through this shared-service agreement, the agency uses the Oracle-based Delphi Financial Management system, which meets the requirements of the Federal Financial Management Improvement Act.

As part of our continuous quality improvement, the NCUA proceeds to enhance financial management systems and strengthen process controls aimed to ensure operational efficiencies, transparency, production of reliable and useful data to decision makers and stakeholders, and compliance with applicable laws and regulations.

Digital Accountability And Transparency Act

The Digital Accountability and Transparency Act (DATA Act) was enacted in 2014 to increase the availability and accuracy of federal spending information and standardize government-wide reporting standards for such data. The DATA Act expands on reforms over federal awards reporting that began with the Federal Funding Accountability and Transparency Act of 2006 by requiring agencies to disclose expenditure information, including contracts, loans, and grants by submitting information for inclusion at USASpending.gov. The act does not apply to funding received outside of congressionally approved appropriations.

The NCUA, an independent agency, receives a limited annual appropriation from Congress to administer the Community Development Revolving Loan Fund. Congress created the Community Development Revolving Loan Fund to stimulate economic development in low-income communities through the issuance of technical assistance grants and low-interest loans to qualifying credit unions (Public Law 96-123, November 20, 1979). As the funding for the Revolving Loan Fund stems from an appropriation, information regarding the Revolving Loan Fund is subject

to the DATA Act. For the remaining funds the NCUA administers, the agency is authorized to collect annual operating funding through fees paid by federal credit unions and other sources outside of congressional appropriations. The operating fees collected do not fall under the requirements of the Act.

The NCUA successfully submitted quality financial and award data for publication on USASpending.gov that was complete, timely, and accurate. The Office of Inspector General conducted an audit and reported in November 2019 that the NCUA's submission to Treasury's DATA Act Broker was complete and submitted timely; the NCUA fully implemented and used the government-wide financial data standards for spending information; and internal controls over source systems and the summary-level DATA Act submission were managed effectively and reported financial data in accordance with the DATA Act.

However, the Office of the Inspector General determined that the NCUA submitted lower quality financial and award data for publication on USASpending.gov for the first quarter of 2019. The NCUA Inspector General made four recommendations that the NCUA will address in 2020.

Debt Collection Improvement Act

The Debt Collection Improvement Act of 1996 sets forth standards for the administrative collection, compromise, suspension, and termination of federal agency collection actions and referrals to the proper agency for litigation. The NCUA monitors, administers and collects on debt less than 120 days delinquent. All eligible, nonexempt debts greater than 120 days old are transferred to the U.S. Department of the Treasury for cross-

servicing. Additionally, in accordance with the provisions of the Debt Collection Improvement Act, the NCUA's recurring payments are processed via electronic funds transfer.

Federal Civil Penalties Inflation Adjustment Act

The NCUA has authority to assess civil penalties for violations specified in the Federal Credit Union Act and other laws the NCUA enforces. The Federal Civil Penalties Inflation Adjustment Act of 1990 requires agencies to adjust penalty amounts periodically for inflation. Specific details about the civil penalties, the authority for the penalty, adjustment dates, and current penalty amount can be found in the Other Information section of this report.

Government Charge Card Abuse Prevention Act

The Government Charge Card Abuse Prevention Act of 2012 requires agencies to establish and maintain safeguards and

internal controls for purchase cards, travel cards, integrated cards, and centrally billed accounts. As part of our effective internal control structure, the NCUA implemented sound controls to mitigate the risk of fraud, waste, and abuse. These controls are documented in our charge card procedures. As required, the NCUA provided the Office of Management and Budget with the agency's Charge Card Management Plan, Charge Card Narrative, and Performance Metrics Report.

Further, the Government Charge Card Abuse Prevention Act requires the NCUA Inspector General to periodically conduct a risk assessment on the agency's charge card programs. The NCUA Inspector General concluded, in its March 2018 report, that programs pose a low risk of illegal, improper, or erroneous purchases and payments. The NCUA Inspector General did not conduct a risk assessment in 2019. The Inspector General's report and others are available on the [NCUA's website](#).

Performance Results



About the Performance Results Section

Throughout 2019, the NCUA implemented strategies and initiatives designed to achieve its mission to provide, through regulation and supervision, a safe and sound credit union system that promotes confidence in the national system of cooperative credit. The Performance Results section provides an overview of the NCUA's performance structure and details performance results and challenges during the calendar year.

Performance Structure

The Performance Structure section provides an overview of NCUA's performance structure and illustrates the relationship between performance components.

Performance Planning and Process

The Performance Planning and Process section provides a brief overview of the NCUA performance process.

Program Evaluation and Review

The Program Evaluation and Review section describes how the NCUA reviews its performance framework for future development of strategic goals, measures, and targets.

Cross Agency Priority Goals

The Cross Agency Priority Goals section describes NCUA's involvement in cross-agency initiatives to contribute to the success of NCUA's mission.

Performance Results by Strategic Goal

The Performance Results by Strategic Goal section provides the results of the performance measure for 2019 and, when available, five years of historical trend data; factors describing why certain performance measure were not met; and the NCUA's plan to improve performance, where appropriate.

Validation and Verification of Performance Data

The Validation and Verification of Performance Data section discusses the ways in which performance data are verified and the completeness and reliability of the data contained within this part of the Annual Report.

Performance Structure

The Performance Results section is organized by strategic goals to describe NCUA's efforts to meet the objectives defined in the [2018-2022 Strategic Plan](#). This strategic plan outlines three strategic goals that are supported by eight strategic objectives, 21 performance goals and 47 performance indicators.

- **Strategic goals** are general, outcome-oriented, long-term goals for the major functions and operations of the agency. Strategic goals represent how the agency's actions fulfill its mission.
- **Strategic objectives** break down the broader strategic goals to a level that reflects specific outcomes or impacts the agency is working to achieve. They represent key aspects of each strategic goal, while also demonstrating how the strategic goal will be achieved.
- **Performance goals** are the actions the agency will undertake and measure to gauge progress achieving each

strategic objective. Each performance goal is supported by one or more indicators or measures.

- **Performance indicators** or measures present a quantitative level of performance, or a target to be accomplished, within a specific timeframe.
- **Strategies** are plans the agency will implement to make progress toward its strategic objectives. This includes steps to strengthen or revise operational processes, human capital, skills development, technology, information management, and other resources critical to mission delivery.
- **Values** are statements that articulate the beliefs that support the agency's culture and provide a framework for decision-making.

The diagram below illustrates the relationship between these performance components.



Performance Planning and Process

The [2019 Annual Performance Plan](#) sets out performance measures and targets in support of the goals and objectives of the strategic plan. Developing the performance plan is a collaborative process that includes all of the NCUA's central and regional offices. Senior executive leaders develop performance measures, as well as the means and strategies that describe how we will assess progress towards our objectives. The NCUA Board reviews and approves the Annual Performance Plan.

The NCUA holds program offices accountable for setting meaningful and realistic targets that also challenge the agency to leverage its resources efficiently and effectively. Each designated goal owner is responsible for the progress in meeting his or her assigned goals, reporting the results and making operational

adjustments as needed. When targets are not met, goal owners are required to explain what led to the shortfall and how they will improve performance in the future. Each goal owner provided his or her analysis and support for the performance results found in this report.

The NCUA uses a data-driven review process, which includes substantiating results reported whenever those results reveal significant discrepancies or variances from the target. For each goal the Office of the Chief Financial Officer coordinates reviews to address data availability and reliability, clarify questions, and, if applicable, discuss corrective actions and strategies for any performance measures that are not on target. This office also delivers performance summary reports to the Executive Director throughout the year.

Program Evaluation and Review

The NCUA periodically reviews its performance framework and focuses on tracking and reporting the most appropriate and meaningful outcome performance goals to show efficiency, effectiveness, and results. The agency uses the results of these data-driven reviews and its annual performance report as data points for future development of strategies, goals, measures, and targets.

Targets and Historical Data

The NCUA provides five years of historical trend data for each performance measure when available. Several performance goal indicators in this report are new for 2019 and therefore historical data is not available.

Prior-year results for these new indicators are marked as “—” in the performance results indicator and target tables. Baseline data collected in 2019 will be used to formulate performance goal targets for future years.

As part of the agency's collaborative performance planning process, the Office of the Chief Financial Officer works closely with the NCUA Chief Economist and subject matter experts across the agency to consider external factors and risks to the credit union system when developing meaningful, challenging, and realistic targets. In the case of select performance measures, NCUA's Rules and Regulations, formal instructions, or policy statements guide our target selection.

Measure Quality

The NCUA has not developed outcome performance goals in all cases, and in certain instances uses input and output measures that support outcomes, lead to outcomes, or provide valuable indicators of how the agency is progressing toward achieving its strategic goals and objectives.

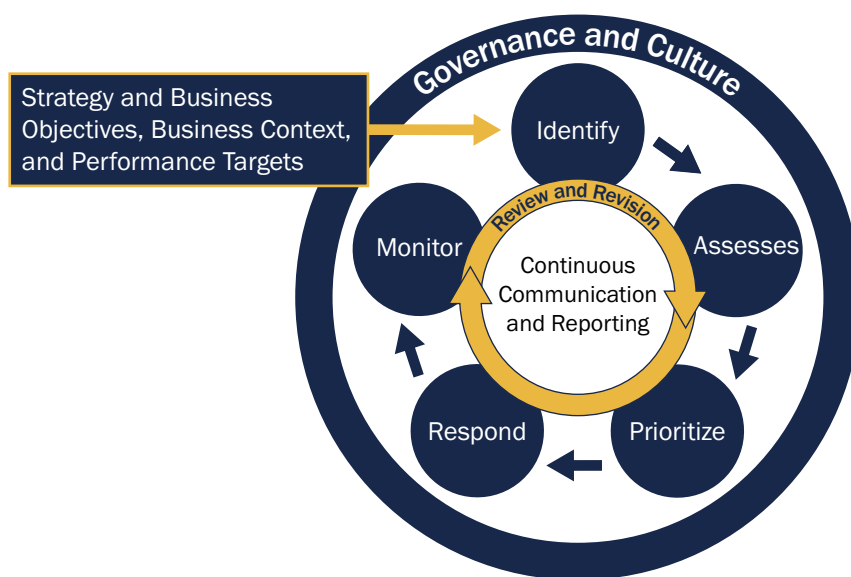
Enterprise Risk Management

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 risks related to achieving the NCUA’s 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

operational success and business 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. This approach is shown in the diagram below. Working collaboratively with functional owners, the NCUA’s risk-management process prioritizes and optimizes risk management and mitigation on a consistent and continuous basis to increase the NCUA’s success at achieving stated strategic goals.

The NCUA’s risk-management framework provides a continuous approach to manage risks to strategy and business objectives and improve business outcomes. In 2019, the NCUA developed and implemented processes for analyzing and responding to enterprise risks. The NCUA has conducted several risk response assessments for priority areas including credit union business diversification,



credit union cybersecurity, agency controls, and information security. These assessments help inform the agency’s activities, operations, and planning and budget processes.

The NCUA’s ERM Council provides oversight of the agency’s enterprise risk management

activities. The agency’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.

Cross-Agency Priority Goals

The NCUA is involved in numerous cross-agency initiatives by collaborating with the other financial regulatory agencies through several councils such as the Financial Stability Oversight Council, the Federal Financial Institutions Examination Council,

and the Financial and Banking Information Infrastructure Committee. These councils and their many associated task forces and working groups contribute to the success of the NCUA’s mission.

Performance Results by Strategic Goal

The agency made progress across all three strategic goals in 2019, meeting or exceeding 38 performance indicators. Each strategic goal and the supporting strategic objectives

and performance goals are presented in the subsequent sections, including detailed results for each indicator used to measure agency performance.

Target Met	NCUA is implementing its plans to achieve the strategic objective. Strategies and activities have been executed on or ahead of schedule, and the target outcome was achieved.	✓
Target Not Met	Current strategies have not had the intended impact, and an increased focus is needed by the agency to improve performance on the strategic objective. Some strategies and activities may have been executed, but more progress is needed to advance the strategic objective.	✗

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 the NCUA statutory responsibility to establish and maintain the Share Insurance Fund and oversee the credit union system. A stable cooperative system is the foundation that allows credit unions to provide services to their members, and introduce new products and services to meet member needs in the future. Identifying and managing risk in credit unions is NCUA's core mission. Essential to achieving this strategic objective is the efficient and effective management and execution of the agency's examination and supervision programs, including the proper

allocation of resources and timely resolution of issues.

Strategic Goal 1 is supported by two strategic objectives, five performance goals and 13 performance indicators. The NCUA performed well, meeting all 13 of its targets.

Strategic Objective 1.1 – Maintain a strong Share Insurance Fund

The NCUA minimizes losses to the Share Insurance Fund by managing risks in the credit union system. NCUA's Office of the Chief Economist provides economic information and enhances the agency's

Performance Indicators	2014	2015	2016	2017	2018	2019 Target	2019 Result	Status
1.1.1 Fully and efficiently execute the requirements of the agency's examination and supervision program – Agency Priority Goal								
Maintain the average corporate credit union leverage ratio above 5 percent	7.7%	7.6%	5.6%	7.1%	8.8%	Greater than 5%	8.3%	✓
Resolve troubled credit unions within an average of 24 months of initial CAMEL downgrade	21	19	29	22	19	24	21	✓
98.0 percent of the total number of credit unions are well-capitalized according to prompt corrective action	97.6%	97.9%	97.8%	97.7%	98.6%	98.0%	98.5%	✓

Performance Indicators	2014	2015	2016	2017	2018	2019 Target	2019 Result	Status
1.1.2 Effectively manage losses to the Share Insurance Fund								
Maintain the NCUSIF equity ratio between 1.3 percent and the normal operating level	1.29%	1.26%	1.24%	1.46%	1.39%	Between 1.33% and 1.38%	1.35%	✓
Issue payments or provide access to members for the balance of their verified insured funds within 3 business days following a credit union failure	1.4	1.5	3.2	0 ¹	3	3 days	1	✓
Seek to resolve credit union failures at the least cost to the NCUSIF, by successfully identifying a merger or purchase and assumption partner for at least 85 percent of incidents (including emergency and supervisory mergers)	—	—	57%	100%	91%	85%	100%	✓

1 All 2017 liquidations had a purchase and assumption agreement and members had access to their funds immediately through the continuing credit union.

understanding of emerging microeconomic and macroeconomic risks. The Office of the Chief Economist also delivers insight into regional economies and industry specific trends and their potential risk impacts. Future risks to credit unions include escalating cybersecurity threats, interest rate and liquidity challenges and rapid changes in technology. Each risk requires continual monitoring and, where prudent, risk-mitigation strategies to protect the overall credit union system from preventable losses or failures.

The agency has implemented a flexible exam schedule that extends examination cycles up to 20 months, reducing the agency’s presence in well-capitalized and well-managed credit unions and enabling resources to be focused towards higher risk credit unions.

The NCUA’s asset management program, administered by our Asset Management and Assistance Center, ensures members are paid promptly after any necessary liquidation, and limits losses to the Share Insurance Fund and other creditors through the effective liquidation of failed credit union assets. Staff from the Asset Management and Assistance Center also assist with conducting examinations of large, complex loan portfolios and participate in conservatorships.

Strategic Objective 1.2 – Provide high-quality and efficient supervision

The NCUA works continuously to improve its supervision program and operate more efficiently. In 2019, the NCUA supported this objective through various activities such as the alternating examination pilot program with select state regulators, an enhanced quality assurance program for examination and

supervision reports and, virtual examination program study.

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

The NCUA revised training courses for field staff in 2019, to ensure examiners are well trained and to improve the consistency of examinations across the credit union system.

Performance Indicators	2014	2015	2016	2017	2018	2019 Target	2019 Result	Status
1.2.1 Enable continuous risk analysis, identify key trends and target examinations where most needed								
Publish the <i>Quarterly U.S. Map Reviews</i> on the NCUA website to assist with identifying regional and national risks	4	4	4	4	4	4	4	✓
Provide examiners with quarterly risk reports to identify trends in fraud, anti-money laundering and cyber threats.	—	—	—	—	—	4	4	✓
1.2.2 Effectively identify and evaluate risk in complex credit union portfolios								
Review and assess all capital plans and stress tests for credit unions with assets greater than \$10 billion within timelines outlined in regulation	Regulation Established	Achieved	Achieved	Achieved	Achieved	Achieve	Achieved	✓
Evaluate cybersecurity risk in all federally insured credit unions with assets greater than \$250 million using the Automated Cybersecurity Examination Toolbox (ACET) by December 31, 2023. By December 31, 2019, finish cyber reviews in all federally insured credit unions greater than \$1 billion and 38 percent of federally insured credit unions with assets between \$250 million and \$1 billion	—	—	—	56 Credit Unions as Part of Initial Pilot	86% of credit unions greater than \$1 billion	100% of credit unions greater than \$1 billion, and 38% of credit unions between \$250 million and \$1 billion	100% of credit unions greater than \$1 billion, and 43% of credit unions between \$250 million and \$1 billion	✓

Performance Indicators	2014	2015	2016	2017	2018	2019 Target	2019 Result	Status
1.2.3 Improve the quality control and consistency of examinations								
Develop new or revise existing training courses to meet the needs of all field staff	–	–	–	9	13	6	14	✓
Finalize the agency’s quality assurance program, including the pre-release secondary review process, and train all field staff in advance of full implementation with MERIT	–	–	–	–	Initiated Pilot	Achieve	Achieved	✓
Test and release the enhanced credit union Automated Cybersecurity Examination Toolbox	–	–	–	–	–	Achieve	Achieved	✓

Discussion. *The NCUA finished cyber reviews in 99.7 percent of federally insured credit unions greater than \$1 billion and 43 percent of federally insured credit unions with assets between \$250 million and \$1 billion, by December 31, 2019.*

The agency effectively met its targets for this measure, surpassing the 37 percent target for credit unions with assets between \$250 million and \$1 billion by 6 percentage points and falling just one cyber review short for credit unions greater than \$1 billion. Cyber reviews in credit unions greater than \$1 billion commenced in 2018 after a pilot year in 2017. After two full years of cyber reviews in credit union with assets greater than \$1 billion, there is one federally insured state-chartered credit union with assets greater than \$1 billion that has not received a cyber review. This particular credit union received an NCUA examination in third quarter 2017, but its asset size was had not yet reached \$1 billion at that time nor was the credit union included as part of the 2017 cyber review pilot. The next examination concluded in the first quarter 2019, but did not include a cyber review. The NCUA has determined this oversight was likely the result of the 2019 examination team mistakenly assuming a cyber review was completed during the prior examination in 2017. The NCUA will ensure a cyber review is conducted for this credit union during its next examination in 2020. The intent of conducting these cyber reviews is to baseline and benchmark credit union cybersecurity programs with an emphasis on identifying critical security controls and determining the root cause of cybersecurity vulnerabilities in the credit union sector with the intention of improving the agency’s examination program and the security posture of the credit union sector. The absence of a single credit union cyber review does not significantly hinder the NCUA’s ability to achieve these objectives, nor does it impact the agency’s ability to meet the performance goal which is to effectively identify and evaluate risk in complex credit union portfolios.

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 effectively manage the balance between regulatory flexibility and responsible oversight. The NCUA’s goal is to issue balanced, clear, and straightforward regulations while addressing emerging adverse trends in a timely manner. The goal also seeks to improve consumer access and ensure consumer compliance, financial protection and consumer education.

The Office of Consumer Financial Protection is responsible for overseeing NCUA’s fair lending and consumer financial protection programs. The NCUA also provides consumer financial protection and financial literacy information directly to consumers through the agency’s consumer website, MyCreditUnion.gov.

The NCUA’s Office of Credit Union Resources and Expansion supports credit union growth and development. The office’s primary mission is to assist credit unions through the various stages of expansion and strategic development. The office also provides access to online training and resources, as well as

grants and loans through the Community Development Revolving Loan Fund.

The NCUA uses three strategic objectives, six performance goals and 12 indicators to support this strategic goal. The NCUA performed moderately well within strategic goal two, meeting our target for 10 performance indicators. An explanation is provided for the indicators that did not meet their targets during the year.

Strategic Objective 2.1 – Deliver an effective and transparent regulatory framework

The NCUA has statutory responsibility for a wide variety of regulations that protect the credit union system, credit union members, and the Share Insurance Fund. The NCUA Board and program staff continue to create an environment that allows credit unions to serve their members better while maintaining the safety and soundness of the system. The NCUA’s goal is to issue straightforward

regulations, while addressing emerging issues before they become major problems.

In 2019, the NCUA's Regulatory Reform Task Force, established in 2017 to oversee the development of the agency's [regulatory reform agenda](#), initiated implementation of all remaining Tier 1 Amendments from the task force's final report issued in 2018. The task force undertook an exhaustive review of the NCUA's regulations and developed a comprehensive agenda for reviewing and revising these regulations in the future. The 2018 report outlines recommendations for the amendment or repeal of regulatory requirements the task force believes are outdated, ineffective, or excessively burdensome. In 2019, the NCUA also returned to its practice of conducting three-year rolling reviews of its regulations.

A full listing and description of NCUA's [recent final](#) and [proposed](#) rules are found on our website.

In 2019, the NCUA supported its mission 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. Additionally, the NCUA Board approved, during the July 2019 mid-session review, four additional staff 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.

Performance Indicators	2014	2015	2016	2017	2018	2019 Target	2019 Result	Status
2.1.1 Promulgate efficient, targeted regulation tailored to offer meaningful relief without undermining safety and soundness – Agency Priority Goal								
Initiate implementation of all remaining Tier 1 amendments as recommended by the Regulatory Reform Task Force	–	–	–	Task Force Created	Tier 1 Amendments Began	Achieve	Achieved	✓
Review one-third of all regulations, annually	–	–	Achieved	Achieved	–	Achieve	Achieved	✓
2.1.2 Increase awareness of regulatory activities								
Increase web traffic to regulatory information on ncu.gov by five percent	–	–	4,228,672	+7.8%	-7.2%	Greater than or Equal to 5% Increase	+45.2%	✓

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

The NCUA’s fair lending examination program is designed to ensure credit unions comply with the rules and regulations established to protect consumers. In 2019, the Division of Consumer Compliance Policy and Outreach spent 4,222 hours examining 25 credit unions for compliance with fair lending laws and regulations. Agency staff spent an additional 1,005 hours performing 43 offsite supervisory contacts to review credit unions’ loan policies and, if necessary, provide recommendations to bring them into compliance with fair lending laws.

The NCUA coordinates with other financial services regulators to develop policy, regulations, and guidance. As part of the Federal Financial Institutions Examination Council’s Taskforce on Consumer Compliance, and the Financial Literacy and Education Commission, the NCUA contributes to the development of balanced regulations and

policy statements related to consumer financial protection and financial literacy.

The NCUA’s Office of Consumer Financial Protection is focused on empowering consumers to make informed financial decisions by developing and promoting financial literacy education. The office also responds to inquiries from credit unions, credit union members, and consumers involving consumer financial protection and share insurance matters. Additionally, it handles consumer complaints filed against credit unions. In 2019, the NCUA’s [Consumer Assistance Center](#) assisted more than 47,000 consumers.

The NCUA also promotes the importance of making smart financial decisions through its consumer-focused website, [MyCreditUnion.gov](#). This site, available in both English and [Spanish](#), is a valuable resource for personal finance information for individuals of all ages. In 2019, visitors to the site reached 635,000 with approximately 25 percent of visits coming from a mobile device. Additionally, 17 percent of visitors viewed the Spanish version of the site [espanol.MyCreditUnion.gov](#).

Performance Indicators	2014	2015	2016	2017	2018	2019 Target	2019 Result	Status
2.2.1 Assess compliance with consumer lending and deposit laws and regulations								
Complete 25 fair lending examinations, annually	25	25	24	26	26	Greater than or Equal to 25	25	✓
Complete 40 offsite fair lending supervision contacts, annually	50	50	50	49	40	Greater than or Equal to 40	43	✓

Performance Indicators	2014	2015	2016	2017	2018	2019 Target	2019 Result	Status
2.2.2 Empower consumers with information to make independent and informed financial decisions								
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	2	5	4	5	✓
Expand the NCUA’s digital consumer financial literacy outreach efforts through the agency’s consumer-facing website, MyCreditUnion.gov, including espanol.mycreditunion.gov	564,970	742,613	829,064	753,588	865,195	850,000	723,911	✗

Discussion. *The NCUA did not meet its target to expand the NCUA’s digital consumer financial literacy outreach efforts through the agency’s consumer-facing website, MyCreditUnion.gov, including Espanol.MyCreditUnion.gov.*

In 2019, the agency experienced a 16 percent decline in sessions to its MyCreditUnion.gov website compared to 2018. The agency attributes this decline to reprioritization of resources to other outreach and engagement initiatives. The agency continues to evaluate the root causes of the decrease in site sessions and will maintain the indicator and 850,000 target in 2020. The agency will evaluate how to optimize the website’s performance on search engines and other strategies to increase digital consumer financial literacy.

Strategic Objective 2.3 – Facilitate access to federally insured credit union financial services

The NCUA works to expand access to affordable financial services. The Office of Credit Union Resources and Expansion provides support to low-income, minority, and any credit union seeking assistance with chartering, charter conversions, bylaw amendments, field-of-membership expansion requests and low-income designations. The

office develops online training, manages the minority depository preservation program, and administers the grants and loans program, the Community Development Financial Institutions certification streamlined application, as well as other initiatives. The office is also responsible for chartering new credit unions, and providing guidance and advice on the effectiveness of policies and procedures related to the operations of new and developing credit unions.

Performance Indicators	2014	2015	2016	2017	2018	2019 Target	2019 Result	Status
2.3.1 Efficiently administer viable credit union charters and expansion requests								
Make a determination on completed field-of-membership expansion applications within an average of 60 days	—	42 days	40 days	54 days	57 days	Average 60 days	62 days	✘
Perform 30 reviews of approved community expansion plans	—	—	—	—	—	30	30	✔
2.3.2 Support small, low-income, minority and newly chartered credit unions								
Award funds to 40 percent of the minority depository institutions applying for grants	—	72%	40%	69%	91%	40%	63%	✔
Preserve the number of CDFI-certified credit unions to at least 28 percent of the total number of CDFIs	—	—	27%	28%	27%	28%	28%	✔
Increase the number of registered users of the Learning Management Service training tool by 30 percent	—	—	—	—	37%	30%	55%	✔

Discussion. *The NCUA did not make a determination on completed field-of-membership expansion applications within an average of 60 days.*

The NCUA assists in expanding access to affordable financial services through its chartering and field-of-membership initiatives, especially to individuals and communities in rural and underserved areas. The recent updates to the agency’s field-of-membership rules provide new opportunities for credit union financial and membership growth. During 2019, the agency approved 24 community-charter conversions, the expansion of 52 existing community charters and 43 expansions into underserved areas as part of its chartering and field-of-membership responsibilities. The NCUA encountered several instances throughout the year where conversions of credit unions from another type to multiple-common bond took longer than average to process, impacting our average response time. In addition, the number of underserved area expansions in 2018 (16) more than doubled in 2019 (43), which also took additional time to process because of the volume of applications, causing the overall average response time to increase.

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 budgetary resources to focus on executing and supporting the core mission
	3.3.3 Promote sound financial management and stewardship principles

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

The NCUA made progress in 2019 on the three strategic objectives, ten performance

goals and 22 indicators supporting this strategic goal. The agency met its target for 15 performance indicators. An explanation is provided for each indicator that did not meet its target.

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

Developing a highly qualified workforce begins with recruitment and assessment of candidates. The NCUA is committed to filling positions with the best-qualified applicants. The NCUA uses robust outreach strategies to reach and attract applicants and is using new

and innovative assessment tools to recruit the highest quality candidates possible.

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](#). A diverse workforce and inclusive work environment builds a stronger agency.

To supervise federally insured credit unions properly, staff must be trained to have the requisite skills and abilities to identify and mitigate risk. The NCUA will continue

reviewing and revising its training curricula to highlight regulatory and other changes to business context, respond to emergent industry trends, and address employee feedback.

In 2019, the NCUA's Talent Management Council prioritized employee engagement as a critical factor for strengthening agency performance. The overarching focus within the NCUA is the commitment to employee satisfaction with their jobs, commitment to agency mission accomplishment, and our dedication to work/life balance.

Performance Indicators	2014	2015	2016	2017	2018	2019 Target	2019 Result	Status
3.1.1 Deliver timely and relevant training and leadership development programs for all staff								
Obtain at least an 85 percent average rating in training class evaluations	89%	88%	88%	85%	85%	85%	85%	✓
Implement a new internal Learn Management System for NCUA employees and state examiners	—	—	—	—	—	Achieve	Delayed	✗
3.1.2 Promote inclusive leadership that values diverse perspectives and maximizes employees' contributions								
Improve 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	65.8%	68.0%	67.3%	65.7%	65.0%	66.0%	69.5%	✓
Improve NCUA's score for OPM's Inclusion Quotient by one percentage point. The Inclusion Quotient identifies behaviors that help create an inclusive environment	66%	67%	67%	65%	63%	64%	65%	✓

Performance Indicators	2014	2015	2016	2017	2018	2019 Target	2019 Result	Status
3.1.3 Apply employee feedback that measures engagement to support continuous improvement of the workplace								
Improve NCUA's Federal Employee Viewpoint Survey Employee Engagement Index by 2 percentage points	72%	72%	73%	69%	67%	Greater than or Equal to 69%	69%	✓
Obtain at least an 89 percent (3.56 out of 4) average satisfaction rating in new employee surveys	—	—	87%	82%	89%	89%	86%	✗

Discussion. *The NCUA did not implement a new internal Learn Management System for NCUA employees and state examiners in 2019.*

The NCUA's plans to procure a new learning management system to better enable access to on-demand training for all employees were delayed in 2019. During the agency's 2019 mid-session budget update, the NCUA deferred the learning management system project and reprioritized funding to support higher-priority capital projects. Project execution is rescheduled to resume in 2020, supported by funds approved in the 2020 Capital Budget. In line with these budgeted resources, the NCUA has a performance indicator to initiate the acquisition of a new learning management system in 2020.

The NCUA did not obtain at least an 89 percent (3.56 out of 4) average satisfaction rating in new employee surveys.

The NCUA aims to foster a work environment that is innovative, high performing, highly engaged, and inclusive. In 2019, the average satisfaction rating dropped three percentage points from 2018 levels. The agency's Office of Human Resources works with stakeholders on key areas that receive lower scores in new employee surveys. In response to the decline in performance, an onboarding working group was established in 2019, to complete a full analysis and make recommendations for improvement to the end-to-end process including pre-onboarding, onboarding, and engagement post new employee orientation.

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

The NCUA's Office of the Chief Information Officer is committed to delivering secure,

innovative information technology services and solutions to the NCUA workforce, credit unions, and other stakeholders. Staff relies heavily on technology to perform their duties and the responsibilities associated with the agency's mission. To create additional efficiencies, administrative tasks need to be

streamlined using technology. The NCUA’s Information Technology Prioritization Council, which is comprised of office and regional directors, reviews and prioritizes software initiatives and aligns information technology investments with the agency’s mission.

The NCUA’s planned information technology modernization, the Enterprise Solution Modernization program, will improve the examination process and ease burdens on credit unions and staff by reducing the amount of time spent in credit unions through new technology. This program is a multi-year effort created to manage modernization programs across the agency in such areas as examinations, workflow management, resource and time management, data integration and analytics, data governance, document management and customer relationship management. In 2019, the agency rolled out the replacement of its primary examination tool to examiners in the Office of National Examinations

and Supervision and select states. Full implementation will take place in 2020.

The NCUA is dedicated to strengthening its security program and communications as well. The agency’s Office of Continuity and Security Management is responsible for continuity of operations and emergency management, physical security, personnel security, and national security and intelligence. This office provides an important link between the intelligence community and the credit union system by managing NCUA’s threat analysis processes and working with the intelligence community and other partners to provide information on threats to the credit union system.

The NCUA developed a 2018 – 2019 *Human Capital Plan* to support the agency’s strategic and business priorities. The NCUA’s Talent Management Council identified four focus areas for workforce development in 2019: workforce alignment and engagement; training and development; leadership skills building; and technology advancements.

Performance Indicators	2014	2015	2016	2017	2018	2019 Target	2019 Result	Status
3.2.1 Implement a human capital plan to support strategic and business priorities								
Develop a 2020 Human Capital Plan to include a succession planning strategy	—	—	—	—	Human Capital Plan Approved	Achieve	Delayed	✘
Develop workforce plans for NCUA offices to address the changing needs of the agency	—	—	—	—	22%	50% of all offices	22%	✘

Performance Indicators	2014	2015	2016	2017	2018	2019 Target	2019 Result	Status
3.2.2 Protect NCUA staff, facilities and critical infrastructure								
Deliver relevant, quality insider threat risk and continuity of operations trainings to impacted staff, annually.	—	100%	100%	100%	100%	100% of targeted groups	100% of targeted groups	✓
Obtain a score of 73 percent or above on the NCUA's Federal Employee Viewpoint Survey Question 36 "My organization has prepared employees for potential security threats"	63%	76%	82%	76%	76%	Greater than or Equal to 73%	86%	✓
3.2.3 Implement secure, reliable and innovative technology solutions – Agency Priority Goal								
Conduct ONES examinations and supervision contacts for all federal credit unions with assets greater than \$10 billion and joint exams with state regulators in federally insured state-chartered credit unions with assets greater than \$10 billion in Washington and North Carolina using the Modern Examination and Risk Identification Tool (MERIT), commencing October 7, 2019	—	—	—	—	—	100%	100%	✓
Complete the replacement of end of life telephone system with scalable, integrated VoIP system	—	—	—	—	—	Achieve	Delayed	✗

Performance Indicators	2014	2015	2016	2017	2018	2019 Target	2019 Result	Status
3.2.4 Gain efficiencies through quality processes, systems, and project management								
Improve Tier 1 resolution rate (incidents resolved without transferring or escalating) for the NCUA service desk by five percentage points	—	—	—	—	Baseline Established	68%	71%	✓
Effectively train NCUA and State Examiners participating in the NCUA Alternating State Exam Pilot Program	—	—	—	—	—	Achieve	Achieved	✓
Enhance project and acquisition management practices by ensuring 90 percent of OCIO staff are certified as Level I Contracting Officer Representatives (CORs) and 60 percent are certified as Level II CORs by year-end	—	—	—	—	67% COR I certified, 48% COR II certified	90% COR I certified, 60% COR II certified	93% COR I certified, 60% COR II certified	✓

Discussion. *The NCUA did not develop a 2020 Human Capital Plan to include a succession planning strategy.*

The NCUA’s succession planning efforts were postponed. In 2019, the agency’s Human Capital Planning efforts prioritized the rollout of its new Leadership Development Strategy and 360 Assessments. The agency aims to work toward completion of a succession plan in 2020.

The agency did not achieve its target to develop workforce plans for 50 percent of NCUA offices.

In 2019, 22 percent of agency offices had developed workforce plans to address the changing needs of the agency. In early 2020, the agency launched a second pilot of workforce planning for offices and will implement routine workforce planning for NCUA offices by the end of 2020. The agency has set a target for 2020 to develop workforce plans for 75 percent of NCUA offices.

The NCUA did not complete the replacement of end of life telephone system with scalable, integrated VoIP system in 2019.

With a variety of high priority initiatives in process, the replacement of the agency’s end of life telephone system with scalable, integrated voice over internet protocol (VoIP) system was postponed. Project execution is rescheduled to begin in 2020. After an initial vendor/product solicitation, OCIO will conduct technical assessments and complete implementation.

Strategic Objective 3.3 – Ensure sound corporate governance

The NCUA maximizes its use of agency resources by continually improving our operations and strengthening our internal controls. The agency has reliable structures and processes in place to ensure sound

management of its four permanent funds; sound management of its investments, liquidity, liquidated and acquired assets, and other financial resources; prudent execution of the NCUA’s role as a fiduciary; and compliance with financial management policies and standards.

Performance Indicators	2014	2015	2016	2017	2018	2019 Target	2019 Result	Status
3.3.1 Foster an effective risk management and internal control environment								
Develop initial risk response plans for 75 percent of the NCUA’s tier 1 enterprise risks	—	ERM Program Established	—	—	25%	75%	50%	x
Complete at least 90 percent of OIG and GAO recommendations due in 2019 within the established timeframes	—	—	—	—	76%	90%	83%	x
3.3.2 Align NCUA’s resources to focus on executing and supporting the core mission								
Improve by five points the NCUA leadership’s assessment of the adequacy of its internal controls environment					Baseline Established	5 points over baseline	+ 5 Points	✓
Maintain baseline ratio of NCUA costs relative to credit union insured shares regulated	—	—	—	—	0.026%	0.026%	0.025%	✓
Continue maturation of the NCUA Enterprise Risk Management (ERM) program; for top tier risks identified through ERM, integrate risk response plans into 2020 budget processes	—	—	—	—	—	Third Quarter 2019 Budget Submissions	Achieved	✓
3.3.3 Promote sound financial management and stewardship principles								
Receive an unmodified opinion on the NCUA financial statement audit of all four funds	Achieved	Achieved	Achieved	Achieved	Achieved	Achieve	Achieved	✓
Award at least 70 percent of total eligible contract dollars as competitive actions	—	—	—	—	79%	70%	91%	✓

Discussion. *The NCUA did not develop initial risk response plans for 75 percent of the NCUA's tier 1 enterprise risks.*

The NCUA developed initial risk response plans for 50 percent of the NCUA's tier 1 enterprise risks, two plans short of its goal. The NCUA's enterprise 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.

Looking forward, the agency plans to implement several specific programmatic changes that resulted from the NCUA's 2019 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.

The agency did not complete at least 90 percent of corrective actions on OIG and GAO audit recommendations due in 2019 within established timeframes.

The agency strives to implement the recommendations resulting from OIG and GAO audits within the established timeframes and made great progress toward this goal. The agency completed 83 percent of audit recommendations in 2019, an improvement of seven percentage points over 2018. The agency is committed to continuous improvement, leading to self-identification of additional actions the agency can take to further address the audit recommendations. Recommendations remain open until all actions are completed to the satisfaction of the OIG and GAO.

Validation and Verification of Performance Data

The agency's 2019 performance results are based on reliable and valid data that are complete as of the end of the calendar year. The Office of the Chief Financial Officer reviews all performance data to assess the effectiveness of programs and the completeness and accuracy of the data. The office also evaluates how risks and opportunities affect the achievement of our strategic goals and objectives.

Data management and data reliability are important when determining performance outcomes. Currently, the Offices of Examination and Insurance, National Examination and Supervision, the Chief Economist, and our regional offices review the data. These offices, with support provided by the Office of the Chief Information Officer, monitor and maintain automated systems and databases that collect, track, and store performance data.

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.

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 NCUA's performance results.

Financial Information



About the Financial Information Section

In 2019, the NCUA prepared its financial statements to demonstrate accountability and stewardship of the resources entrusted to it to support our mission. Preparation of these statements is critical to the NCUA's goal of providing accurate and reliable information for decision making by our stakeholders.

The Federal Credit Union Act provides the overarching legal requirements regarding the NCUA's annual audited financial statements. Separate financial reporting provides transparency for each fund's particular stakeholders and complies with the intent of the Federal Credit Union Act. The NCUA files its four separately audited financial statements as Annual Management Reports per the Government Corporation requirements under OMB Circular A-136.

The Share Insurance Fund prepares its financial statements in accordance with accounting standards issued by the Federal Accounting Standards Advisory Board while the Operating Fund, Central Liquidity Facility, and Community Development Revolving Loan Fund are prepared in accordance with accounting standards issued by the Financial Accounting Standards Board. Each fund is integral to the performance of NCUA's mission to provide a safe and sound credit union system and are subject to annual financial statement audits.

National Credit Union Share Insurance Fund (NCUSIF)

Congress created the NCUSIF in 1970 to insure members' shares (deposits) in credit unions. The NCUSIF protects members'

accounts in insured credit unions in the event of a credit union failure. The NCUSIF insures the balance of each members' accounts, dollar-for-dollar, up to the standard maximum share insurance amount of \$250,000, including principal and posted dividends through the date of a failure, subject to various rules on account types, rights, and capacities.

Operating Fund

The NCUA Operating Fund was established as a revolving fund in the United States Treasury to provide administration and service to the federal credit union system. A majority of the Fund's revenue is comprised of operating fees paid by federal credit unions. The fund supports the other three funds managed by the NCUA Board by providing office space, information technology services, and supplies as well as paying employee salaries and benefits. Certain types of support are reimbursed to the Fund by the NCUSIF and CLF while support of the CDRLF is not reimbursed.

Central Liquidity Facility (CLF)

The CLF is designated as a mixed-ownership government corporation and is managed by the NCUA Board. The CLF was created to improve the general financial stability of credit unions by serving as a liquidity lender to credit unions experiencing unusual or unexpected liquidity shortfalls.

Community Development Revolving Loan Fund (CDRLF)

The CDRLF was established to stimulate economic development in low-income communities. Through its loan and technical assistance grant program, the CDRLF stimulates economic activities in the communities served by low-income designated federally chartered and state-chartered credit unions. These financial awards are appropriated by Congress and are intended to support credit unions in their efforts to provide basic financial services to residents in their communities, enhance their capacity to better serve their members and respond to emergencies. The CDRLF is the only NCUA fund that receives an annual appropriation from Congress.

Message from the Chief Financial Officer



Eugene Schied
Acting Chief Financial
Officer

This report provides an assessment of the National Credit Union Administration's (NCUA) detailed financial status and demonstrates how the resources entrusted to us were used to support our important

mission. I am pleased to present the NCUA's 2019 financial statements for NCUA's four funds:

- The National Credit Union Share Insurance Fund;
- The Operating Fund;
- The Central Liquidity Facility; and
- The Community Development Revolving Loan Fund.

Our independent auditor released unmodified opinions on the four funds and identified no significant issues. This sustained achievement underscores our commitment to transparency, accountability, and stewardship to the American people, the President of the United States, the United States Congress and federally insured credit unions and their members.

We continue to be responsible stewards of agency funds and remain dedicated to sound financial management practices. In 2019, the NCUA distributed \$160.1 million in Share Insurance Fund dividends to more than 5,500 eligible credit unions. This is the second equity distribution since closing the Temporary Corporate Credit Union Stabilization Fund in 2017 and transferring its assets and obligations to the Share Insurance Fund.

The Office of the Chief Financial Officer was integral to this significant effort for the NCUA, providing essential financial management expertise and ensuring the health and strength of the Share Insurance Fund.

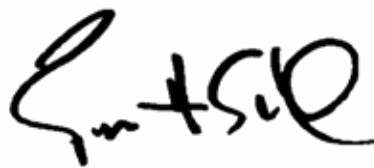
The NCUA has also continued to increase transparency and public input into its annual budgeting processes. On November 1, 2019, the NCUA budget was published in the Federal Register pursuant to the Economic Growth, Regulatory Relief, and Consumer Protection Act, P.L.115-174. Members of the public were invited to provide statements to the NCUA Board at a public presentation of the draft budget, and to submit written comments in response to the Federal Register filing. The NCUA is the only financial institutions regulator that publishes such a detailed draft budget and solicits public comments at a meeting with its Board or other agency leadership.

Looking forward, we are committed to sustaining progress in the financial statement audits, strengthening internal controls, modernizing outdated business processes, and improving data quality and reporting. We will continue to build out a robust internal controls program that allows us to identify and mitigate financial, operational, and compliance risks early. The NCUA will also continue to mature our enterprise risk management program to provide agency leadership with a portfolio view of risk to inform decision-making and effectively allocate resources to achieve the NCUA's mission.

I appreciate the NCUA professionals who plan, execute, and account for the agency's resources. Their commitment to ensuring sound financial management provides the

foundation for our strong stewardship and ensures that reliable financial information is delivered to our stakeholders.

Sincerely,

A handwritten signature in black ink, appearing to read 'Eugene H. Schied', written in a cursive style.

Eugene H. Schied

Acting Chief Financial Officer

February 14, 2020

Message from the Office of Inspector General



National Credit Union Administration

Office of Inspector General

February 14, 2020

The Honorable Rodney E. Hood, Chairman
 The Honorable J. Mark McWatters, Board Member
 The Honorable Todd M. Harper, Board Member
 National Credit Union Administration
 1775 Duke Street
 Alexandria, Virginia 22314

Dear Chairman Hood and Board Members McWatters and Harper:

I am pleased to transmit KPMG LLP's (KPMG) report on its financial statement audit of the National Credit Union Administration's (NCUA) financial statements, which includes the Share Insurance Fund, the Operating Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund, as of and for the years ending December 31, 2019 and 2018. The NCUA prepared financial statements in accordance with the Office of Management and Budget (OMB) Circular No. A-136 *Revised, Financial Reporting Requirements*, and subjected them to audit.

Under a contract monitored by the NCUA OIG, KPMG, an independent certified public accounting firm, performed an audit of NCUA's financial statements as of December 31, 2019. The contract required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States, Office of Management and Budget audit guidance, and the *Government Accountability Office/President's Council on Integrity and Efficiency Financial Audit Manual*.

KPMG's audit report for 2019 includes: (1) an opinion on the financial statements, (2) conclusions on internal control over financial reporting, and (3) a section addressing compliance and other matters. In its audit of the NCUA, KPMG found:

- The financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles;
- There were no material weaknesses in internal controls;¹
- There were no significant deficiencies related to internal controls;² and
- No instances of reportable noncompliance with laws and regulations it tested or other matters that are required to be reported under Government Auditing Standards or OMB guidance.

¹ A material weakness is defined as a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

² A significant deficiency is defined as a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To ensure the quality of the audit work performed, we reviewed KPMG’s approach and planning of the audit, evaluated the qualifications and independence of the auditors, monitored the progress of the audit at key points, and reviewed and accepted KPMG’s reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on the NCUA’s financial statements or conclusions about the effectiveness of internal control or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditor’s reports dated February 14, 2020, and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.

We would like to extend our thanks to NCUA management and staff involved in issuing the financial statements within the established milestones. In addition, we appreciate the professionalism, courtesies, and cooperation extended to KPMG throughout the audit and our oversight of the audit process.

The Inspector General’s Statement on the NCUA’s Management and Performance Challenges,

The Inspector General is required by law³ to provide a summary statement on management and performance challenges facing the agency. Below is a brief overview of the NCUA’s organizational structure, its mission, and vision, as well as what I believe are the key challenges to agency management in the coming year.

Organizational Structure

Created by Congress, the NCUA is an independent federal agency with the unique role of insuring deposits 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 politically appointed Board oversees the NCUA’s operations by setting policy, approving budgets, and adopting rules. As of December 31, 2019, over 120 million members have \$1.2 trillion in insured deposits at approximately 5,247 federally insured credit unions. These credit unions have approximately \$1.6 trillion in assets.

Agency Mission and Vision

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 to ensure that the “NCUA will protect consumer rights and member deposits.”

Agency Challenges

In deciding whether to identify an issue as a challenge, we consider its significance in relation to the NCUA’s mission; its susceptibility to fraud, waste, and abuse; and the NCUA’s progress in addressing the challenge. We compiled the attached statement on the basis of our past and ongoing audit, evaluation, investigation, and review work; our knowledge of the NCUA’s programs and operations; and information from the U.S. Government Accountability Office and NCUA management and staff.

³ Reports Consolidation Act of 2000 (Pub. L. No. 106-531).

We also consider the economic environment as a key determinant of credit union performance and for the last several years, the economy has supported solid performance of the credit union system. However, the NCUA will continue to face several risks that threaten the safety and soundness of the system and the Share Insurance Fund, as well as a number of complex challenges that could potentially impact its operations in the future. As a result, the NCUA must remain diligent in its supervisory efforts.

For calendar year 2020, we have again identified the following as areas where the NCUA faces management and performance challenges to varying degrees: – cyber threats, technology driven changes to the financial landscape, interest rate risk, membership trends, and challenges facing smaller credit unions and industry consolidation. Going forward, each of these same risks could potentially affect the safety and soundness of the credit union system and the Share Insurance Fund if not adequately managed.

Cyber Threats — 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 threats continue to pose significant dangers to the stability and soundness of the credit union industry and are expected to only increase in frequency and severity. Cybersecurity, therefore, remains a pressing concern for all financial institutions, including credit unions. As I noted last year, with credit unions and other small financial institutions increasingly targeted, credit unions must continue to enhance the security of their systems

For 2020, I am encouraged that the NCUA is improving and standardizing their supervision related to cybersecurity by piloting new examination procedures largely based on the Information Technology Risk Examination with an emphasis on critical security controls. Additionally, the NCUA is continuing to execute the first of two four-year cycles of the Automated Cybersecurity Examination Toolbox 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.

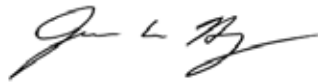
Technology-driven Changes — Last year I spoke of emerging financial products such as mobile payment systems, pre-paid shopping cards, and peer-to-peer lending that pose a competitive challenge to credit unions as does the emergence and increasing importance of digital currencies. As these products and digital monetary systems gain popularity, credit unions may have to be more active in marketing their products and services and rethink their business models. I am encouraged that the NCUA continues to study these issues through their Fintech and Blockchain Working Groups. The efforts of these two groups will help the NCUA manage the risks such new products and systems create.

Interest Rate Risk — Although 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 “reach for yield,” by adding long-term and higher-risk assets to their portfolio. Finally, the sluggish economy that would likely be associated with continued low interest rates could raise credit risk for almost all types of private instruments. Not only will credit union managers need to take appropriate actions to ensure their balance sheets remain stable in a variety of interest rate environments, but the NCUA must also continue to help credit unions plan and prepare for a range of economic outcomes that can affect their performance.

Membership Trends — I noted the last several years that the NCUA and credit unions face the challenge of an aging demographic. Unfortunately, membership concerns continue. Although overall credit union membership continues to grow strongly, close to half of federally insured credit unions had fewer members at the end of the third quarter of 2019 than a year earlier. All credit unions need to consider whether their product mix is consistent with their members' needs and demographic profile and I am encouraged that the NCUA has taken action that will allow for continued growth. The NCUA has updated field-of-membership rules, which provide new opportunities for credit union financial and membership growth, and consolidated many of the NCUA's functions into a single office that provides technical assistance to credit unions. The Office of Credit Union Resources and Expansion helps credit unions with chartering, field of membership, grants and loans training, and the preservation programs for minority credit unions. These actions should produce greater efficiencies, allowing the NCUA to facilitate better growth opportunities for credit unions.

Smaller Credit Unions' Challenges and Industry Consolidation — Last year was the first time I spoke of challenges facing small credit unions' long-term viability. Specifically, I noted small credit unions face challenges such as lower returns on assets, declining membership, high loan delinquencies, and elevated non-interest expenses. I also noted that if current consolidation trends persist, there will be fewer credit unions in operation and those that remain will be considerably larger and more complex. 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.

Respectfully,



James W. Hagen
Inspector General

cc: Executive Director Mark Treichel
Deputy Executive Director (Audit Follow-up Official) Rendell Jones
Acting General Counsel Frank Kressman
Deputy Chief of Staff Gisele Roget
Special Asst. to the ED Joy Lee
OEAC Deputy Director Michael Sinacore
Acting Chief Financial Officer Eugene Schied
Chief Information Officer Rob Foster
CURE Director Martha Ninichuk
Regional Director and AMAC President Keith Morton
E&I Director Larry Fazio
E&I, Division of Capital and Credit Markets, Director J. Owen Cole, Jr.



National Credit Union Share Insurance Fund

Financial Statements as of and for the Years Ended
December 31, 2019 and 2018, and
Independent Auditors' Report

Overview

I. Mission and Organizational Structure

NCUSIF Mission

The National Credit Union Administration (NCUA) administers the National Credit Union Share Insurance Fund (NCUSIF or Fund).¹ Congress created the NCUSIF in 1970 to insure members' shares (deposits) in credit unions. The NCUSIF protects members' accounts in insured credit unions in the event of a credit union failure. The NCUSIF insures the balance of each members' accounts, dollar-for-dollar, up to at least the standard maximum share insurance amount of \$250,000, including principal and posted dividends through the date of a failure, subject to various rules on account types, rights, and capacities. As of December 31, 2019, the NCUSIF insures \$1.2 trillion in member shares in approximately 5,200 credit unions.

Organizational Structure

The NCUA's Executive Director is responsible for the agency's daily operation. The Director of the Office of Examination and Insurance (E&I) is responsible for the NCUA's supervision programs, which ensure the safety and soundness of federally insured credit unions. The E&I Director is also responsible for managing the NCUSIF. Regional offices and the Office of National Examinations and Supervision are responsible for the examination and supervision of federally insured credit unions. Other NCUA offices provide operational and administrative services to the NCUSIF.

The Asset Management and Assistance Center (AMAC) is responsible for conducting credit union liquidations. Upon liquidation, a credit union is closed and becomes an Asset Management Estate (AME), for which AMAC collects the obligations due to the liquidated credit union, monetizes assets and distributes amounts to claimants, including the NCUSIF, according to their respective regulatory payout priorities. AMEs include assets and liabilities from failed natural person credit unions (NPCU AMEs) and corporate credit unions (Corporate AMEs).

¹ The NCUSIF is one of four funds established in the U.S. Treasury and administered by the NCUA Board as of December 31, 2019. The four permanent funds include the NCUSIF, the Operating Fund, the Central Liquidity Facility (CLF) and the Community Development Revolving Loan Fund. All four funds report under separate financial statements.

II. Performance Goals, Objectives, and Results

Performance measures are designed to enable management and our stakeholders to assess programs and financial performance. In measuring the performance of the NCUSIF for 2019 and 2018, the following additional measures should be considered:

2019 and 2018 Performance Measures		
	December 31, 2019	December 31, 2018
Equity Ratio	1.35%	1.39%
Insured Shares	\$1.2 trillion	\$1.1 trillion
Number of Credit Union Involuntary Liquidations and Assisted Mergers	2	8
Assets in CAMEL ² 3, 4 and 5 rated Credit Unions	\$52.5 billion	\$66.9 billion

Equity Ratio and Normal Operating Level

The financial performance of the NCUSIF can be measured by comparing the equity ratio to the Normal Operating Level (NOL). The equity ratio is calculated as the ratio of the one-percent (1.00%) contributed capital deposit plus cumulative results of operations, excluding net cumulative unrealized gains and losses on investments, to the aggregate amount of insured shares in all federally insured credit unions. The NOL is the Board's target equity level for the NCUSIF. Pursuant to the Federal Credit Union Act, the NCUA Board sets the NOL between 1.20% and 1.50%. On December 12, 2019, the Board set the NOL at 1.38%, equal to the previous level of 1.38%.

The NCUSIF pays a distribution when the year-end equity ratio exceeds the NOL and the available assets ratio exceeds 1.00% at year-end. As of December 31, 2019, the equity ratio was 1.35%, which is below the NOL. Previously, the equity ratio was 1.39% as of December 31, 2018, which was above the established NOL of 1.38%. As a result, the NCUA Board approved a Share Insurance distribution of \$160.1 million to eligible, federally insured credits unions. This distribution was paid during the second quarter of 2019.

Insurance Related Activities

The NCUA identifies credit unions at risk of failure through the supervisory and examination process. Estimated losses are based on economic trends and each credit union's financial condition and operations. The NCUA also evaluates overall credit union trends and monitors potential system-wide risk factors, such as increasing levels of consumer debt, bankruptcies, and delinquencies.

For 2019, there were two credit union failures compared to eight failures in 2018. The cost of these failures, or the estimated cost of resolution at the time of liquidation, for the current year is \$40.3 million compared to \$785.0 million for failures that occurred in 2018.

The NCUA's supervisory actions may result in the conservatorship of federally insured credit unions. As of December 31, 2019, there were two credit unions operating under the NCUA's conservatorship. Estimated losses related to conserved credit unions are determined as part of the Fund's reserve methodology and are contained within the Insurance and Guarantee Program Liabilities line item in the Balance Sheets.

2 The CAMEL system, which applies a rating to the credit union ranging from "1" (strongest) to "5" (weakest), is based upon an evaluation of five critical elements of a credit union's operations: Capital Adequacy, Asset Quality, Management, Earnings, and Liquidity/Asset-Liability Management (CAMEL). The NCUA employs the CAMEL rating system as a tool to measure risk and allocate resources for supervisory purposes.

The credit union industry remained stable during 2019. The aggregate net worth ratio increased during the year ending at 11.4% versus 11.3% at December 31, 2018. Assets in CAMEL 3, 4 and 5 rated credit unions decreased to \$52.5 billion at the end of 2019 versus \$66.9 billion at the end of 2018.

III. Financial Statement Analysis

The NCUSIF ended 2019 with an increase in Total Assets and Net Position. The increase in Total Assets is largely attributable to the increase in investments. Insurance and Guarantee Program Liabilities decreased from the prior year. Net Cost of Operations increased to \$136.8 million, primarily as a result of increases in the Reserve Expense within the Provision for Insurance Losses line item. These changes are explained in further detail below.

Summarized Financial Information				
(Dollars in Thousands)	2019	2018	Increase / (Decrease)	
			\$	%
Net Position				
Assets:				
Investments, Net	16,019,816	15,072,202	947,614	6.3%
Receivables from Asset Management Estates (AMEs), Net	610,227	698,215	(87,988)	-12.6%
Other	91,514	76,265	15,249	20.0%
Total Assets	\$16,721,557	\$15,846,682	\$874,875	5.5%
Total Liabilities	\$121,596	\$125,056	(\$3,460)	-2.8%
Net Position (Assets minus Liabilities)	\$16,599,961	\$15,721,626	\$878,335	5.6%
Net Cost				
Gross Costs:				
Operating Expenses	191,077	187,395	3,682	2.0%
Provision for Insurance Losses	(40,595)	(113,826)	73,231	64.3%
Other Losses	87	2,786	(2,699)	-96.9%
Total Gross Costs	\$150,569	\$76,355	\$74,214	97.2%
Exchange Revenue	\$13,768	\$18,158	(\$4,390)	-24.2%
Total Net Cost of Operations	\$136,801	\$58,197	\$78,604	135.1%
Cumulative Results of Operations				
Beginning Balance	\$4,394,392	\$4,971,367	(\$576,975)	-11.6%
Financing Sources:				
Interest Revenue - Investments	306,467	284,716	21,751	7.6%
Distribution to Credit Unions	(160,099)	(735,679)	575,580	78.2%
Net Unrealized Gain / (Loss) - Investments	228,615	(67,815)	296,430	437.1%
Total Financing Sources	\$374,983	(\$518,778)	\$893,761	172.3%
Net Cost of Operations	\$136,801	\$58,197	\$78,604	135.1%
Cumulative Results of Operations	\$4,632,574	\$4,394,392	\$238,182	5.4%
Contributed Capital	\$11,967,387	\$11,327,234	\$640,153	5.7%
Net Position	\$16,599,961	\$15,721,626	\$878,335	5.6%

Fiduciary Activity Highlights

The financial results of the NPCU AMEs and Corporate AMEs with the NCUA Guaranteed Notes (NGN) Program Trusts are not presented in the results of the NCUSIF as described above, but are presented as fiduciary activities of the NCUSIF in accordance with the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standard (SFFAS) No. 31, *Accounting for Fiduciary Activities*, and are included in the notes to the NCUSIF financial statements.

NGN Program

The outstanding principal balance of the NGNs was \$3.2 billion and \$4.4 billion as of December 31, 2019 and 2018, respectively. This amount represents the maximum potential future guarantee payments that the NCUA could be required to make. The losses from the guarantees of NGNs are expected to be significantly less than the above maximum potential exposure. The NCUA's estimate of the expected recovery from the Corporate AMEs is derived using a model and reflects the NCUA's expectations and assumptions about the estimated cash flows of the Corporate AMEs' assets.

As of December 31, 2019 and 2018, the NCUA Board, as liquidating agent of the Corporate AMEs, held approximately \$0.9 billion and \$1.1 billion in post-securitized assets, respectively. Generally, post-securitized assets are the Legacy Assets that are no longer secured by the NGNs. The table below represents the composition of Legacy Assets collateralizing the remaining nine NGNs with an aggregate unpaid principal balance of \$5.4 billion and recovery value of approximately \$4.3 billion as of December 31, 2019. There were nine NGNs with an aggregate unpaid principal balance of \$6.5 billion and recovery value of approximately \$5.2 billion as of December 31, 2018.

Composition of Legacy Assets Collateralizing the NGN Trusts

Asset Type and Credit Rating ¹	Based on Recovery Value				Based on Unpaid Principal Balance				
	December 31, 2019		December 31, 2018		December 31, 2019		December 31, 2018		
RMBS	AAA	87%	0%	88%	1%	85%	0%	87%	1%
	AA		2%		2%		2%		2%
	A		3%		3%		2%		2%
	BBB		3%		3%		3%		2%
	Below Investment Grade		85%		85%		87%		87%
	NA		7%		6%		6%		6%
CMBS	AAA	2%	0%	2%	0%	1%	0%	1%	0%
	AA		0%		0%		0%		0%
	A		3%		4%		3%		4%
	BBB		0%		0%		0%		0%
	Below Investment Grade		97%		96%		97%		96%
	NA		0%		0%		0%		0%
ABS ²	AAA	5%	64%	5%	63%	8%	31%	7%	33%
	AA		0%		2%		0%		1%
	A		0%		0%		0%		0%
	BBB		13%		13%		7%		7%
	Below Investment Grade		22%		21%		52%		49%
	NA		1%		1%		10%		10%
Agency		4%	100%		4%	100%		4%	100%
Corporate	AAA	2%	0%	1%	0%	2%	0%	2%	0%
	AA		0%		0%		0%		0%
	A		0%		0%		0%		0%
	BBB		0%		0%		0%		0%
	Below Investment Grade		0%		0%		0%		0%
	NA		100%		100%		100%		100%

Percentages may not total 100% due to rounding.

¹ The rating is based on the lowest published rating by S&P, Moody's, or Fitch.

² The collateral underlying the ABS included in the table above is primarily student loans.

Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the NCUSIF. While the statements have been prepared from the books and records of the NCUSIF in accordance with U.S. generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Liquidity Risk and Capital Resources

For liquidity, the NCUSIF maintains cash in its Fund Balance with Treasury (FBWT) account as well as investments in U.S. Treasury securities. Investments in U.S. Treasury securities include overnight investments, which are available to meet urgent liquidity needs of the NCUSIF.

2019 and 2018 Fund Balance with Treasury and Investments		
	December 31, 2019	December 31, 2018
Fund Balance with Treasury	\$ 7.9 million	\$ 5.0 million
U.S. Treasury Securities		
Overnight	516.3 million	1,218.5 million
Available-for-Sale	15,503.5 million	13,853.7 million

During 2019, the NCUSIF's FBWT and Investments increased overall primarily due to capital contributions of \$640.2 million from credit unions and \$306.5 million from interest earned on investments.

The NCUSIF has multiple funding sources to include:

- capitalization deposits contributed by insured credit unions, as provided by the *Federal Credit Union Act*, Public Law 73-467, as amended (FCU Act);
- guarantee fees;
- cumulative results of operations retained by the NCUSIF;
- premium assessments on insured credit unions, as necessary;
- borrowings from the U.S. Treasury; and
- borrowings from the Central Liquidity Facility (CLF).

The NCUSIF is a revolving fund in the U.S. Treasury and has access to sufficient funds to meet its obligations, including its Insurance and Guarantee Program Liabilities.

IV. Systems, Controls, and Legal Compliance

The NCUSIF was created by Title II of the FCU Act, 12 U.S.C. §1781 *et seq.*, as amended. In January 2011, the *National Credit Union Authority Clarification Act*, Public Law 111-382, amended the definitions of "equity ratio" and "net worth" in the FCU Act. The NCUA, including the NCUSIF, is exempt from requirements under the *Federal Credit Reform Act of 1990* (2 U.S.C. § 661 *et seq.*).

Internal controls should be designed to provide reasonable assurance regarding prevention or prompt detection of unauthorized acquisition, use, or disposition of assets. The *Federal Managers' Financial Integrity Act*, Public Law 97-255 (FMFIA), requires agencies to establish management controls over their programs and financial systems. Accordingly, NCUA management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of

FMFIA, which include safeguarding assets and compliance with applicable laws and regulations. NCUA management monitors and assesses its relevant internal controls and reports on its assessment. This allows NCUA management to provide reasonable assurance that internal controls are operating effectively. The NCUA is in compliance with FMFIA as well as all applicable laws such as the *Prompt Payment Act*, Public Law 97-177, and the *Debt Collection Improvement Act*, Public Law 104-134.

The *Improper Payments Information Act of 2002*, Public Law 107-300 (IPIA), as amended by the *Improper Payments Elimination and Recovery Act of 2010*, Public Law 111-204 (IPERA), and the *Improper Payments Elimination and Recovery Improvement Act of 2012*, Public Law 112-248 (IPERIA), requires federal agencies to review all programs and activities they administer to identify those that may be susceptible to significant improper payments. We have determined that the NCUSIF's programs are not susceptible to a high risk of significant improper payments.

As required by the *Federal Information Security Management Act*, Public Law 107-347, as amended (FISMA), the NCUA develops, documents, and implements an agency-wide program to provide information privacy and security (management, operational, and technical security controls) for the information and information systems that support the operations of the agency, including those provided or managed by another agency, contractor, or other source.



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General, National Credit Union Administration and
the National Credit Union Administration Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Share Insurance Fund (NCUSIF) which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of net cost, changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedule that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of the National Credit Union Share Insurance Fund as of December 31, 2019 and 2018, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Overview section be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2019, we considered the NCUSIF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NCUSIF's internal control. Accordingly, we do not express an opinion on the effectiveness of the NCUSIF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Manager's Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the NCUSIF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-03.



Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the NCUSIF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
February 14, 2020

NATIONAL CREDIT UNION SHARE INSURANCE FUND**BALANCE SHEETS****As of December 31, 2019 and 2018****(Dollars in thousands)**

	<u>2019</u>	<u>2018</u>
ASSETS		
INTRAGOVERNMENTAL		
Fund Balance with Treasury (Note 2)	\$ 7,947	\$ 5,000
Investments, Net - U.S. Treasury Securities (Note 3)	16,019,816	15,072,202
Accrued Interest Receivable - Investments (Note 3)	76,631	62,454
Accounts Receivable - Due from the NCUA Operating Fund	-	35
Note Receivable - Note due from the NCUA Operating Fund (Note 5)	5,028	6,369
Total Intragovernmental Assets	<u>16,109,422</u>	<u>15,146,060</u>
PUBLIC		
Accounts Receivable - Guarantee Fee on NGNs, Net (Note 4)	775	1,050
General Property, Plant and Equipment, Net (Note 6)	113	212
Advances and Prepayments	1,020	995
Accounts Receivable - Other	-	150
Receivables from Asset Management Estates (AMEs), Net (Note 7)	610,227	698,215
Total Public Assets	<u>612,135</u>	<u>700,622</u>
TOTAL ASSETS	<u>\$ 16,721,557</u>	<u>\$ 15,846,682</u>
LIABILITIES		
INTRAGOVERNMENTAL		
Accounts Payable - Due to the NCUA Operating Fund (Note 10)	\$ 2,308	\$ 4,023
Total Intragovernmental Liabilities	<u>2,308</u>	<u>4,023</u>
PUBLIC		
Accounts Payable	463	1,804
Insurance and Guarantee Program Liabilities (Note 8)	116,978	119,053
Other Liabilities (Note 9)	1,847	176
Total Public Liabilities	<u>119,288</u>	<u>121,033</u>
TOTAL LIABILITIES	<u>121,596</u>	<u>125,056</u>
Commitments and Contingencies (Note 8)		
NET POSITION		
Contributed Capital (Note 13)	11,967,387	11,327,234
Cumulative Results of Operations	4,632,574	4,394,392
Total Net Position	<u>16,599,961</u>	<u>15,721,626</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 16,721,557</u>	<u>\$ 15,846,682</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND**STATEMENTS OF NET COST****For the Years Ended December 31, 2019 and 2018****(Dollars in thousands)**

	<u>2019</u>	<u>2018</u>
GROSS COSTS		
Operating Expenses	\$ 191,077	\$ 187,395
Provision for Insurance Losses		
Reserve Expense (Reduction) (Note 8)	38,835	(13,967)
AME Receivable Bad Debt Expense (Reduction) (Note 7)	<u>(79,430)</u>	<u>(99,859)</u>
Total Provision for Insurance Losses	(40,595)	(113,826)
Other Losses	87	2,786
Total Gross Costs	<u>150,569</u>	<u>76,355</u>
LESS EXCHANGE REVENUES		
Interest Revenue on Note Receivable from the NCUA Operating Fund (Note 5)	(112)	(123)
Guarantee Fee Revenue - NGNs	(13,167)	(16,982)
Other Revenue	<u>(489)</u>	<u>(1,053)</u>
Total Exchange Revenues	<u>(13,768)</u>	<u>(18,158)</u>
TOTAL NET COST OF OPERATIONS	<u>\$ 136,801</u>	<u>\$ 58,197</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND**STATEMENTS OF CHANGES IN NET POSITION****For the Years Ended December 31, 2019 and 2018****(Dollars in thousands)**

	<u>2019</u>	<u>2018</u>
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	\$ 4,394,392	\$ 4,971,367
BUDGETARY FINANCING SOURCES		
Non-Exchange Revenue		
Interest Revenue - Investments	306,467	284,716
Distribution to Credit Unions	(160,099)	(735,679)
Total Budgetary Financing Sources	<u>146,368</u>	<u>(450,963)</u>
OTHER FINANCING SOURCES		
Non-Exchange Revenue		
Net Unrealized Gain/(Loss) - Investments (Note 3)	228,615	(67,815)
Total Financing Sources	<u>374,983</u>	<u>(518,778)</u>
Net Cost of Operations	<u>(136,801)</u>	<u>(58,197)</u>
Net Change	<u>238,182</u>	<u>(576,975)</u>
CUMULATIVE RESULTS OF OPERATIONS	<u>4,632,574</u>	<u>4,394,392</u>
CONTRIBUTED CAPITAL (Note 13)		
Beginning Balances	11,327,234	10,765,320
Change in Contributed Capital	640,153	561,914
CONTRIBUTED CAPITAL	<u>11,967,387</u>	<u>11,327,234</u>
NET POSITION	<u>\$ 16,599,961</u>	<u>\$ 15,721,626</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND**STATEMENTS OF BUDGETARY RESOURCES****For the Years Ended December 31, 2019 and 2018****(Dollars in thousands)**

	<u>2019</u>	<u>2018</u>
BUDGETARY RESOURCES (Notes 11, 12 and 15)		
Unobligated balance from prior year budget authority, net	\$ 15,186,319	\$ 16,127,894
Borrowing authority (mandatory)	-	-
Spending authority from offsetting collections (mandatory)	1,272,155	1,279,038
TOTAL BUDGETARY RESOURCES	<u>\$ 16,458,474</u>	<u>\$ 17,406,932</u>
 STATUS OF BUDGETARY RESOURCES		
New obligations and upward adjustments (total)	\$ 584,237	\$ 2,220,613
Unobligated balance, end of year:		
Exempt from apportionment	15,874,237	15,186,319
Total unobligated balance, end of year	15,874,237	15,186,319
TOTAL BUDGETARY RESOURCES	<u>\$ 16,458,474</u>	<u>\$ 17,406,932</u>
 OUTLAYS, NET		
Outlays, net (discretionary and mandatory)	\$ (672,771)	\$ 953,043
Distributed offsetting receipts	-	-
AGENCY OUTLAYS, NET (DISCRETIONARY AND MANDATORY)	<u>\$ (672,771)</u>	<u>\$ 953,043</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND**NOTES TO THE FINANCIAL STATEMENTS****For the Years Ended December 31, 2019 and 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Reporting Entity**

The National Credit Union Share Insurance Fund (NCUSIF) was created by Title II of the *Federal Credit Union Act*, Public Law 73-467, as amended (FCU Act), 12 U.S.C. § 1781 *et seq.* The NCUSIF was established as a revolving fund in the Treasury of the United States (U.S. Treasury), under management of the National Credit Union Administration (NCUA) Board (NCUA Board) for the purpose of insuring member share deposits in all federal credit unions (FCUs) and in federally insured state-chartered credit unions.

The NCUA exercises direct supervisory authority over FCUs and coordinates supervisory involvement with the state chartering authorities for state-chartered credit unions insured by the NCUSIF. Federally insured (insured) credit unions are required to report certain financial and statistical information to the NCUA on a quarterly basis and are subject to periodic examination by the NCUA. Information derived through the supervision and examination process provides the NCUA with the ability to identify insured credit unions experiencing financial difficulties that may require assistance from the NCUSIF.

Assistance from the NCUSIF, pursuant to the FCU Act, may be in the form of a waiver of statutory reserve requirements, liquidity assistance in the form of a guaranteed line of credit, cash assistance in the form of a subordinated note, or other such form. In some cases, a merger partner for the credit union may be sought. Mergers between financially troubled credit unions and stronger credit unions may also require NCUSIF assistance. Merger assistance may be in the form of cash assistance, purchase of certain assets by the NCUSIF, and/or guarantees of the values of certain assets (e.g., primarily loans). When a credit union is no longer able to continue operating and the merger and assistance alternatives are not practical, the NCUSIF or the appropriate state supervisory authority may liquidate the credit union. In the event of a credit union liquidation, the NCUSIF pays members' shares up to the maximum insured amount and monetizes the credit union's assets.

Fiduciary Responsibilities

The NCUA's Asset Management and Assistance Center (AMAC) conducts liquidations and performs management and recovery of assets for failed credit unions. Assets and liabilities of liquidated credit unions reside in Asset Management Estates (AMEs). AMEs include assets and liabilities from failed natural person credit unions (NPCU AMEs) and corporate credit union (CCU) AMEs (Corporate AMEs).

On September 24, 2010, the NCUA Board announced the Corporate System Resolution Program (CSRP). The CSRP was a multi-stage plan for stabilizing the corporate credit union system, providing short-term and long-term funding to resolve a portfolio of residential mortgage-backed securities, commercial mortgage-backed securities, other asset-backed securities and corporate bonds (collectively referred to as the Legacy Assets) held by the failed CCUs, and establishing a new regulatory framework for CCUs. Under the CSRP, the NCUA created a re-securitization program (the NGN Program) to provide long-term funding for the Legacy Assets through the issuance of the NGNs by trusts established

for this purpose (NGN Trusts). The NGN Trusts are guaranteed by the NCUA, and backed by the full faith and credit of the United States.

Fiduciary activities are the collection or receipt, management, protection, accounting, investment, and disposition of cash and other assets held by an AME, in which non-federal individuals or entities have an ownership interest. Fiduciary assets are not assets of the federal government. Fiduciary activities are not recognized on the basic financial statements, but are reported on schedules in the notes to the financial statements in accordance with SFFAS No. 31, *Accounting for Fiduciary Activities*. The NCUA Board, as liquidating agent of the AMEs, disburses obligations owed by and collects money due to the liquidating credit unions through AMAC. The assets reported on the NCUSIF Balance Sheet are non-fiduciary.

Fiduciary assets are recorded at values that are estimated to be recovered based on market information and external valuations, such as appraisals, as well as internal and external models incorporating the NCUA's current assumptions regarding numerous factors, including prepayments, defaults, loss severity and discount rates. Legacy Assets may benefit from litigation and other efforts by various trustees, insurers, investors, and investor consortiums, including the NCUA Board as liquidating agent, to recover losses that the Legacy Assets have suffered. Any benefits from these recovery efforts will be recognized by an AME when receipt is certain. Fiduciary liabilities related to borrowings and claims are recorded at their contractual or settlement amounts as agreed by the liquidating agents and the creditors. Contingent liabilities related to legal actions are recorded if probable and measurable. Accrued liquidation costs reflect the NCUA's estimates and assumptions regarding the timing and associated costs to dispose of the AME assets.

Unless expressly guaranteed by the NCUA and backed by the full faith and credit of the United States, the AMEs' unsecured creditors, including the NCUSIF, could only expect to be paid if recoveries from the assets of the AMEs are sufficient to be distributed to the unsecured creditors in order of priority as set forth in 12 CFR §709.5(b).

Sources of Funding

Deposits insured by the NCUSIF are backed by the full faith and credit of the United States. The NCUSIF has multiple sources of funding. Each insured credit union is required to deposit and maintain 1.00% of its insured shares in the NCUSIF. The NCUA Board may also assess premiums to all insured credit unions, as provided by the FCU Act.

In addition, the NCUSIF may receive investment interest income, guarantee fees, and recoveries from the AMEs including proceeds recovered from legal claims and asset sales. The NCUSIF also has authority to borrow from the U.S. Treasury and the ability to borrow from the NCUA's Central Liquidity Facility (CLF).

Accounting Principles

The NCUSIF's financial statements have been prepared from its accounting records in accordance with standards promulgated by the Federal Accounting Standards Advisory Board (FASAB). FASAB is designated by the American Institute of Certified Public Accountants as the source of generally accepted accounting principles (GAAP) for federal reporting entities. The format of the financial statements and footnotes is in accordance with the form and content guidance provided in Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, revised June 28, 2019.

Consistent with SFFAS No. 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, the NCUA considers and where appropriate, applies Financial Accounting Standards Board (FASB) guidance for those instances where no applicable FASAB guidance is available. Any such significant instances are identified herein.

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

In its accounting structure, the NCUSIF records both proprietary and budgetary accounting transactions. Following the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred. Federal budgetary accounting recognizes the obligation of appropriations, borrowing authorities, and other fund resources upon the establishment of a properly documented legal liability, which may be different from the recording of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal controls over the use of federal funds and compliance with budgetary laws.

Budgetary and financial accounting information are complementary, but the types of information and the timing of their recognition are different. Information is needed about the differences between proprietary and budgetary accounting, which is accomplished in part by presenting a Reconciliation of Net Cost of Operations to Net Outlays Note 15. In accordance with SFFAS No. 53, *Budget and Accrual Reconciliation*, the Reconciliation of Net Cost of Operations to Net Outlays has replaced the Reconciliation of Net Cost of Operations to Budget in the Notes to the Financial Statements. The Reconciliation of Net Cost of Operations to Net Outlays helps explain and clarify how proprietary basis of accounting Net Cost of Operations (cash and non-cash transactions) relates to budgetary basis of accounting Net Outlays (cash transactions) and the reconciling items between the two.

The NCUA, including the NCUSIF, is exempt from requirements under the *Federal Credit Reform Act of 1990* (2 U.S.C. § 661 et seq.).

Use of Estimates

The preparation of financial statements in conformity with GAAP for the federal government requires management to make estimates and assumptions that affect the following:

- reported amounts of assets and liabilities;
- disclosure of contingent assets and liabilities at the date of the financial statements; and
- the amounts of revenues and expenses reported during that period.

Significant items subject to those estimates and assumptions include: (i) allowance amounts for losses on the receivables from AMEs for claims paid on their behalf; (ii) reserves for probable losses and contingencies related to Insurance and Guarantee Program Liabilities; (iii) the amount and timing of recoveries, if any, related to any claims paid and the settlement of guarantee liabilities; (iv) allowance amounts established for loan losses related to cash assistance provided to insured credit unions; and (v) determination of the accounts payable accrual.

Fund Balance with Treasury

Fund Balance with Treasury (FBWT) is the aggregate amount of funds in accounts held by the U.S. Treasury from which the NCUSIF is authorized to make expenditures and pay liabilities. The entire FBWT is a revolving fund type.

Investments, Net

Investment securities primarily consist of market-based U.S. Treasury securities of varying maturities (debt securities). The NCUSIF also holds non-marketable U.S. Treasury overnight securities purchased and reported at par value, which are classified as held-to-maturity. All marketable securities are carried as available-for-sale in accordance with FASB Accounting Standards Codification (ASC) 320, *Investments – Debt and Equity Securities*.

Interest earned and unrealized holding gains and losses on U.S. Treasury securities are excluded from net costs and reported as components of non-exchange revenue. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis.

All U.S. Treasury securities that are in an unrealized loss position are reviewed for other-than-temporary impairment (OTTI). The NCUSIF evaluates its U.S. Treasury securities on a monthly basis. An investment security is deemed impaired if the fair value of the investment is less than its amortized cost. Amortized cost includes adjustments (if any) made to the cost basis of an investment for accretion, amortization, and previous OTTI. To determine whether impairment is an OTTI, the NCUA takes into consideration whether it has the intent to sell the security. The NCUA also considers available evidence to assess whether it is more likely than not that it will be required to sell the debt security before the recovery of its amortized cost basis. If the NCUA intends to sell or, more likely than not, will be required to sell the security before recovery of its amortized cost basis, an OTTI shall be considered to have occurred.

Premiums and discounts are amortized over the life of the related available-for-sale security as an adjustment to yield using the effective interest method.

Accrued Interest Receivable

The NCUSIF recognizes accrued interest receivable for amounts of interest contractually earned but not yet received.

Accounts Receivable

Accounts receivable represents the NCUSIF's claims for payment from other entities. Gross receivables are reduced to net realizable value by an allowance for doubtful accounts as further discussed below. Public accounts receivable represent accounts receivable between the NCUSIF and non-federal entities and are categorized as follows:

Capitalization Deposits from Insured Credit Unions

Each insured credit union pays to and maintains with the NCUSIF a capitalization deposit amount equal to 1.00% of its insured shares. Receivables and associated non-exchange revenue are recognized upon invoicing.

Guarantee Fee on NCUA Guaranteed Notes

Guarantee fee accounts receivable represents outstanding balances of guarantee fees associated with the NGN Trusts.

Premium Assessments from Insured Credit Unions

The NCUA Board has the statutory authority under Section 202 of the FCU Act to assess a premium charge to insured credit unions. The NCUA Board may assess each insured credit union a premium charge in an amount stated as a percentage of insured shares only if the equity ratio is less than 1.30% and the premium charge does not exceed the amount necessary to restore the equity ratio to 1.30%. When the NCUA Board projects that the equity ratio will, within six months, fall below 1.20%, the NCUA Board must establish and implement a restoration plan within 90 days, which meets the statutory requirements and any further conditions that the NCUA Board determines appropriate. In order to meet statutory requirements, the plan must provide that the equity ratio will meet or exceed the minimum amount specified of 1.20% before the end of the eight-year period beginning upon the implementation of the plan (or such longer period as the NCUA Board may determine to be necessary due to extraordinary circumstances).

The NCUA Board did not assess premiums for 2019 and 2018.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is the NCUA's best estimate of the amount of losses in an existing NCUSIF receivable. Based on an assessment of collectability, the NCUSIF calculates an allowance on an individual account basis for public accounts receivable. An account may be impaired or written off if it is probable that the NCUSIF will not collect all amounts contractually due. No allowance is calculated for intragovernmental accounts receivable as these are deemed to be fully collectible.

General Property, Plant and Equipment, Net

General Property, Plant and Equipment, Net consists of internal-use software and assets under capital lease, and is recognized and measured in accordance with SFFAS No. 6, *Accounting for Property, Plant, and Equipment*.

Costs incurred for internal use software during the software development phase are capitalized in accordance with SFFAS No. 10, *Accounting for Internal Use Software*. General property, plant and equipment is subject to depreciation and carried at net cost once placed into service. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of equipment and software; (the shorter of either the estimated useful life or lease term is applied for leasehold improvements and capital leases). Assets under capital lease are depreciable over three years, which corresponds with the life of the underlying capital lease. Internal use software has a useful life of three years per the NCUA capitalization policy.

Receivables from Asset Management Estates, Net

The NCUA records a receivable from AMEs when claims are paid by the NCUSIF in order to satisfy obligations to insured shareholders and other guaranteed parties, as well as to pay administrative expenses on behalf of AMEs. Assets held by the AMEs are the main source of repayment of the NCUSIF's receivables from the AMEs. As the assets are monetized, recoveries from the assets are paid to the NCUSIF to reduce the receivable from AMEs.

The gross AME receivable is reduced by an allowance for loss. This allowance represents the difference between the funds disbursed and obligations incurred and the expected repayment, when recognized, from the AMEs pursuant to the liquidation payment priorities set forth in 12 C.F.R. §709.5(b). The NCUA records the allowance amount for loss on receivables from AMEs based on expected asset recovery rates. The asset recovery rates are based on several sources including:

- actual or pending AME asset disposition data;
- asset valuation data based upon the performance, quality, and type of the assets in the portfolio;
- estimated liquidation costs based on information from similar recently failed credit unions; and
- estimated AME specific administrative expenses based upon complexity and expected duration of the AME.

Insurance and Guarantee Program Liabilities

In 2019, the NCUA implemented SFFAS No. 51, *Insurance Programs*. The purpose of this statement is to establish consistent accounting and financial reporting standards for insurance programs across the federal government. SFFAS No. 51 requires that the financial statements and accompanying footnote disclosures provide concise, meaningful and transparent information regarding the operating performance of the NCUA's two insurance activities – Insured Credit Unions and NCUA Guaranteed Notes (NGN), which are classified as exchange transaction insurance programs.

Pursuant to SFFAS No. 51, the NCUA is required to recognize revenue on insurance premiums as earned. The NCUA must also recognize, measure and record liabilities for unearned premiums, unpaid insurance claims and losses on remaining coverage as applicable. In addition, the NCUA must disclose information about the purpose, full costs (to include premium collections and borrowing authority), investing activities and arrangement duration of our insurance programs as well as our premium pricing policies, the nature and magnitude of our estimates, the total amount of insurance coverage provided through the end of the reporting period and any events that could have a material effect on the recorded liability. Information concerning the NCUSIF's premium pricing policies and premiums collections can be found under the Accounts Receivable header herein. The NCUSIF's investment securities primarily consist of market-based U.S. Treasury securities of varying maturities (debt securities) and its investing activities are described in Notes 2 and 3. The nature and terms of the NCUSIF's borrowing authority is addressed in Note 11. The total amount of insurance coverage provided through the end of the reporting period is outlined in Note 13. The remaining information required to be disclosed is discussed further in Note 8.

Consistent with the presentation in prior reporting periods, SFFAS No. 51 also requires a roll-forward of the Insurance and Guarantee Program Liabilities balance from the prior year to the current period. The NCUA has adopted the revised titles for each component of the roll-forward as applicable, except for the term "Claim expenses", which will remain "Reserve expense". Though the titles represent the exact same activity, the NCUA has elected to retain the prior presentation of "Reserve expense" in an effort to: 1) maintain clarity for the users of the financial statements; and 2) ensure comparability between the Statements of Net Cost and Note 8.

The NCUSIF records a liability for probable losses relating to insured credit unions and the NGNs. The year-end liability for insurance losses is comprised of general and specific reserves. The general reserve is derived using an internal econometric model that applies estimated probability of failure and loss rates while the specific reserve is based on analyses performed on credit unions where failure is probable and additional information is available to make a reasonable estimate of losses.

Liabilities for loss contingencies on the NGNs arise from claims, assessments, litigation, fines and penalties, and other sources. These loss contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Other Liabilities - Capital Lease Liability

In accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, and SFFAS No. 6, the NCUSIF records a depreciable asset and liability for all capital leases at the present value of the rental and other minimum lease payments during the lease term.

Net Position and Contributed Capital

The *Credit Union Membership Access Act of 1998*, Public Law 105–219 (CUMAA), mandated changes to the NCUSIF’s capitalization provisions, effective January 1, 2000. The CUMAA added provisions mandating that the amount of each insured credit union’s deposit is adjusted as follows, in accordance with procedures determined by the NCUA Board, to reflect changes in the credit union’s insured shares: (i) annually, in the case of an insured credit union with total assets of less than \$50.0 million; and (ii) semi-annually, in the case of an insured credit union with total assets of \$50.0 million or more. The annual and semi-annual adjustments are based on insured member share deposits outstanding as of December 31 of the preceding year and June 30 of the current year, respectively. The 1.00% contribution is returned to the insured credit union in the event that its insurance coverage is terminated, or is obtained from another source, or the operations of the NCUSIF are transferred from the NCUA Board. The NCUSIF reports the capitalization deposits from insured credit unions as contributed capital. This amount is included in the NCUSIF’s Balance Sheets and Statements of Changes in Net Position.

Beginning in 2000, the CUMAA mandated that distributions to insured credit unions be determined from specific ratios, which are based in part upon year-end data. Distributions associated with insured shares at year-end are declared and paid in the subsequent year. The NCUSIF equity ratio is calculated as the ratio of contributed capital plus cumulative results of operations, excluding net cumulative unrealized gains and losses on investments, to the aggregate amount of the insured shares in all insured credit unions.

Revenue Recognition

Exchange Revenue

Exchange revenues arise and are recognized when a federal government entity provides goods and services to the public or to another federal government entity for a price. Exchange revenue, which primarily consists of premium assessments, guarantee fee income, and interest revenue, is used to recover the losses of the credit union system.

Guarantee Fees on NCUA Guaranteed Notes

For a fee, the NCUA guarantees the timely payment of principal and interest on the NGNs.

Premium Assessments from Insured Credit Unions

The NCUA Board may assess each insured credit union a premium charge for insurance in an amount stated as a percentage of insured shares.

Non-Exchange Revenue

Non-exchange revenues are inflows of resources that the federal government demands or receives by donation. Such revenues are recognized when a specifically identifiable, legally enforceable claim to resources arises, to the extent that collection is probable and the amount is reasonably estimable. The NCUSIF recognizes non-exchange revenue as described below.

Each insured credit union pays to and maintains with the NCUSIF a capitalization deposit amount equal to 1.00% of its insured shares. This amount is recognized as non-exchange revenue when invoiced. In accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, the NCUSIF recognizes interest revenue on investments in U.S. Treasury securities as non-exchange revenue because the main source of funds for investments comes from capital deposits. The related unrealized holding gains and losses on investments in U.S. Treasury securities are excluded from net costs and reported as a component of non-exchange revenue.

Tax-Exempt Status

The NCUA, as a government entity, is not subject to federal, state, or local income taxes.

Disclosure Entities

SFFAS No. 47, *Reporting Entity*, requires that our financial statements reflect the balances and activities of the fund and any other reporting entities under NCUSIF control. Entities that are owned and/or controlled by the NCUA as a result of a regulatory action are generally classified as disclosure entities if the relationship with such entities is not expected to be permanent. Pursuant to SFFAS No. 47, the NCUA identifies receiverships and conservatorships as disclosure entities.

Receiverships

An AME is a receivership-type entity that is established to oversee assets and other property acquired from a failed credit union. AMAC conducts liquidations and oversees the management and recovery of assets for failed credit unions. The NCUA has two types of AMEs: 1) Natural person AMEs from the resolution of failed natural-person credit unions, and 2) Corporate AMEs from the resolution of failed corporate credit unions. These activities are considered fiduciary activities in accordance with SFFAS No. 31 and are disclosed under Note 14.

Conservatorships

The NCUA may place a credit union into conservatorship in order to resolve operational problems that could affect that credit union's safety and soundness. Conservatorship means the NCUA has taken control of the credit union. During a conservatorship, the credit union remains open, members may transact business, and accounts remain insured by the NCUSIF. For federally chartered credit unions, the NCUA takes this action on its own; in the case of a state-chartered credit union, the state supervisory authority initiates the conservatorship and, in many cases, appoints the NCUA as agent for the conservator. Conservatorships can have three outcomes: 1) the credit union can resolve its operational problems and be returned to member ownership; 2) the credit union can merge with another credit union; or 3) the NCUA can liquidate the credit union. The NCUA lists credit unions currently under conservatorship on its website.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

2. FUND BALANCE WITH TREASURY

FBWT balances and status at December 31, 2019 and 2018 consisted of the following (in thousands):

	<u>2019</u>	<u>2018</u>
Status of Fund Balance with Treasury:		
Unobligated Balance - Available	\$ 15,874,406	\$ 15,186,319
Obligated Balances Not Yet Disbursed	5,621	6,794
Non-Budgetary Investment Accounts	(15,795,449)	(15,125,624)
Non-Budgetary FBWT Accounts	(76,631)	(62,489)
Total	<u>\$ 7,947</u>	<u>\$ 5,000</u>

As a revolving fund, the FBWT account is used for continuing business-like activities. The NCUSIF collects capitalization deposits, guarantee fees, AME recoveries and premiums, which may be invested in U.S. Treasury securities. The proceeds are primarily held to cover insurance losses and guarantee payments, and are also used for merger assistance, liquidations, and other administrative expenses. The FBWT account contains monies available for future obligations as well as monies obligated for current activities. Non-Budgetary Investment Accounts, which consist of U.S. Treasury investments, reduce the status of fund balance. Non-Budgetary FBWT Accounts may consist of budgetary receivables, borrowing authority, and non-expenditure transfers. Funds not needed for immediate liquidity are invested in overnight U.S. Treasury securities. Should the overnight account exceed NCUSIF policy limits, the NCUSIF will invest the additional funds in market-based U.S. Treasury securities according to the Fund's investment policy guidelines.

As of December 31, 2019 and 2018, there were no unreconciled differences between U.S. Treasury records and balances reported on the NCUSIF's general ledger.

3. INVESTMENTS

The FCU Act, Section 203(c), 12 U.S.C. § 1783(c), as amended, provides guidance regarding U.S. Treasury security investments. All investments at the NCUSIF pertain to market-based (available-for-sale) U.S. Treasury securities of varying maturities and non-marketable (held-to-maturity) U.S. Treasury daily overnight securities. Premiums or discounts on available-for-sale securities are amortized using the effective interest method.

As of December 31, 2019 and 2018, the carrying amount, gross unrealized holding gains/losses, and fair value of U.S. Treasury securities were as follows (in thousands):

	<u>Cost</u>	<u>Amortized (Premium) Discount</u>	<u>Interest Receivable</u>	<u>Investments, Net (Par)</u>	<u>Net Unrealized Gain/(Loss)</u>	<u>Carrying/Fair Value</u>
As of December 31, 2019:						
U.S. Treasury Securities						
Available-for-Sale	\$ 15,557,172	\$ (97,974)	\$ 76,631	\$ 15,350,000	\$ 44,349	\$ 15,503,547
Held to Maturity	516,269	-	-	516,269	-	516,269
Total	<u>\$ 16,073,441</u>	<u>\$ (97,974)</u>	<u>\$ 76,631</u>	<u>\$ 15,866,269</u>	<u>\$ 44,349</u>	<u>\$ 16,019,816</u>
As of December 31, 2018:						
U.S. Treasury Securities						
Available-for-Sale	\$ 14,106,883	\$ (68,914)	\$ 62,454	\$ 14,000,000	\$ (184,266)	\$ 13,853,703
Held to Maturity	1,218,499	-	-	1,218,499	-	1,218,499
Total	<u>\$ 15,325,382</u>	<u>\$ (68,914)</u>	<u>\$ 62,454</u>	<u>\$ 15,218,499</u>	<u>\$ (184,266)</u>	<u>\$ 15,072,202</u>

Maturities of U.S. Treasury securities as of December 31, 2019 and 2018 were as follows (in thousands):

	<u>2019 Fair Value</u>	<u>2018 Fair Value</u>
Held to Maturity (Overnights)	\$ 516,269	\$ 1,218,499
Available-for-Sale:		
Due in one year or less	4,511,563	2,775,562
Due after one year through five years	7,372,156	9,363,016
Due after five years through ten years	3,619,828	1,715,125
Total	<u>\$ 16,019,816</u>	<u>\$ 15,072,202</u>

For the years ended December 31, 2019 and 2018, there were no realized gains from sales of U.S. Treasury securities.

The following table includes gross unrealized losses on investment securities, for which an OTTI has not been recognized, in addition to the fair values of those securities, aggregated by investment classification and length of time the investments have been in a loss position, at December 31, 2019 and 2018 (in thousands):

	<u>Losses Less than 12 months</u>		<u>Losses 12 months or more</u>		<u>Total</u>	
	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>
As of December 31, 2019:						
Available-for-Sale:						
U.S. Treasury Securities	\$ (32,629)	\$ 4,093,188	\$ (3,094)	\$ 1,609,594	\$ (35,723)	\$ 5,702,782
As of December 31, 2018:						
Available-for-Sale:						
U.S. Treasury Securities	\$ (7,574)	\$ 1,479,125	\$ (182,366)	\$ 10,133,734	\$ (189,940)	\$ 11,612,859

4. ACCOUNTS RECEIVABLE**Public – Accounts Receivable***Accounts Receivable Due from Insured Credit Unions*

As of December 31, 2019 and 2018, no accounts receivable were due from insured credit unions.

NGN Guarantee Fee Receivable

For a fee, the NCUA guarantees the timely payment of principal and interest on the NGNs. Guarantee fees on each NGN Trust are 35 basis points per year, payable monthly, on the outstanding balance of the NGNs. As of December 31, 2019 and 2018, the NGN guarantee fee receivable was \$0.8 million and \$1.1 million, respectively.

The allowance for doubtful accounts on public accounts receivable as of December 31, 2019 and 2018 was \$0.

5. NOTE RECEIVABLE**Intragovernmental – Note Receivable***Note Due from the NCUA Operating Fund*

In 1992, the NCUSIF entered into a commitment to lend \$42.0 million to the NCUA Operating Fund, pursuant to a 30-year note secured by the NCUA premises in Alexandria, Virginia. Interest income recognized was approximately \$112.4 thousand and \$123.1 thousand for the years ended December 31, 2019 and 2018, respectively. The note receivable balance as of December 31, 2019 and 2018 was approximately \$5.0 million and \$6.4 million, respectively.

The variable rate on the note is equal to the NCUSIF's prior-month yield on investments. The average interest rate for the years ended December 31, 2019 and 2018 was 1.98% and 1.80%, respectively. The interest rate as of December 31, 2019 and 2018 was 1.88% and 2.01%, respectively.

As of December 31, 2019, the above note requires principal repayments as follows (in thousands):

Years Ending December 31	Secured Term Note
2020	1,341
2021	1,341
2022	1,341
2023	1,005
Total	<u>\$ 5,028</u>

6. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

The components of General Property, Plant and Equipment, Net as of December 31, 2019 and 2018 were as follows (in thousands):

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
As of December 31, 2019:			
Assets under Capital Lease	\$ 176	\$ (63)	\$ 113
Internal-Use Software	2,017	(2,017)	-
Total General Property, Plant and Equipment	<u>\$ 2,193</u>	<u>\$ (2,080)</u>	<u>\$ 113</u>
As of December 31, 2018:			
Assets under Capital Lease	\$ 176	\$ (4)	\$ 172
Internal-Use Software	2,017	(1,977)	40
Total General Property, Plant and Equipment	<u>\$ 2,193</u>	<u>\$ (1,981)</u>	<u>\$ 212</u>

7. RECEIVABLES FROM ASSET MANAGEMENT ESTATES (AMES), NET

AMES include assets and liabilities from failed natural person credit unions (NPCU AMEs) and corporate credit union AMEs (Corporate AMEs). The components of the Receivables from AMEs, Net as of December 31, 2019 and 2018 were as follows (in thousands):

	<u>2019</u>			<u>2018</u>		
	<u>NPCU AMEs</u>	<u>Corporate AMEs</u>	<u>Total</u>	<u>NPCU AMEs</u>	<u>Corporate AMEs</u>	<u>Total</u>
Gross Receivable from AME	\$ 1,800,089	\$ 2,804,049	\$ 4,604,138	\$ 1,868,736	\$ 2,895,652	\$ 4,764,388
Allowance for Loss, beginning balance	1,459,868	2,606,305	4,066,173	787,497	2,679,849	3,467,346
AME Receivable Bad Debt Expense (Reduction)	(9,831)	(69,599)	(79,430)	(26,315)	(73,544)	(99,859)
Increase in Allowance	40,048	-	40,048	752,902	-	752,902
Write-off of Canceled Charters	(32,880)	-	(32,880)	(54,216)	-	(54,216)
Allowance for Loss, ending balance	1,457,205	2,536,706	3,993,911	1,459,868	2,606,305	4,066,173
Receivable from AME, Net	<u>\$ 342,884</u>	<u>\$ 267,343</u>	<u>\$ 610,227</u>	<u>\$ 408,868</u>	<u>\$ 289,347</u>	<u>\$ 698,215</u>

AME Receivable Bad Debt Expense (Reduction) for the NPCU AMEs represents overall increases in expected asset recovery rates and related repayments. The Increase in Allowance primarily represents the net loss on payments made during liquidation. The amounts for Write-off of Canceled Charters total the final loss or recovery recognized upon closing AMEs.

AME Receivable Bad Debt Expense (Reduction) for the Corporate AMEs takes into account the NCUA's expectations and assumptions about the recovery value of the Corporate AMEs' assets, as further discussed in Note 14.

8. INSURANCE AND GUARANTEE PROGRAM LIABILITIES

Insured Credit Unions

The NCUSIF insures member deposits held in federal and federally insured state-chartered credit unions up to \$250,000 per account in the event of a credit union failure. As the regulator of credit unions, the NCUA evaluates overall economic trends and monitors potential system-wide risk factors,

such as increasing levels of consumer debt, bankruptcies, and delinquencies. The NCUA also employs the CAMEL rating system as a tool to measure risk and allocate resources for supervisory purposes. The CAMEL system, which applies a rating to the credit union ranging from “1” (strongest) to “5” (weakest), is based upon an evaluation of five critical elements of a credit union’s operations: Capital Adequacy, Asset Quality, Management, Earnings, and Liquidity/Asset-Liability Management (CAMEL). These criteria ensure that credit union examiners assess all significant financial, operational, and management factors when evaluating a credit union’s performance and risk profile. The NCUA uses this information to identify insured credit unions experiencing financial difficulty and estimate future losses on both a general and specific basis. The NCUSIF records an insurance program liability – comprised of general and specific reserves – to cover losses resulting from insured credit union failures.

The general reserve is derived using an internal econometric model that applies estimated probability of failure and loss rates. The probability of failure is driven by CAMEL ratings and credit union level financial data; it also incorporates macroeconomic data such as the consumer price index and geographic housing prices. The loss rates take into account historical losses, CAMEL ratings, credit union level financial ratios and other economic measures. These variables are evaluated periodically to determine the reasonableness of the model output, which provides a range of forecasted losses between the 75 percent and 90 percent confidence level intervals.

Specific reserves are established for credit unions whose failure is probable and sufficient information is available to make a reasonable estimate of losses. The specific reserves are presented net of estimated recoveries from the disposition of assets held by failed credit unions.

The aggregate amount of reserves recognized for insured credit unions and AMEs was \$117.0 million and \$119.1 million as of December 31, 2019 and 2018, respectively. The activity in the Insurance and Guarantee Program Liabilities from insured credit unions and AMEs was as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 119,053	\$ 925,487
Reserve expenses (reduction)	38,835	(13,967)
Payments to settle claims	(51,418)	(1,165,033)
Recoveries and other adjustments	10,508	372,566
Ending balance	<u>\$ 116,978</u>	<u>\$ 119,053</u>

The Insurance and Guarantee Program Liabilities at December 31, 2019 and 2018 were comprised of the following:

- Specific reserves were \$6.4 million and \$7.3 million, respectively.
- General reserves were \$110.6 million and \$111.8 million, respectively.

In exercising its supervisory function, the NCUSIF will occasionally extend guarantees of assets (primarily loans) to third-party purchasers or existing insured credit unions in order to facilitate mergers. The NCUSIF would be obligated upon borrower nonperformance. There were no guarantees outstanding during 2019 or as of December 31, 2019. There were no guarantees outstanding during 2018 or as of December 31, 2018.

The NCUSIF may also grant a guaranteed line-of-credit to a third-party lender, such as a corporate credit union or bank, if an insured credit union had a current or immediate liquidity concern and the third-party lender refused to extend credit without a guarantee. The NCUSIF would be obligated

if the insured credit union failed to perform. Total line-of-credit guarantees for credit unions as of December 31, 2019 and 2018 were approximately \$3.5 million and \$0, respectively. The insured credit unions borrowed \$1.3 million and \$0 from the third-party lender under these lines-of-credit guarantees as of December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, the NCUSIF reserved \$75.5 thousand and \$0, respectively, for these guaranteed lines-of-credit.

On rare occasions, the NCUSIF may provide indemnifications as part of merger assistance or purchase and assumption agreements with acquiring credit unions. Such indemnifications make the NCUSIF contingently liable based on the outcome of any legal actions. There were no such indemnification contingencies as of December 31, 2019 and 2018.

In addition to these recognized contingent liabilities, adverse performance in the financial services industry could result in additional losses to the NCUSIF. The ultimate losses for insured credit unions will largely depend upon future economic and market conditions and could differ significantly from these estimates.

NCUA Guaranteed Notes

The NCUA, through the NCUSIF, administers the NGN Program, which was implemented when the Legacy Assets formerly held by the failed CCUs were transferred to NGN Trusts and securitized through the issuance of notes. These notes were issued as a series of floating and fixed-rate NGNs and have final maturities ranging from 2016 to 2021. As payments are made on the collateral underlying the Legacy Assets, the NGN Trusts are required to distribute the cash flows received in the following order: guarantee fees, guarantee payments of principal and interest, guarantor reimbursements and residuals (recovery values).

The NCUA receives a guarantee fee payment from the NGN Trusts on each NGN payment date equal to 35 basis points of the outstanding NGN balance prior to the distribution of principal on the payment date. In exchange for this fee, the NCUSIF ensures the timely payment of principal and interest due to NGN investors and guarantees parity payments if there are differences between the expected and actual unpaid principal balance on the monthly payment date.

Guarantor reimbursements from the NGN Trusts to the NCUA will not occur until the applicable NGNs have been repaid in full. Once the NGNs are repaid in full, any cash flows received on the Legacy Assets underlying the NGN Trusts are directed toward reimbursement until the NCUA is reimbursed in full. The NCUA earns interest on any guarantee payments not yet reimbursed by the NGN Trusts at a rate equal to the interest rate on the associated NGNs.

As of December 31, 2019, the outstanding principal balance of the NGNs was \$3.2 billion. This amount represents the maximum potential, but not the expected, future guarantee payments that the NCUA could be required to make. The gross estimated guarantee payments of \$2.4 billion were offset by contractual guarantor reimbursements and earned interest of \$2.4 billion and receivables from the Corporate AMEs based on the value of their economic residual interests in the NGN Trusts of up to \$1.6 billion.

At December 31, 2018, the outstanding principal balance of the NGNs was \$4.4 billion. The gross estimated guarantee payments of \$2.5 billion were offset by contractual guarantor reimbursements and earned interest of \$2.4 billion and receivables from the Corporate AMEs based on the value of their economic residual interests in the NGN Trusts of up to \$1.4 billion.

There were no probable losses for the guarantee of NGNs associated with the re-securitization transactions as of December 31, 2019 and 2018, respectively.

The NCUA uses a model to estimate the guarantee liability associated with the NGN Program. The guarantee liability is comprised of NCUA's estimated guarantee payments, guarantor reimbursements, and the recovery values, if any, of the Corporate AMEs' economic residual interests in the NGN Trusts are derived using a model that distributes estimated cash flows of the Legacy Assets transferred to the NGN Trusts in the priority of payments pursuant to the governing documents of each NGN Trust. The estimated cash flows incorporated the NCUA's assumptions about discount rates. The NCUSIF recorded no liabilities on its Balance Sheet for NGNs as of December 31, 2019 and 2018.

The model produced estimated cash flows of collateral underlying the Legacy Assets by incorporating the NCUA's expectations and assumptions about prepayments, defaults and loss severity of the collateral consisting of residential and commercial mortgages and other assets. Assumptions about prepayments, defaults and loss severity were developed based on the characteristics and historical performance of the collateral, as well as assumptions about macroeconomic variables such as unemployment rate and housing prices, among other factors.

The model used to derive the expected losses from the guarantee of the NGNs is sensitive to assumptions made about Legacy Asset performance. Key assumptions in the modeling include borrower status, prepayments, default, loss severity, discount rates, forward interest rate curves, house price appreciation forecasts, legal and regulatory changes, property locations, and unemployment expectations. Management evaluates these inputs and variables regularly to determine the reasonableness of the assumptions over time.

9. OTHER LIABILITIES

The NCUSIF leases laptops for state credit union examiners under a capital lease agreement with a non-federal vendor that ends in 2021. The capital lease liability as of December 31, 2019 and 2018 was \$118.8 thousand and \$176.4 thousand, respectively.

The future minimum lease payments to be paid over the remaining life as of December 31, 2019 are as follows (in thousands):

Years Ending December 31	Minimum Lease Payments
2020	61
2021	61
Total Future Lease Payments	\$ 122
Less: Imputed Interest	(3)
Net Capital Lease Liability	\$ 119

The capital lease liability is covered by budgetary resources. The remaining balance in Other Liabilities includes payroll and other accrued liabilities, totaling \$1.7 million and \$0.9 million at December 31, 2019 and 2018, respectively.

10. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Program costs and revenues are separated between Intragovernmental and Public to facilitate government-wide financial reporting. Intragovernmental revenue and costs arise from transactions with other federal entities. Public revenue and costs arise from transactions with persons and organizations outside of the federal government. Intragovernmental costs and exchange revenue as of December 31, 2019 and 2018 were as follows (in thousands):

Intragovernmental Costs and Exchange Revenue	2019	2018
Intragovernmental Costs	\$ 182,894	\$ 180,201
Public Costs/(Cost Reduction)	(32,325)	(103,846)
Total	150,569	76,355
Intragovernmental Exchange Revenue	(112)	(123)
Public Exchange Revenue	(13,656)	(18,035)
Total	(13,768)	(18,158)
Net Cost	\$ 136,801	\$ 58,197

Certain administrative services are provided to the NCUSIF by the NCUA Operating Fund. The NCUSIF is charged by the NCUA Operating Fund for these services based upon an annual allocation factor derived from a study of actual usage. In 2019 and 2018, the allocation to the NCUSIF was 60.5% and 61.5% of the NCUA Operating Fund's expenses, respectively. The cost of the services allocated to the NCUSIF, which totaled approximately \$182.9 million and \$180.2 million for the years ended December 31, 2019 and 2018, respectively, is reflected as an expense in the Statements of Net Cost and above in Intragovernmental Costs. The following table provides a breakdown of the administrative services provided to the NCUSIF by the NCUA Operating Fund (in thousands):

Administrative Services Reimbursed to the NCUA Operating Fund	2019	2018
Employee Salaries	\$ 93,211	\$ 92,539
Employee Benefits	36,715	37,395
Employee Travel	13,946	14,740
Rent, Communications, and Utilities	3,962	3,713
Contracted Services	26,356	22,475
Depreciation and Amortization	3,940	3,641
Administrative Costs	4,764	5,698
Total Services Provided by the NCUA Operating Fund	\$ 182,894	\$ 180,201

As of December 31, 2019 and 2018, amounts due to the NCUA Operating Fund for allocated expenses were \$2.3 million and \$4.0 million, respectively.

11. AVAILABLE BORROWING AUTHORITY, END OF PERIOD

The NCUSIF has \$6.0 billion in borrowing authority from the U.S. Treasury. Available borrowing authority, as of December 31, 2019 and 2018, was \$6.0 billion and \$6.0 billion, respectively.

Under the FCU Act, the NCUSIF also has the ability to borrow from the CLF. The NCUSIF is authorized to borrow from the CLF up to the amount of the CLF's unused borrowing authority. As

of December 31, 2019 and 2018, the CLF had statutory borrowing authority of \$7.3 billion and \$7.0 billion, respectively. As of December 31, 2019 and 2018, the CLF had a note purchase agreement with the Federal Financing Bank with a maximum principal of \$2.0 billion and \$2.0 billion, respectively, all of which was unused. Advances made under the current promissory note can be made no later than March 31, 2020. The NCUSIF did not exercise its borrowing authority in 2019 or 2018.

12. DISCLOSURES RELATED TO THE STATEMENTS OF BUDGETARY RESOURCES

The Statements of Budgetary Resources discloses total budgetary resources available to the NCUSIF, and the status of resources as of December 31, 2019 and 2018. Activity impacting budget totals of the overall federal government budget is recorded in the NCUSIF's Statements of Budgetary Resources budgetary accounts. As of December 31, 2019 and 2018, the NCUSIF's resources in budgetary accounts were \$16.5 billion and \$17.4 billion, respectively. All liabilities are covered by budgetary resources, excluding the Insurance and Guarantee Program Liabilities because they are contingent liabilities and do not require budgetary resources until the liabilities are no longer contingent. All obligations incurred by the NCUSIF are reimbursable. The NCUSIF is exempt from OMB apportionment control.

The NCUSIF has \$1.3 million and \$0.9 million in unpaid undelivered orders, and \$1.0 million and \$1.0 million in paid undelivered orders, as of December 31, 2019 and 2018, respectively. The breakdown of unpaid and paid undelivered orders from federal and non-federal sources as of December 31, 2019 and 2018 are as follows (in thousands):

Undelivered obligations	2019	2018
Federal:		
Unpaid	\$ -	\$ -
Paid	-	-
Nonfederal:		
Unpaid	\$ 1,271	\$ 903
Paid	1,020	995
Total:		
Unpaid, undelivered obligations	<u>\$ 1,271</u>	<u>\$ 903</u>
Paid, undelivered obligations	<u>\$ 1,020</u>	<u>\$ 995</u>

Budgetary resources listed on the NCUSIF's financial statements and the budgetary resources found in the budget of the federal government differ because the NCUSIF's annual financial statements are prepared as of December 31, on a calendar year, rather than as of September 30, the federal government's fiscal year end.

13. CONTRIBUTED CAPITAL

As of December 31, 2019 and 2018, contributed capital owed to the NCUSIF totaled \$0. Contributed capital due from insured credit unions was \$0 as of December 31, 2019 and 2018.

On December 12, 2019, the Board set the NOL at 1.38%, which is equal to the previously set NOL level on December 13, 2018.

Pursuant to the FCU Act, the NCUSIF-calculated equity ratio is 1.35% as of December 31, 2019. This equity ratio is based on insured shares of \$1.2 trillion as of December 31, 2019, and is below the normal operating level of 1.38%.

As of December 31, 2018, the NCUSIF equity ratio of 1.39% was above the normal operating level of 1.38%, which resulted in a \$160.1 million distribution to credit unions that was paid during the second quarter of 2019. Total contributed capital as of December 31, 2019 and 2018 was \$12.0 billion and \$11.3 billion, respectively.

The NCUSIF's available assets ratio as of December 31, 2019 and 2018 was 1.30% and 1.31%, based on total insured shares as of December 31, 2019 and 2018 of \$1.2 trillion and \$1.1 trillion, respectively. The NCUSIF available assets ratio, as defined by the FCU Act, is calculated as the ratio of (A) the amount determined by subtracting (i) direct liabilities of the NCUSIF and contingent liabilities for which no provision for losses has been made, from (ii) the sum of cash and the market value of unencumbered investments authorized under Section 203(c) of the FCU Act, to (B) the aggregate amount of the insured shares in all insured credit unions.

14. FIDUCIARY ACTIVITIES

(a) Natural Person Credit Unions AMEs

Following is the Schedule of Fiduciary Activity as of December 31, 2019 and 2018 (in thousands):

Schedule of Fiduciary Activity	2019	2018
Fiduciary Net Liabilities, beginning of year	\$ (1,467,231)	\$ (795,403)
Net Realized Losses upon Liquidation	(40,198)	(752,265)
Revenues		
Interest on Loans	30,596	7,561
Other Fiduciary Revenues	132	215
Expenses		
Professional & Outside Services Expenses	(18,253)	(6,577)
Compensation and Benefits	(537)	(458)
Other Expenses	(803)	(381)
Net Change in Recovery Value of Assets and Liabilities		
Net Gain on Loans	9,177	27,497
Net Gain/(Loss) on Real Estate Owned	(802)	162
Other, Net (Loss)	(8,348)	(1,798)
(Increase)/Decrease in Fiduciary Net Liabilities	<u>(29,036)</u>	<u>(726,044)</u>
Write off of Fiduciary Liabilities for Canceled Charters	32,880	54,216
Fiduciary Net Liabilities, end of year	<u>\$ (1,463,387)</u>	<u>\$ (1,467,231)</u>

The NPCU AMEs' fiduciary net liabilities decreased by \$3.9 million from 2018 to 2019 due to canceled charter write-offs of \$32.9 million, partially offset by an increase in fiduciary net liabilities of \$29.0 million.

Revenues consist of cash collected during the liquidation of assets held within the AME. Gains and losses include the revaluation of assets based upon expected asset recovery rates and the disposition of

assets and adjustments to liabilities, which contribute to the change in fiduciary net assets/liabilities. Following is the Schedule of Fiduciary Net Assets/Liabilities as of December 31, 2019 and 2018 (in thousands):

<u>Schedule of Fiduciary Net Assets/Liabilities</u>	<u>2019</u>	<u>2018</u>
Fiduciary Assets		
Loans	\$ 316,346	\$ 375,382
Real Estate Owned	2,731	6,542
Other Fiduciary Assets	48,642	64,847
Total Fiduciary Assets	<u>367,719</u>	<u>446,771</u>
Fiduciary Liabilities		
Insured Shares	472	1,478
Accrued Liquidation Expenses	27,314	39,662
Unsecured Claims	1,563	709
Uninsured Shares	1,668	3,417
Due to NCUSIF (Note 7)	1,800,089	1,868,736
Total Fiduciary Liabilities	<u>1,831,106</u>	<u>1,914,002</u>
Total Fiduciary Net Assets/(Liabilities)	<u>\$ (1,463,387)</u>	<u>\$ (1,467,231)</u>

Loans also includes amounts related to criminal restitution owed to the U.S. government. As of December 31, 2019 and 2018, gross receivables related to criminal restitution orders were \$247.1 million and \$206.2 million, of which we determined \$40.6 thousand and \$60.8 thousand were collectible, respectively.

(b) Corporate AMEs (Legacy TCCUSF AMEs)

Following are the Schedules of Fiduciary Activity for the years ended December 31, 2019 and 2018 (in thousands):

<u>Schedule of Fiduciary Activity</u>	<u>For the Year Ended December 31, 2019</u>			
	<u>AMEs</u>	<u>NGNTrusts</u>	<u>Eliminations</u>	<u>Total</u>
Fiduciary Net Liabilities, December 31, 2018	\$ 393,271	\$ -	\$ -	\$ 393,271
Revenues				
Interest on Loans	(966)	-	-	(966)
Income from AMEs on Re-Securitized Assets	-	(121,139)	121,139	-
Income from Investment Securities	(185,979)	-	-	(185,979)
Settlements and Legal Claims	(23,092)	-	-	(23,092)
Other Fiduciary Revenues	(12,752)	-	-	(12,752)
Expenses				
Professional and Outside Services Expenses	8,813	-	-	8,813
Interest Expense on Borrowings and NGNs	33	107,972	-	108,005
Payments to NGN Trusts	121,139	-	(121,139)	-
Guarantee Fees	-	13,167	-	13,167
Other Expenses	445	-	-	445
Net Change in Recovery Value of Assets and Liabilities	<u>(233,291)</u>	<u>-</u>	<u>-</u>	<u>(233,291)</u>
(Decrease) in Fiduciary Net Liabilities	<u>(325,650)</u>	<u>-</u>	<u>-</u>	<u>(325,650)</u>
Fiduciary Net Liabilities, December 31, 2019	<u>\$ 67,621</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,621</u>

Schedule of Fiduciary Activity	For the Year Ended December 31, 2018			
	AMEs	NGN Trusts	Eliminations	Total
Fiduciary Net Liabilities, December 31, 2017	\$ 630,320	\$ -	\$ -	\$ 630,320
Revenues				
Interest on Loans	(1,974)	-	-	(1,974)
Income from AMEs on Re-Securitized Assets	-	(142,062)	142,062	-
Income from Investment Securities	(256,934)	-	-	(256,934)
Settlements and Legal Claims	(7,738)	-	-	(7,738)
Other Fiduciary Revenues	(7,042)	-	-	(7,042)
Expenses				
Professional and Outside Services Expenses	7,274	-	-	7,274
Interest Expense on Borrowings and NGNs	-	125,080	-	125,080
Payments to NGN Trusts	142,062	-	(142,062)	-
Guarantee Fees	-	16,982	-	16,982
Other Expenses	414	-	-	414
Net Change in Recovery Value of Assets and Liabilities	(113,111)	-	-	(113,111)
(Decrease) in Fiduciary Net Liabilities	(237,049)	-	-	(237,049)
Fiduciary Net Liabilities, December 31, 2018	\$ 393,271	\$ -	\$ -	\$ 393,271

For the year ended December 31, 2019, the Corporate AMEs' Fiduciary Net Liabilities decreased by \$325.7 million. This decrease represents a benefit to the AME claimants, of which a portion was recognized by the NCUSIF through the reduction of the AME Receivable Bad Debt Expense, as discussed in Note 7.

The Schedule of Fiduciary Activity includes revenues earned on investments, including Legacy Assets, loans, real estate and other investments, and expenses incurred in orderly liquidation of the AMEs, including interest expense on borrowings and the NGNs.

Following are the Schedules of Fiduciary Net Assets/Liabilities as of December 31, 2019 and 2018 (in thousands):

Schedule of Fiduciary Net Assets/Liabilities	As of December 31, 2019			
	AMEs	NGN Trusts	Eliminations	Total
Fiduciary Assets				
Cash and Cash Equivalents	\$ 710,759	\$ 316,462	\$ -	\$ 1,027,221
Legacy Assets	409,165	-	-	409,165
Legacy Assets/Investments Collateralizing the NGNs	4,303,121	237,094	-	4,540,215
Loans	27	-	-	27
Receivable from AMEs	-	2,655,418	(2,655,418)	-
Other Fiduciary Assets	-	-	-	-
Total Fiduciary Assets	5,423,072	3,208,974	(2,655,418)	5,976,628
Fiduciary Liabilities				
Accrued Expenses	31,120	5,910	-	37,030
NGNs	-	3,203,064	-	3,203,064
Due to NGN Trusts	2,655,418	-	(2,655,418)	-
Unsecured Claims and Payables	106	-	-	106
Due to NCUSIF (Note 7)	2,804,049	-	-	2,804,049
Total Fiduciary Liabilities	5,490,693	3,208,974	(2,655,418)	6,044,249
Total Fiduciary Net Assets/(Liabilities)	\$ (67,621)	\$ -	\$ -	\$ (67,621)
Schedule of Fiduciary Net Assets/Liabilities	As of December 31, 2018			
	AMEs	NGN Trusts	Eliminations	Total
Fiduciary Assets				
Cash and Cash Equivalents	\$ 530,577	\$ 115,740	\$ -	\$ 646,317
Legacy Assets	535,899	-	-	535,899
Legacy Assets/Investments Collateralizing the NGNs	5,243,148	438,144	-	5,681,292
Loans	48,035	-	-	48,035
Receivable from AMEs	-	3,828,579	(3,828,579)	-
Other Fiduciary Assets	15	-	-	15
Total Fiduciary Assets	6,357,674	4,382,463	(3,828,579)	6,911,558
Fiduciary Liabilities				
Accrued Expenses	26,608	9,778	-	36,386
NGNs	-	4,372,685	-	4,372,685
Due to NGN Trusts	3,828,579	-	(3,828,579)	-
Unsecured Claims and Payables	106	-	-	106
Due to NCUSIF (Note 7)	2,895,652	-	-	2,895,652
Total Fiduciary Liabilities	6,750,945	4,382,463	(3,828,579)	7,304,829
Total Fiduciary Net Assets/(Liabilities)	\$ (393,271)	\$ -	\$ -	\$ (393,271)

The Schedule of Fiduciary Net Assets reflects the expected recovery value of the Corporate AMEs' assets, including the Legacy Assets collateralizing the NGNs issued through the NGN Trusts, and the settlement value of valid claims against the Corporate AMEs outstanding at December 31, 2019 and 2018. Certain claims against the Corporate AMEs and the NGNs are guaranteed by the NCUA as previously discussed herein.

There were no maturities of NGN principal balances during 2019 and 2018.

As of December 31, 2019 and 2018, the NCUA held \$0 and \$528.9 million, respectively, in fiduciary cash on behalf of the Corporate AMEs.

15. RECONCILIATION OF NET COST OF OPERATIONS TO NET OUTLAYS

The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The Reconciliation of Net Cost of Operations to Net Outlays is shown below (in thousands):

Reconciliation of Net Cost of Operations to Net Outlays	2019		
	Intra- governmental	With the public	Total
Net Cost of / (Income from) Operations	\$ 182,782	\$ (45,981)	\$ 136,801
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Provision for Insurance Losses			
Reserve Expense (Reduction)	-	(38,835)	(38,835)
AME Receivable Bad Debt Expense (Reduction)	-	79,430	79,430
Depreciation Expense	-	(99)	(99)
Increase / (decrease) in assets:			
Accounts Receivable	(35)	(425)	(460)
Other Assets	-	25	25
(Increase) / decrease in liabilities:			
Accounts Payable	1,715	393	2,108
Other Liabilities	-	(723)	(723)
Total Components of Net Operating Cost Not Part of the Budgetary Outlays	1,680	39,766	41,446
Components of the Budgetary Outlays That Are Not Part of Net Operating Cost			
Change in Receivable from AMEs	-	(126,844)	(126,844)
Interest Revenue - Investments	(292,289)	-	(292,289)
Change in Contributed Capital	-	(640,153)	(640,153)
Dividend Distribution to Insured Credit Unions	-	160,099	160,099
Other Adjustments that do not affect Net Cost of Operations	47,833	336	48,169
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	(244,456)	(606,562)	(851,018)
Net Outlays	\$ (59,994)	\$ (612,777)	\$ (672,771)

16. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2020, which is the date the financial statements were available to be issued. Management determined that there were no significant items to be disclosed as of December 31, 2019.



National Credit Union Administration Operating Fund

Financial Statements as of and for the Years Ended
December 31, 2019 and 2018, and
Independent Auditors' Report



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General, National Credit Union Administration and
the National Credit Union Administration Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Administration Operating Fund (the Fund), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of revenues, expenses, and changes in fund balance, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of the National Credit Union Administration Operating Fund as of December 31, 2019 and 2018, and its revenues, expenses, changes in fund balance and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Reporting Required by Government Auditing Standards

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2019, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Manager's Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-03.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
February 14, 2020

**NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND**
BALANCE SHEETS
As of December 31, 2019 and 2018
(Dollars in thousands)

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents (Note 3)	\$ 94,492	\$ 92,122
Due from National Credit Union Share Insurance Fund (Note 7)	2,309	4,023
Employee advances	7	343
Other accounts receivable, Net (Note 7)	361	430
Prepaid expenses and other assets	4,014	2,678
Assets held for sale (Note 6)	423	-
Fixed assets - Net of accumulated depreciation of \$34,651 and \$38,530 as of December 31, 2019 and December 31, 2018, respectively (Note 4)	31,758	27,341
Intangible assets - Net of accumulated amortization of \$20,422 and \$17,569 as of December 31, 2019 and December 31, 2018, respectively (Note 5)	22,234	9,658
TOTAL ASSETS	<u>\$ 155,598</u>	<u>\$ 136,595</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable and accrued other liabilities	\$ 9,302	\$ 10,274
Obligations under capital leases (Note 8)	1,193	1,713
Accrued wages and benefits	14,471	14,777
Accrued annual leave	18,945	18,779
Accrued employee travel	708	619
Note payable to National Credit Union Share Insurance Fund (Note 7)	5,028	6,369
TOTAL LIABILITIES	<u>49,647</u>	<u>52,531</u>
COMMITMENTS AND CONTINGENCIES (Notes 7, 8, 11, 12 and 13)		
FUND BALANCE	<u>105,951</u>	<u>84,064</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 155,598</u>	<u>\$ 136,595</u>

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND**

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE

For the Years Ended December 31, 2019 and 2018

(Dollars in thousands)

	<u>2019</u>	<u>2018</u>
REVENUES		
Operating fees	\$ 137,731	\$ 130,163
Interest	2,485	2,134
Other	1,008	1,227
Total Revenues	<u>141,224</u>	<u>133,524</u>
EXPENSES, NET (Notes 7 and 8)		
Employee wages and benefits	84,827	81,341
Travel	9,105	9,227
Rent, communications, and utilities	2,587	2,325
Contracted services	17,208	14,070
Depreciation and amortization	2,543	2,103
Administrative	3,067	3,740
Total Expenses, Net	<u>119,337</u>	<u>112,806</u>
EXCESS OF REVENUES OVER EXPENSES	21,887	20,718
FUND BALANCE—Beginning of year	<u>84,064</u>	<u>63,346</u>
FUND BALANCE—End of year	<u>\$ 105,951</u>	<u>\$ 84,064</u>

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND**
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018
(Dollars in thousands)

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenues over expenses	\$ 21,887	\$ 20,718
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization (Notes 4 and 5)	6,483	5,744
Provision for loss on disposal of assets held for sale	96	-
Loss on fixed and intangible asset retirements	30	176
(Increase) decrease in assets:		
Due from National Credit Union Share Insurance Fund	1,714	1,130
Employee advances	336	(332)
Other accounts receivable, net	69	(86)
Prepaid expenses and other assets	(1,336)	(292)
(Decrease) increase in liabilities:		
Accounts payable	(972)	2,763
Accrued wages and benefits	(306)	2,497
Accrued annual leave	166	387
Accrued employee travel	89	12
Net Cash Provided by Operating Activities	<u>28,256</u>	<u>32,717</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed and intangible assets	(23,445)	(8,946)
Purchases of assets held for sale	(919)	-
Proceeds from sale of assets held for sale	400	-
Net Cash Used in Investing Activities	<u>(23,964)</u>	<u>(8,946)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of note payable to National Credit Union Share Insurance Fund	(1,341)	(1,341)
Principal payments under capital lease obligations	(581)	(72)
Net Cash Used in Financing Activities	<u>(1,922)</u>	<u>(1,413)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,370	22,358
CASH AND CASH EQUIVALENTS—Beginning of year	<u>92,122</u>	<u>69,764</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 94,492</u>	<u>\$ 92,122</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Acquisition of equipment under capital lease	<u>\$ 61</u>	<u>\$ 1,574</u>
CASH PAYMENTS FOR INTEREST	<u>\$ 112</u>	<u>\$ 123</u>

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

NOTES TO THE FINANCIAL STATEMENTS For the Years Ended December 31, 2019 and 2018

1. ORGANIZATION AND PURPOSE

The National Credit Union Administration Operating Fund (the “Fund”) was created by the Federal Credit Union Act of 1934. The Fund is a revolving fund in the United States Treasury under the management of the National Credit Union Administration (NCUA) Board providing administration and service to the federal credit union system.

A significant majority of the Fund’s revenue is comprised of operating fees paid by federal credit unions. Each federal credit union is required to pay this fee based upon a fee schedule that is applied to its prior year-end assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The Fund prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), based on standards issued by the Financial Accounting Standards Board (FASB), the private sector standards setting body. The Federal Accounting Standards Advisory Board (FASAB) is the standards setting body for the establishment of GAAP with respect to the financial statements of federal entities. FASAB has indicated that financial statements prepared based upon standards promulgated by FASB may also be regarded as in accordance with GAAP for federal entities that have issued financial statements based upon FASB standards in the past.

Basis of Accounting – The Fund maintains its accounting records in accordance with the accrual basis of accounting and recognizes income when earned and expenses when incurred. In addition, the Fund records investment transactions when they are executed and recognizes interest on investments when it is earned.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the following:

- reported amounts of assets and liabilities;
- disclosure of contingent liabilities at the date of the financial statements; and
- the reported amounts of revenues and expenses incurred during the reporting period.

Significant items subject to those estimates and assumptions include: (i) the determination of the FECA actuarial liability; (ii) certain intangible asset values; (iii) determination of the accounts payable accrual; and (iv) if there is any determination of a long-lived asset impairment, the related measurement of the impairment charges.

Related Party Transactions – The Fund exists within the NCUA and is one of four funds managed by the NCUA Board during 2019 and 2018. The other funds managed by the Board, deemed related parties, are:

- a) The National Credit Union Share Insurance Fund (NCUSIF),
- b) The National Credit Union Administration Central Liquidity Facility (CLF), and
- c) The National Credit Union Administration Community Development Revolving Loan Fund (CDRLF).

The Fund supports these related parties by providing office space, information technology services, and supplies as well as paying employee salaries and benefits. Certain types of support are reimbursed to the Fund by the NCUSIF and the CLF while support of the CDRLF is not reimbursed. Expenses included on the Statement of Revenues, Expenses, and Changes in Fund Balance are shown net of reimbursements from related parties.

Additional related parties are described in Note 7.

Cash Equivalents – Cash equivalents are highly liquid investments with original maturities of three months or less. The Federal Credit Union Act permits the Fund to invest in United States Treasury securities. All investments in 2019 and 2018 are cash equivalents and are stated at cost, which approximates fair value.

Fixed and Intangible Assets – Buildings, furniture, equipment, software, and leasehold improvements are recorded at cost. Software includes the cost of labor incurred by both external and internal software developers and other personnel involved in the development of the software. Capital leases are recorded at the lower of the present value of the future minimum lease payments or the fair market value of the leased asset. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of buildings, furniture, equipment, and software, and the shorter of either the estimated useful life or lease term for leasehold improvements and capital leases. The schedule below shows a summary of the capitalization thresholds and useful lives used by the NCUA.

Type of Asset	Capitalization Threshold	Useful Life
Buildings	\$100,000	40 years
Building Improvements	\$25,000	2-40 years
Furniture and Fixtures	\$15,000	7 years
Equipment (IT and Telecommunication)	\$15,000	3 years
Commercial Software	\$15,000	3 years
Internal-Use Software (IUS)	\$100,000 or 1,000 hours	3 years
Additions/Improvements to IUS	\$50,000	≤ 3 years
Bulk Purchases	\$100,000	2- 3 years
Leasehold Improvements	\$15,000	Life of the lease

Long-lived Assets/Impairments – Fixed and intangible assets, subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying value of the long-lived asset or asset group is not recoverable, an impairment is recognized and the asset is reported at the lower of carrying amount or fair value less the cost to sell. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as needed.

Assets Held for Sale – The Fund may have real estate held for sale. These assets are ready for immediate sale in their present condition. Real estate held for sale is recorded at the fair value less cost

to sell. If an asset's fair value less cost to sell, based on a review of available financial information including but not limited to appraisals, markets analyses, etc., is less than its carrying amount, the carrying value of the asset is adjusted to its fair value less cost to sell.

Gains on disposition of real estate are recognized upon sale of the underlying asset. The Fund evaluates each real estate transaction to determine if it qualifies for gain recognition under the full accrual method. If the transaction does not meet the criteria for the full accrual method, the appropriate deferral method is used.

Accounts Receivable – Receivables include amounts due from the NCUSIF, employee advances, and other accounts receivable, net.

Accounts Payable and Accrued Other Liabilities – The Fund incurs administrative expenses and liabilities for programs pertaining to related parties that are controlled by the NCUA Board. Accruals are made as expenses are incurred. Accrued other liabilities include contingent liabilities, as described in Note 11.

Accrued Benefits – The Fund incurs expenses for retirement plans, employment taxes, workers compensation, transportation subsidies, and other benefits mandated by law. Corresponding liabilities recorded contain both short-term and long-term liabilities, including liabilities under the Federal Employees' Compensation Act (FECA). FECA provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from the NCUA for these paid claims. The NCUA accrues a liability in accrued wages and benefits to recognize those payments and the NCUA subsequently reimburses DOL annually. The Fund records an estimate for the FECA actuarial liability using the DOL's FECA model. The model considers the average amount of benefit payments incurred by the agency for the past three fiscal years, multiplied by the medical and compensation liability to benefits paid ratio for the whole FECA program.

Additional information for retirement plans are described in Note 9.

Operating Fees – Each federal credit union is assessed an annual fee based on its assets as of December 31st of the preceding year. The fee is designed to cover the costs of providing administration and service to the federal credit union system. The Fund recognizes this operating fee revenue ratably over the calendar year.

Revenue Recognition – Interest revenue and other revenue relating to sales of publications, parking income, and rental income is recognized when earned.

Leases – Operating leases are entered into for the acquisition of office space and equipment as part of administering the NCUA's program. The cost of operating leases is recognized on the straight-line method over the life of the lease and includes any reductions resulting from incentives such as rent holidays, if applicable. The same method is used to recognize income from operating leases. The Fund also has capital leases which are recorded at the lower of the present value of the future minimum lease payments or the fair market value of the leased asset.

Fair Value Measurements – Cash and cash equivalents, due from NCUSIF, employee advances, other accounts receivable (net), obligations under capital leases, and note payable to NCUSIF are recorded at book value, which approximates estimated fair value.

Income Taxes – The NCUA, as a government entity, is not subject to federal, state, or local income taxes.

Commitments and Contingencies – Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

3. CASH AND CASH EQUIVALENTS

The Fund's cash and cash equivalents for the years ended December 31, 2019 and 2018 are as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Deposits with U.S. Treasury	\$ 10,920	\$ 12,270
U.S. Treasury Overnight Investments	83,572	79,852
Total	<u>\$ 94,492</u>	<u>\$ 92,122</u>

4. FIXED ASSETS

Fixed assets are comprised of the following as of December 31, 2019 and 2018 (in thousands):

	<u>2019</u>	<u>2018</u>
Office building and land	\$ 56,213	\$ 52,736
Furniture and equipment	4,830	9,781
Leasehold improvements	513	513
Equipment under capital leases	1,889	1,933
Total assets in-use	63,445	64,963
Less accumulated depreciation	(34,651)	(38,530)
Assets in-use, net	28,794	26,433
Construction in progress	2,964	1,076
Less impairment loss	-	(168)
Fixed assets, net	<u>\$ 31,758</u>	<u>\$ 27,341</u>

Depreciation expense for the years ended December 31, 2019 and 2018 totaled \$3.6 million and \$3.2 million, respectively, before allocation to the NCUSIF as described in Note 7. Construction in progress includes costs associated with improvements for the NCUA headquarters that increase the future service potential of the building beyond the existing level of service. A net impairment loss of \$168 thousand for improvements to the NCUA headquarters was recognized for the year ended December 31, 2018. The construction in progress related to this project was fully impaired with a fair value of \$0. The amount of the loss is reported in administrative expenses on the Statements of Revenues, Expenses, and Changes in Fund Balance.

5. INTANGIBLE ASSETS

Intangible assets are comprised of the following as of December 31, 2019 and 2018 (in thousands):

	<u>2019</u>	<u>2018</u>
Internal-use software	\$ 24,901	\$ 23,539
Less accumulated amortization	<u>(20,422)</u>	<u>(17,569)</u>
Total internal-use software, net	<u>4,479</u>	<u>5,970</u>
Internal-use software under development	<u>17,755</u>	<u>3,688</u>
Intangible assets, net	<u>\$ 22,234</u>	<u>\$ 9,658</u>

Internal-use software represents costs incurred from the customization of software purchased from external vendors for internal use as well as the cost of software that is developed in-house. Amortization begins on the date the software is placed in service. Amortization expense for the years ended December 31, 2019 and 2018 totaled \$2.9 million and \$2.5 million, respectively, before allocation to the NCUSIF as described in Note 7. Internal-use software under development represents software not ready for its intended use.

6. ASSETS HELD FOR SALE

Real estate available for sale purchased by the Fund is from employees enrolled in the agency's home purchase program who are unable to sell their homes in a specified time period. It is the agency's intent to dispose of these properties as quickly as possible. Sales of homes are generally expected to occur within one year, pending market forces. Ongoing costs to maintain properties are expensed as incurred. Impairment charges for 2019 and 2018 were \$96.4 thousand and \$0 thousand, respectively and are recorded as an Administrative expense within the Statements of Revenues, Expenses and Changes in Fund Balance. The balance of real estate available for sale as of December 31, 2019 was \$423.0 thousand net of impairment and costs to sell of \$49.6 thousand. The Fund did not have any real estate available for sale as of December 31, 2018.

7. RELATED PARTY TRANSACTIONS

(a) Transactions with the NCUSIF

Certain administrative services are provided by the Fund to the NCUSIF. These services include paying personnel costs such as pay and benefits and other associated costs which include, but are not limited to, telecommunications, supplies, printing, and postage. The Fund charges the NCUSIF for these services based on an annual Board approved allocation factor derived from a study of actual usage. In 2019 and 2018, the allocation to the NCUSIF was 60.5% and 61.5% of all expenses, respectively. The cost of the services allocated to the NCUSIF totaled \$182.9 million and \$180.2 million for 2019 and 2018, respectively. The Fund's expenses in the accompanying financial statements are presented net of these amounts. As of December 31, 2019 and 2018, amounts due from the NCUSIF totaled \$2.3 million and \$4.0 million, respectively.

In 1992, the Fund entered into a commitment to borrow up to \$42.0 million in a 30-year secured term note with the NCUSIF. The monies were drawn as needed to fund the costs of constructing a building in 1993. Interest costs incurred were \$112.4 thousand and \$123.1 thousand for 2019 and 2018, respectively. The note payable balance as of December 31, 2019 and 2018 was \$5.0 million and \$6.4 million, respectively. The current portion of the long-term debt is \$1.3 million as of December 31, 2019. The variable rate on the note is equal to the NCUSIF's prior-month yield on

investments. The average interest rate during 2019 and 2018 was 1.98% and 1.80%, respectively. The interest rate as of December 31, 2019 and 2018 was 1.88% and 2.01%.

The secured-term note requires principal repayments as follows (in thousands):

Years ended December 31	Secured Term Note
2020	\$ 1,341
2021	1,341
2022	1,341
2023	1,005
Total	<u>\$ 5,028</u>

(b) Transactions with the CLF

Administrative services are provided by the Fund to the CLF. The Fund pays CLF employee salaries and related benefits as well as the CLF's portion of building and operating costs. Reimbursements of these expenses are determined by applying a ratio of the CLF full-time equivalent employees to the NCUA total employees with settlement and payment occurring quarterly. The CLF's remaining reimbursement expenses are paid annually. The costs of the services provided to the CLF were \$542.4 thousand and \$544.8 thousand for the years ended December 31, 2019 and 2018, respectively. The Fund's expenses in the accompanying financial statements are presented net of these amounts. Other accounts receivable include \$193.1 thousand and \$102.9 thousand of amounts due from the CLF as of December 31, 2019 and 2018, respectively.

(c) Support of the CDRLF

The Fund supports the administration of programs under the CDRLF by paying related personnel costs such as pay and benefits and other associated costs which include, but are not limited to, telecommunications, supplies, printing, and postage. For the years ended December 31, 2019 and 2018, unreimbursed administrative support to the CDRLF is \$630.5 thousand and \$559.6 thousand, respectively.

(d) Federal Financial Institutions Examination Council (FFIEC)

The FFIEC was established on March 10, 1979, as a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the constituent agencies, and to make recommendations to promote uniformity in the supervision of financial institutions. By statute, the Chairman of the NCUA is one of six voting Council Members.

The NCUA is one of the five federal agencies that fund FFIEC operations. The FFIEC provides training to staff employed by Member agencies; the Member agencies are charged for these trainings based on use. A portion of the NCUA's contributions to the FFIEC cover costs associated with cross-agency data collection applications, including applications related to the Home Mortgage Disclosure Act (HMDA). For the years ended December 31, 2019 and 2018, FFIEC assessments totaled \$1.4 million and \$2.0 million, respectively. In addition, in 2019 NCUA received a refund of \$1.1 million due to lower than anticipated costs related to prior year payments. The NCUA's 2020 budgeted assessments from FFIEC total \$1.3 million.

(e) Real Estate Available for Sale

The Fund may purchase homes from employees enrolled in the agency's home purchase program who are unable to sell their homes in a specified time period. It is the agency's intent to dispose of these properties as quickly as possible. Sales of homes are generally expected to occur within one year, pending market conditions. Ongoing costs to maintain properties are expensed as incurred.

8. LEASE COMMITMENTS

Description of Leasing Agreements – The Fund has entered into lease agreements with vendors for the rental of office space and office equipment, which includes copiers, laptops, and mail equipment.

Operating Leases – The Fund leases a portion of the NCUA's regional office space under lease agreements that will continue through 2023. Office rental charges amounted to approximately \$1.4 million and \$1.3 million for 2019 and 2018, respectively.

Capital Leases – The Fund leases copiers, laptops, and mail equipment under lease agreements that run through 2024. Amounts presented in the table below include \$43.2 thousand of imputed interest.

The future minimum lease payments to be paid over the next five years as of December 31, 2019, before reimbursements, are as follows (in thousands):

Years Ending December 31	Operating Leases	Capital Leases
2020	\$ 896	\$ 625
2021	415	582
2022	426	15
2023	326	9
2024	-	5
Total	\$ 2,063	\$ 1,236

9. RETIREMENT PLANS

Eligible employees of the Fund are covered by federal government retirement plans—either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Both plans include components that are defined benefit plans. FERS is comprised of a Social Security Benefits Plan, a Basic Benefits Plan, and the Thrift Savings Plan. Contributions to the plans are based on a percentage of an employee's gross pay. Under the Thrift Savings Plan, employees may also elect additional contributions, the total of which were not to exceed \$19,000 (\$25,000 for age 50 and above) in 2019, an increase of \$500 from 2018. In addition, the Fund matches up to 5% of the employee's gross pay.

As of December 31, 2019 and 2018, the Fund's contributions to the plans were approximately \$27.8 million and \$26.5 million, respectively.

These defined benefit plans are administered by the U.S. Office of Personnel Management (OPM), which determines the required employer contribution level. The Fund does not account for the assets pertaining to the above plans and does not have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported by OPM and are not allocated to individual employers.

The Fund established a voluntary defined contribution 401(k) Plan (NCUA Savings Plan), effective January 1, 2012. The NCUA Collective Bargaining Agreement (CBA) sets the rates of contribution required by the Fund. The current agreement that became effective on July 7, 2015 is in effect for five years from its effective date and shall renew automatically for additional one year terms unless otherwise renegotiated by the parties. The Fund will maintain a voluntary 401(k) plan and will contribute, with no employee matching contribution, 3% of the employee's compensation as defined in *Article 9 Compensation and Benefits* of the CBA. The Fund matched an employee's voluntary contribution up to a maximum of 2.0% of the employee's total pay for 2019 and 2018. The Fund's match of 2.0% remains in effect for the duration of the CBA. The NCUA's contributions as of December 31, 2019 and 2018 were \$7.0 million and \$6.8 million, respectively. The gross operating expenses associated with the NCUA Savings Plan in 2019 and 2018 were \$95.7 thousand and \$96.2 thousand, respectively.

10. FAIR VALUE MEASUREMENTS

The fair value of an instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Fund has no financial instruments that are subject to fair value measurement on a recurring basis.

(a) Non-recurring Fair Value Measures

Assets held for sale is presented at aggregate fair value less cost to sell. The fair value measurement recorded during the period includes pending purchase contracts, the lower of list prices of appraisals if less than six months old (if no pending purchase contracts exist), or recent market analyses (if no recent list prices or appraisals are readily available). Additionally, the fair value incorporates estimated reductions in the fair value to recognize costs to sell the properties. These measurements fairly reflect the most current valuation of the assets.

The carrying amounts and established fair values of the Fund's assets held for sale as of December 31, 2019 and 2018 are as follows (in thousands):

Assets held for sale	Cost Basis		Fair Value		Impairment at Year-end	
2019	\$	423	\$	423	\$	50
2018	\$	-	\$	-	\$	-

(b) Summary Financial Instrument Fair Values

The following table presents the carrying values and established fair values of the Fund's financial instruments as of December 31, 2019 and 2018 (in thousands):

	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 94,492	\$ 94,492	\$ 92,122	\$ 92,122
Due from NCUSIF	2,309	2,309	4,023	4,023
Employee advances	7	7	343	343
Other accounts receivable, net	361	361	430	430
Obligations under capital lease	1,193	1,193	1,713	1,713
Note payable to NCUSIF	5,028	5,028	6,369	6,369

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents – The carrying amount for cash and cash equivalents approximates fair value as the short-term nature of these instruments do not lead to significant fluctuations in value. Cash equivalents are U.S. Treasury overnight investments.

Due from NCUSIF – The carrying amount for the due from NCUSIF approximates fair value as the amount is scheduled to be paid within the first quarter of 2020.

Employee advances – The carrying amount for receivables from employees approximates fair value as the amount is scheduled to be paid in 2020.

Other accounts receivable, net – The carrying amount for other accounts receivable approximates fair value as the original gross amounts together with a valuation allowance reflect the net amount that is deemed collectible. As of December 31, 2019 and 2018, the Fund's other accounts receivable includes an allowance in the amount of \$14.7 thousand and \$6.7 thousand, respectively.

Obligation under capital lease – The carrying amount for the remaining obligations owed under capital lease approximates fair value because the underlying interest rate approximates rates currently available to the Fund.

Note payable to NCUSIF – The carrying amount for note payable to NCUSIF approximates fair value due to its variable rate nature.

11. CONTINGENCIES

The NCUA recognizes contingent liabilities when a past event or transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is estimable. The NCUA is party to various routine administrative proceedings, legal actions, and claims brought against it, which have or may ultimately result in settlements or decisions against the agency. As of December 31, 2019, the NCUA had one asserted and pending legal claim with a reasonably possible likelihood of loss and estimated range of loss from \$222.0 thousand to \$1,400.0 thousand. The NCUA did not have any probable losses from asserted and pending legal claims as of December 31, 2019 and 2018.

12. COLLECTIVE BARGAINING AGREEMENT

The NCUA has a CBA with the National Treasury Employees Union (NTEU) that became effective on July 7, 2015. NTEU is the exclusive representative of approximately 75% of the NCUA employees.

13. RESTRUCTURING PLAN

In 2017, the NCUA Board approved a restructuring plan with the goals of greater efficiency, responsiveness, and cost-effectiveness. The plan eliminated agency offices with overlapping functions and improved functions such as examination reporting, records management and procurement. The agency completed the headquarters reorganization in 2018, while the consolidation from five to three regional offices became effective on January 7, 2019. The facilities improvements associated with the restructuring plan will be complete by 2020.

In accordance with FASB ASC 420, *Exit or Disposal Cost Obligations*, the NCUA estimates total restructuring costs to be \$13.0 million. This estimate includes employee termination benefits of \$855.0 thousand, relocation costs of \$2.4 million, and other administrative costs of \$9.8 million. To date, \$10.7 million in costs have been incurred for this plan including approximately \$6.5 million and \$3.1 million in 2019 and 2018, respectively.

In 2018, the NCUA incurred \$120.0 thousand in employee termination benefits. As of December 31, 2018, the NCUA had a \$240.0 thousand liability associated with employee termination benefits. In 2019, the NCUA did not incur any additional costs associated with employee termination benefits and paid \$240.0 thousand of the liability. As of December 31, 2019, the NCUA does not have a liability associated with employee termination benefits. To date, the NCUA has incurred \$882.5 thousand in costs for employee termination benefits.

In 2018, the NCUA incurred \$1.5 million for relocation expenses, of which \$797.5 thousand was a liability. In 2019, the NCUA incurred an additional \$117.4 thousand in relocation expenses and paid \$779.9 thousand of the liability. As of December 31, 2019, the NCUA has a \$135.0 thousand liability associated with relocation. To date, the NCUA has incurred \$1.8 million in costs for relocation expenses.

In 2018, the NCUA incurred \$1.5 million in other administrative costs, of which \$657.8 thousand was a liability as of December 31, 2018. In 2019, the NCUA incurred an additional \$6.4 million in other administrative costs and paid \$657.8 thousand of the liability. As of December 31, 2019, the NCUA has a \$424.9 thousand liability associated with other administrative costs. To date, the NCUA has incurred \$8.1 million in other administrative costs.

Incurred costs are included in the Statement of Revenues, Expenses, and Changes in Fund Balance on the following line items: Employee wages and benefits; Contracted services; and Administrative. Incurred costs associated with facilities improvements are included in the Balance Sheet as a part of Fixed assets.

14. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2020, which is the date the financial statements were available to be issued. On February 3, 2020, the NCUA sold the only property that was classified as available for sale for \$434.2 thousand. Management determined that there were no additional significant items to be disclosed as of December 31, 2019.



National Credit Union Administration Central Liquidity Facility

Financial Statements as of and for the Years Ended
December 31, 2019 and 2018, and
Independent Auditors' Report



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General, National Credit Union Administration and
the National Credit Union Administration Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Administration Central Liquidity Facility (CLF), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of the National Credit Union Administration Central Liquidity Facility as of December 31, 2019 and 2018, and its operations, members' equity, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Reporting Required by Government Auditing Standards

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2019, we considered the CLF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CLF's internal control. Accordingly, we do not express an opinion on the effectiveness of the CLF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Manager's Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CLF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-03.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the CLF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
February 14, 2020

**NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY**
BALANCE SHEETS
As of December 31, 2019 and 2018
(Dollars in thousands, except share data)

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and Cash Equivalents (Notes 3 and 5)	\$ 14,071	\$ 9,662
Investments Held to Maturity (Net of \$838 and \$844 unamortized discount as of 2019 and 2018, respectively, fair value of \$321,692 and \$300,543 as of 2019 and 2018, respectively) (Notes 4 and 5)	318,528	303,321
Accrued Interest Receivable (Note 5)	<u>1,327</u>	<u>1,281</u>
TOTAL ASSETS	<u>\$ 333,926</u>	<u>\$ 314,264</u>
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Accounts Payable (Notes 5 and 9)	\$ 270	\$ 129
Dividends and Interest Payable (Note 5)	1,310	1,052
Stock Redemption Payable (Note 5)	3,196	767
Member Deposits (Notes 5 and 7)	<u>5,496</u>	<u>3,799</u>
Total Liabilities	<u>10,272</u>	<u>5,747</u>
MEMBERS' EQUITY		
Capital Stock – Required (\$50 per share par value authorized: 11,547,711 and 10,983,384 shares; issued and outstanding: 5,773,856 and 5,491,692 shares as of 2019 and 2018, respectively) (Note 6)	288,693	274,584
Retained Earnings	<u>34,961</u>	<u>33,933</u>
Total Members' Equity	<u>323,654</u>	<u>308,517</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 333,926</u>	<u>\$ 314,264</u>

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY**

**STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2019 and 2018
(Dollars in thousands)**

	<u>2019</u>	<u>2018</u>
REVENUE		
Investment Income	\$ 6,348	\$ 5,230
Interest On Loan	<u>3</u>	<u>-</u>
Total Revenue	<u>6,351</u>	<u>5,230</u>
EXPENSES (Note 9)		
Personnel Services	306	320
Personnel Benefits	160	90
Other General and Administrative Expenses	<u>128</u>	<u>110</u>
Total Operating Expenses	594	520
Interest - Federal Financing Bank Notes Payable (Note 8)	3	-
Interest – Member Deposits (Note 7)	<u>75</u>	<u>38</u>
Total Expenses	<u>672</u>	<u>558</u>
NET INCOME	<u>\$ 5,679</u>	<u>\$ 4,672</u>

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY**

**STATEMENTS OF MEMBERS' EQUITY
For the Years Ended December 31, 2019 and 2018
(Dollars in thousands, except share data)**

	Capital Stock		Retained Earnings	Total
	Shares	Amount		
BALANCE – December 31, 2017	5,152,317	\$ 257,616	\$ 32,637	\$ 290,253
Issuance of Required Capital Stock	380,665	19,033		19,033
Redemption of Required Capital Stock	(41,290)	(2,065)		(2,065)
Dividends Declared (Notes 6 and 7)			(3,376)	(3,376)
Net Income			4,672	4,672
BALANCE – December 31, 2018	5,491,692	\$ 274,584	\$ 33,933	\$ 308,517
Issuance of Required Capital Stock	384,633	19,232		19,232
Redemption of Required Capital Stock	(102,469)	(5,123)		(5,123)
Dividends Declared (Notes 6 and 7)			(4,651)	(4,651)
Net Income			5,679	5,679
BALANCE – December 31, 2019	<u>5,773,856</u>	<u>\$ 288,693</u>	<u>\$ 34,961</u>	<u>\$ 323,654</u>

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY**

**STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018
(Dollars in thousands)**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 5,679	\$ 4,672
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Amortization of Investments	(13)	274
Interest - Member Deposits	75	38
Changes in Assets and Liabilities:		
(Increase)/Decrease in Accrued Interest Receivable	(46)	89
Increase/(Decrease) in Accounts Payable	141	(97)
Net Cash Provided by Operating Activities	<u>5,836</u>	<u>4,976</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investments	(81,193)	(90,258)
Proceeds from Maturing Investments	<u>66,000</u>	<u>73,300</u>
Net Cash Used in Investing Activities	<u>(15,193)</u>	<u>(16,958)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of Required Capital Stock	15,958	16,989
Redemption of Capital Stock	(1,845)	(825)
Withdrawal of Member Deposits	<u>(347)</u>	<u>(93)</u>
Net Cash Provided by Financing Activities	<u>13,766</u>	<u>16,071</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,409	4,089
CASH AND CASH EQUIVALENTS—Beginning of Year	<u>9,662</u>	<u>5,573</u>
CASH AND CASH EQUIVALENTS—End of Year	<u>\$ 14,071</u>	<u>\$ 9,662</u>

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION CENTRAL LIQUIDITY FACILITY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2019 and 2018

1. ORGANIZATION AND PURPOSE

The National Credit Union Administration (NCUA) Central Liquidity Facility (CLF) was created by the National Credit Union Central Liquidity Facility Act (Act). The CLF is designated as a mixed-ownership Government corporation under the Government Corporation Control Act. The CLF exists within the NCUA and is managed by the NCUA Board. The CLF became operational on October 1, 1979.

The CLF was created to improve the general financial stability of credit unions by serving as a liquidity lender to credit unions experiencing unusual or unexpected liquidity shortfalls. The CLF accomplishes its purpose by lending funds, subject to certain statutory limitations, when a liquidity need arises.

The CLF is subject to various Federal laws and regulations. The CLF may not make loans to members for the purpose of expanding credit union loan portfolios. The CLF's investments are restricted to obligations of the U.S. Government and its agencies, deposits in federally insured financial institutions, and shares and deposits in credit unions. Borrowing is limited by statute to 12 times the subscribed capital stock and surplus. See Notes 6 and 8 for further information about the capital stock and the CLF's borrowing authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The CLF has historically prepared its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), based on standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards-setting body. The Federal Accounting Standards Advisory Board (FASAB) is the standards-setting body for the establishment of GAAP with respect to the financial statements of Federal Government entities. FASAB has indicated that financial statements prepared based upon standards promulgated by FASB may also be regarded as in accordance with GAAP for those Federal entities, such as the CLF, that have issued financial statements based upon FASB standards in the past.

Basis of Accounting – The CLF maintains its accounting records in accordance with the accrual basis of accounting. As such, the CLF recognizes interest income on loans and investments when earned, and recognizes interest expense on borrowings when incurred. The CLF recognizes expenses when incurred. In addition, the CLF accrues and records dividends on capital stock monthly and pays dividends quarterly.

Cash Equivalents – Cash equivalents are highly liquid investments with original maturities of three months or less.

Investments – By statute, the CLF investments are restricted to obligations of the U.S. Government and its agencies, deposits in federally insured financial institutions, and shares and deposits in credit unions. All investments are classified as held-to-maturity under FASB Accounting Standards Codification (ASC) topic 320-10-25-1, *Classification of Investment Securities*, as the CLF has the intent and ability to hold these investments until maturity. Accordingly, the CLF reports investments at amortized cost.

Amortized cost is the face value of the securities plus the unamortized premium or less the unamortized discount.

The CLF evaluates investment securities that are in an unrealized loss position for other-than-temporary impairment (OTTI). An investment security is deemed impaired if the fair value of the investment is less than its amortized cost. Amortized cost includes adjustments (if any) made to the cost basis of an investment for accretion, amortization, and previous OTTI. To determine whether impairment is other-than-temporary, the CLF takes into consideration whether it has the intent to sell the security.

Premiums and discounts are amortized or accreted over the life of the related held-to-maturity investment as an adjustment to yield using the effective interest method. Such amortization and accretion is included in the “investment income” line item in the Statements of Operations.

The CLF records investment transactions when they are made.

Loans and Allowance for Loan Losses – Loans, when made to members, are on a short-term or longterm basis. Loans are recorded at the amount disbursed and bear interest at the higher of the Federal Financing Bank Advance Rate or the Federal Reserve Bank Discount Window Primary Credit Rate. By regulation, Member *Liquidity Needs* Loans are made on a fully secured basis. The CLF obtains a security interest in the assets of the member equal to at least 110% of all amounts due. The CLF does not currently charge additional fees for its lending activities. There was one lending activity, which was fully repaid in 2019. As of December 31, 2019, there were no allowances and no write-offs. During 2018, there was no lending activity.

Borrowings – The CLF’s borrowings are recorded when they are received, do not hold premiums or discounts, and are carried at cost. Repayments are recorded when they are made.

Income Taxes – The NCUA, as a government entity, is not subject to federal, state, or local income taxes and, accordingly, no provision for income taxes is recorded for the CLF.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management’s estimates.

Commitments and Contingencies – Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Related Parties – The CLF exists within the NCUA and is managed by the NCUA Board. The NCUA Operating Fund (OF) provides the CLF with information technology, support services, and supplies; in addition, the NCUA OF pays the CLF’s employees’ salaries and benefits, as well as the CLF’s portion of monthly building operating costs. The allocation formula to calculate these expenses is based on the number of full-time employees of the respective entities and the estimated amount of time the CLF employees spend performing the CLF functions.

3. CASH AND CASH EQUIVALENTS

The CLF's cash and cash equivalents as of December 31, 2019 and 2018 are as follows (in thousands):

	<u>2019</u>	<u>2018</u>
U.S. Treasury Overnight Investments	\$ 13,071	\$ 8,662
Deposits with U.S. Treasury	<u>1,000</u>	<u>1,000</u>
Total	<u>\$ 14,071</u>	<u>\$ 9,662</u>

U.S. Treasury securities had an initial term of less than three months when purchased.

4. INVESTMENTS

The carrying amount, gross unrealized holding gains, gross unrealized losses, and the fair value of held-to-maturity debt securities as of December 31, 2019 and 2018 were as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Carrying Amount, December 31,	\$ 318,528	\$ 303,321
Gross Unrealized Holding Gains	3,495	714
Gross Unrealized Holding Losses	<u>(331)</u>	<u>(3,492)</u>
Fair Value	<u>\$ 321,692</u>	<u>\$ 300,543</u>

Maturities of debt securities classified as held-to-maturity were as follows:

(Dollars in thousands)	<u>2019</u>		<u>2018</u>	
	<u>Net Carrying Amount</u>	<u>Fair Value</u>	<u>Net Carrying Amount</u>	<u>Fair Value</u>
Due in one year or less	\$ 76,409	\$ 76,309	\$ 66,026	\$ 65,626
Due after one year through five years	205,253	207,430	203,450	201,769
Due after five years through ten years	36,866	37,953	33,845	33,148
Total	<u>\$ 318,528</u>	<u>\$ 321,692</u>	<u>\$ 303,321</u>	<u>\$ 300,543</u>

The following table includes gross unrealized losses on investment securities, for which OTTI has not been recognized, in addition to the fair values of those securities, aggregated by investment classification and length of time the investments have been in a loss position, at December 31, 2019 and 2018.

(Dollars in thousands)	<u>Losses Less than 12 Months</u>		<u>Losses More than 12 Months</u>		<u>Total</u>	
	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
As of December 31, 2019						
U.S. Treasury Securities	<u>\$ (185)</u>	<u>\$ 42,770</u>	<u>\$ (146)</u>	<u>\$ 75,410</u>	<u>\$ (331)</u>	<u>\$ 118,180</u>
As of December 31, 2018						
U.S. Treasury Securities	<u>\$ (84)</u>	<u>\$ 35,676</u>	<u>\$ (3,408)</u>	<u>\$ 187,603</u>	<u>\$ (3,492)</u>	<u>\$ 223,279</u>

5. FAIR VALUE MEASUREMENTS

The fair value of an instrument is the amount that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants by the measurement date. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents – The carrying amounts for cash and cash equivalents approximate fair value.

Investments held-to-maturity – The CLF’s investments held-to-maturity are all comprised of U.S. Treasury Securities, for which market prices can be readily obtained. The related fair value is determined using the quoted market prices at the reporting date.

Member Deposits – Funds maintained with the CLF in excess of required capital amounts are recorded as member deposits. These deposits are due upon demand; therefore, carrying amounts approximate the fair value.

Other – Accrued interest receivable, accounts payable, stock redemption payable, and dividends payable are recorded at book values, which approximate the respective fair values because of the short maturity of these instruments.

The following table presents the carrying amounts and established fair values of the CLF’s financial instruments as of December 31, 2019 and 2018. The carrying values and approximate fair values of financial instruments are as follows:

(Dollars in thousands)	2019		2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 14,071	\$ 14,071	\$ 9,662	\$ 9,662
Investments held-to-maturity	318,528	321,692	303,321	300,543
Accrued interest receivable	1,327	1,327	1,281	1,281
Accounts payable	270	270	129	129
Dividends and Interest payable	1,310	1,310	1,052	1,052
Stock redemption payable	3,196	3,196	767	767
Member deposits	5,496	5,496	3,799	3,799

6. CAPITAL STOCK

Membership in the CLF is open to all credit unions that purchase a prescribed amount of capital stock. The CLF capital stock is non-voting and shares have a par value of \$50. Currently, there is one subscribed form of membership—regular members which are natural person credit unions. Natural person credit unions may borrow from the CLF directly as a regular member.

In October 2013, the NCUA Board issued a final rule 12 CFR Part 741, § 741.12 “Liquidity and Contingency Funding Plans,” which requires federally insured credit unions with assets of \$250 million or more to have access to a backup federal liquidity source for emergency situations. A credit union subject to this requirement may demonstrate access to a contingent federal liquidity source by maintaining membership in the CLF, or establishing borrowing access at the Federal Reserve Discount Window.

The capital stock account represents subscriptions remitted to the CLF by member credit unions. Regular members' required subscription amounts equal one-half of one percent of their paid-in and unimpaired capital and surplus, one-half of which is required to be remitted to the CLF. Member credit unions are required to hold the remaining one-half in assets subject to call by the NCUA Board. These unremitted subscriptions are not reflected in the CLF's financial statements. Subscriptions are adjusted annually to reflect changes in the member credit unions' paid-in and unimpaired capital and surplus. Dividends are non-cumulative, and are declared and paid on required capital stock.

A member of the CLF whose capital stock account constitutes less than 5% of the total capital stock outstanding may withdraw from membership in the CLF six months after notifying the NCUA Board of its intention. A member whose capital stock account constitutes 5% or more of the total capital stock outstanding may withdraw from membership in the CLF two years after notifying the NCUA Board of its intention. As of December 31, 2019, the CLF had three member withdrawal requests pending. As of December 31, 2018, the CLF had one member withdrawal request pending.

The required capital stock is redeemable upon demand by the members, subject to certain conditions as set out in the Act and NCUA regulations; however, the stock is not deemed "mandatorily redeemable" as defined in FASB ASC 480-10-25-7, *Mandatorily Redeemable Financial Instruments*; therefore capital stock is classified in permanent equity.

The CLF's capital stock accounts were composed of the following as of December 31, 2019 and 2018 (in thousands, except share data):

	2019		2018	
	Shares	Amounts	Shares	Amounts
Regular members	5,773,856	\$ 288,693	5,491,692	\$ 274,584

Dividends on capital stock are declared based on available earnings and the dividend policy set by the NCUA Board. Dividends are accrued monthly based on prior quarter-end balances and paid on the first business day after the quarter-end. The dividend rates paid on capital stock for regular members change quarterly. For 2019, the dividend rates were \$0.75 per share for the first and second quarters, and \$0.875 per share for the third and fourth quarters. For 2018, the dividend rates were \$0.50 per share for the first quarter, \$0.625 per share for the second and third quarters, and \$0.75 per share for the fourth quarter.

7. MEMBER DEPOSITS

Member deposits represent amounts remitted by members over and above the amount required for membership. Interest is paid on member deposits at a rate equivalent to the dividend rate paid on required capital stock.

8. BORROWING AUTHORITY

The CLF is authorized by statute to borrow, from any source, an amount not to exceed 12 times its subscribed capital stock and surplus. As of December 31, 2019 and 2018, the CLF's statutory borrowing authority was \$7.3 billion and \$7.0 billion, respectively.

As described above, the borrowing authority amounts are referenced to subscribed capital stock and surplus of the CLF. The CLF borrowing arrangement is exclusively with the Federal Financing Bank (FFB). The NCUA maintains a note purchase agreement with FFB on behalf of the CLF with a current maximum principal amount of \$2.0 billion. Under the terms of its agreement, the CLF borrows from FFB as needed. Under terms prescribed by the note purchase agreement, the CLF executes promissory notes in amounts as necessary, the aggregate amount of which may not exceed its statutory borrowing authority, and renews them annually. Advances made under the current promissory notes can be made no later than March 31, 2020. During 2019, the CLF borrowed \$1.0 million from FFB under one loan agreement, which the CLF then loaned to a member credit union. In 2019, the member credit union repaid the CLF for the full amount of the loan. The CLF subsequently repaid the loan to FFB in 2019. During 2018, the CLF did not borrow any funds from FFB.

9. RELATED PARTY TRANSACTIONS

The NCUA OF pays the salaries and related benefits of the CLF's employees, as well as the CLF's portion of building and operating costs. Reimbursements of these expenses are determined by applying a ratio of the CLF full-time equivalent employees to the NCUA total, with settlement and payment occurring quarterly. All other CLF reimbursement expenses are paid annually. The total amount charged by the NCUA was approximately \$542.4 thousand and \$544.8 thousand, respectively, for December 31, 2019 and 2018. Accounts payable includes approximately \$193.1 thousand and \$102.9 thousand, respectively, for December 31, 2019 and 2018, due to the NCUA OF for services provided.

10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2020, which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.



National Credit Union Administration Community Development Revolving Loan Fund

Financial Statements as of and for the Years Ended
December 31, 2019 and 2018, and
Independent Auditors' Report



KPMG LLP
 Suite 12000
 1801 K Street, NW
 Washington, DC 20006

Independent Auditors' Report

Inspector General, National Credit Union Administration and
 the National Credit Union Administration Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Administration Community Development Revolving Loan Fund (the CDRLF), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations, changes in fund balance, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of the National Credit Union Administration Community Development Revolving Loan Fund as of December 31, 2019 and 2018, and its operations, changes in fund balance and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Reporting Required by Government Auditing Standards

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2019, we considered the CDRLF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CDRLF's internal control. Accordingly, we do not express an opinion on the effectiveness of the CDRLF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Manager's Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CDRLF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-03.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the CDRLF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
February 14, 2020

**NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND**

BALANCE SHEETS

As of December 31, 2019 and 2018

(Dollars in thousands)

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and Cash Equivalents (Notes 3 and 7)	\$ 13,688	\$ 8,844
Loans Receivable, Net (Notes 4 and 7)	6,030	9,705
Interest Receivable (Note 7)	<u>10</u>	<u>14</u>
TOTAL ASSETS	<u>\$ 19,728</u>	<u>\$ 18,563</u>
LIABILITIES AND FUND BALANCE		
Accrued Technical Assistance Grants (Note 7)	\$ 3,803	\$ 3,030
Fund Balance		
Fund Capital	13,999	13,675
Accumulated Earnings	<u>1,926</u>	<u>1,858</u>
Total Fund Balance	<u>15,925</u>	<u>15,533</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 19,728</u>	<u>\$ 18,563</u>

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND**

STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2019 and 2018

(Dollars in thousands)

	<u>2019</u>	<u>2018</u>
REVENUES		
Interest on Cash Equivalents	\$ 171	\$ 104
Interest on Loans	39	45
Appropriations Used (Note 5)	1,983	2,000
Canceled Technical Assistance Grants (Note 5)	<u>(340)</u>	<u>(103)</u>
TOTAL REVENUE	<u>1,853</u>	<u>2,046</u>
EXPENSES		
Technical Assistance Grants (Note 5)	2,000	2,074
Canceled Technical Assistance Grants (Note 5)	(340)	(114)
Provision for Loan Losses (Note 4)	<u>125</u>	<u>-</u>
TOTAL EXPENSES	<u>1,785</u>	<u>1,960</u>
NET INCOME	<u>\$ 68</u>	<u>\$ 86</u>

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND**

STATEMENTS OF CHANGES IN FUND BALANCE

For the Years Ended December 31, 2019 and 2018

(Dollars in thousands)

	Fund Capital			Accumulated Earnings	Total Fund Balance
	For Loans	For Technical Assistance	Total Fund Capital		
December 31, 2017	\$ 13,388	\$ 185	\$ 13,573	\$ 1,772	\$ 15,345
Appropriations Received (Note 5)	-	2,000	2,000	-	2,000
Appropriations Used (Note 5)	-	(2,000)	(2,000)	-	(2,000)
Canceled Appropriations Returned to Treasury (Note 5)	-	(1)	(1)	-	(1)
Canceled Technical Assistance Grants (Note 5)	-	103	103	-	103
Net Income	-	-	-	86	86
December 31, 2018	\$ 13,388	\$ 287	\$ 13,675	\$ 1,858	\$ 15,533
Appropriations Received (Note 5)	-	2,000	2,000	-	2,000
Appropriations Used (Note 5)	-	(1,983)	(1,983)	-	(1,983)
Canceled Appropriations Returned to Treasury (Note 5)	-	(33)	(33)	-	(33)
Canceled Technical Assistance Grants (Note 5)	-	340	340	-	340
Net Income	-	-	-	68	68
December 31, 2019	\$ 13,388	\$ 611	\$ 13,999	\$ 1,926	\$ 15,925

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND**

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2019 and 2018

(Dollars in thousands)

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 68	\$ 86
Adjustments to Reconcile Net Income to Net Cash Used in Operating Activities		
Provision for Loan Losses (Note 4)	125	-
Appropriations Used (Note 5)	(1,983)	(2,000)
Canceled Technical Assistance Grants (Note 5)	340	103
Changes in Assets and Liabilities		
(Increase) / Decrease in Interest Receivable	4	(3)
Increase in Accrued Technical Assistance Grants	773	569
Net Cash Used in Operating Activities	<u>(673)</u>	<u>(1,245)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan Principal Repayments	4,550	410
Loan Disbursements	<u>(1,000)</u>	<u>(2,000)</u>
Net Cash Provided by or Used in Investing Activities	<u>3,550</u>	<u>(1,590)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations Received 2019/2020	2,000	-
Appropriations Received 2018/2019	-	2,000
Canceled Appropriations Returned to Treasury 2013/2014	(33)	-
Canceled Appropriations Returned to Treasury 2012/2013	-	(1)
Net Cash Provided by Financing Activities	<u>1,967</u>	<u>1,999</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	4,844	(836)
CASH AND CASH EQUIVALENTS — Beginning of year	8,844	9,680
CASH AND CASH EQUIVALENTS — End of year	\$ <u>13,688</u>	\$ <u>8,844</u>

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

NOTES TO THE FINANCIAL STATEMENTS For the Years Ended December 31, 2019 and 2018

1. ORGANIZATION AND PURPOSE

The Community Development Revolving Loan Fund (the CDRLF) for credit unions was established by an act of Congress (Public Law 96123, November 20, 1979) to stimulate economic development in low-income communities. The National Credit Union Administration (the NCUA) and the Community Services Administration (CSA) jointly adopted Part 705 of the NCUA Rules and Regulations, governing administration of the CDRLF, on February 28, 1980.

Upon the dissolution of CSA in 1983, administration of the CDRLF was transferred to the Department of Health and Human Services (HHS). From 1983 through 1990, the CDRLF was dormant.

The Community Development Credit Union Transfer Act (Public Law 99609, November 6, 1986) transferred the CDRLF administration back to the NCUA. The NCUA Board adopted amendments to Part 705 of the NCUA Rules and Regulations on September 16, 1987, and began making loans/deposits to participating credit unions in 1990.

The CDRLF stimulates economic activities in the communities served by low-income designated federally-chartered and state-chartered credit unions through its loan and technical assistance grant program. These financial awards are appropriated by Congress and are intended to support credit unions in their efforts to provide basic financial services to residents in their communities, enhance their capacity to better serve their members and respond to emergencies. The policy of the NCUA is to revolve loans to eligible credit unions as often as practical to maximize the economic benefits achieved by participating credit unions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The CDRLF prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), based on standards issued by the Financial Accounting Standards Board (FASB), the private sector standards setting body. The Federal Accounting Standards Advisory Board (FASAB) is the standards setting body for the establishment of GAAP with respect to the financial statements of federal entities. FASAB has indicated that financial statements prepared based upon standards promulgated by FASB may also be regarded as in accordance with GAAP for federal entities that have issued financial statements based upon FASB standards in the past.

Basis of Accounting – The CDRLF maintains its accounting records in accordance with the accrual basis of accounting and recognizes income when earned and expenses when incurred. In addition, the CDRLF records investment transactions when they are executed and recognizes interest on investments when it is earned.

Use of Estimates – The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the following:

- reported amounts of assets and liabilities;
- the disclosure of contingent assets and liabilities, if any, at the date of the financial statements; and
- the reported amounts of revenues and expenses during the reporting period.

Cash Equivalents – Cash equivalents are highly liquid investments with original maturities of three months or less. The Federal Credit Union Act permits the CDRLF to make investments in United States Treasury securities. All investments in 2019 and 2018 are cash equivalents and are stated at cost, which approximates fair value.

Loans Receivable and Allowance for Loan Losses – Since inception, Congress has appropriated a total of \$13.4 million for the CDRLF revolving loan program. The CDRLF awards loan amounts of up to \$500,000 to participating credit unions based on financial condition. These loans have a maximum term of five years and are subject to the interest rate provided by the CDRLF Loan Interest Rate policy, which is reviewed annually. Effective March 29, 2019, the CDRLF set the interest rate to 1.50%, an increase from the previous rate of 0.60% set on May 1, 2014. Interest is to be paid on a semiannual basis beginning six months after the initial distribution of the loan and every six months thereafter until maturity. Principal is to be repaid on the maturity date of the loan.

Loans are initially recognized at their disbursed amount, and subsequently at amortized cost, net of the allowance for loan losses, if any. A provision for loans considered to be uncollectible is charged to the Statement of Operations when such losses are probable and reasonably estimable. Provisions for significant uncollectible amounts are credited to an allowance for loan losses, while de minimis amounts are directly charged-off. Management continually evaluates the adequacy of the allowance for loan losses based upon prevailing circumstances and an assessment of collectability risk of the total loan portfolio as well as historical loss experience. Accrual of interest is discontinued on nonperforming loans when management believes collectability is doubtful.

Technical Assistance Grants – The CDRLF issues technical assistance grants to low-income designated credit unions using multiyear appropriated funds and income generated from the revolving fund. Grant income and expense is recognized when the CDRLF makes a formal commitment to the recipient credit union for technical assistance grants. The CDRLF reviews long-term unspent technical assistance grant awards (e.g. outstanding awards past the period of eligibility) and takes formal steps to cancel expired grants.

Fair Value Measurements – Cash and cash equivalents, loans receivable, interest receivable, and accrued technical assistance grants are recorded at book value, which approximates estimated fair value.

Related Party Transactions – The NCUA, through the Operating Fund (OF), provides certain general and administrative support to the CDRLF, including personnel costs such as pay and benefits as well as other costs which include but are not limited to telecommunications, supplies, printing, and postage. The value of these contributed services is not charged to the CDRLF.

Revenue Recognition – Appropriation revenue is recognized as the related technical assistance grant expense is recognized. Total appropriation revenues will differ from total technical assistance grant expenses because technical assistance grants are funded by both appropriations and income generated from the revolving fund. Interest on cash equivalents and interest on loans is recognized when earned.

Income Taxes – The NCUA, as a government entity, is not subject to federal, state, or local income taxes.

Commitments and Contingencies – Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

3. CASH AND CASH EQUIVALENTS

The CDRLF's cash and cash equivalents as of December 31, 2019 and 2018 are as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Deposits with U.S. Treasury	\$ 4,868	\$ 3,747
U.S. Treasury Overnight Securities	8,820	5,097
Total	<u>\$ 13,688</u>	<u>\$ 8,844</u>

4. LOANS RECEIVABLE

Loans receivable as of December 31, 2019 and 2018 consisted of the following (in thousands):

	<u>2019</u>	<u>2018</u>
Balance as of the Beginning of the Year	\$ 9,705	\$ 8,115
Loans Disbursed	1,000	2,000
Loan Repayments	<u>(4,550)</u>	<u>(410)</u>
Loans Receivable as of the End of the Year	<u>6,155</u>	<u>9,705</u>
Allowance for Loan Losses as of the End of the Year	<u>(125)</u>	<u>-</u>
Loans Receivable, Net, as of the End of the Year	<u>\$ 6,030</u>	<u>\$ 9,705</u>

Loans outstanding as of December 31, 2019 are scheduled to be repaid as follows (in thousands):

Year	Amount
2020	1,500
2021	1,155
2022	500
2023	2,000
2024	<u>1,000</u>
Loans Outstanding	\$ 6,155
Allowance for Loan Losses	<u>(125)</u>
Total Loans Receivable, Net	<u>\$ 6,030</u>

The CDRLF has the intent and ability to hold its loans to maturity and anticipates realizing the carrying amount in full.

5. TECHNICAL ASSISTANCE GRANTS

The CDRLF administers a technical grant assistance program to fulfill its mission to stimulate economic growth in low-income communities. These grants are typically provided on a reimbursement basis to ensure that grant awards are appropriately used.

Multiyear Funds

The CDRLF grant program is primarily funded through an annual appropriation from Congress. Multiyear funds can be obligated to participating credit unions for up to two years. Canceled technical assistance grants from previously used multiyear funds are returned to the U.S. Treasury and credited back to the original appropriated fund from which they were awarded.

In 2019, the CDRLF received a \$2.0 million appropriation from Congress for FY 2019. This multiyear appropriation is available for obligation through September 30, 2020. As of December 31, 2019, the CDRLF has obligated \$2.0 million of the multiyear funds. For the period ended December 31, 2019, the CDRLF canceled \$339.6 thousand of technical assistance grants awarded from multiyear funds.

In 2018, the CDRLF received a \$2.0 million appropriation from Congress for FY 2018. This multiyear appropriation was available for obligation through September 30, 2019. As of December 31, 2018, the CDRLF obligated \$2.0 million of the multiyear funds. For the year ended December 31, 2018, the CDRLF canceled \$103.4 thousand of technical assistance grants awarded from multiyear funds.

Upon cancellation, \$33.0 thousand from the FY 2013 appropriation and \$1.3 thousand from the FY 2012 appropriation was returned to the U.S. Treasury in 2019 and 2018, respectively.

Revolving Fund

The CDRLF can also award technical assistance grants from the revolving fund. These grants are recognized as Technical Assistance Grants expense when the funds are obligated to participating credit unions. If a grant awarded from the revolving fund is canceled, the funds are recognized as Canceled Technical Assistance Grants.

As of December 31, 2019, the CDRLF awarded \$18.1 thousand in technical assistance grants from the revolving fund. In 2019, the CDRLF canceled \$0.8 thousand of technical assistance grants awarded from the revolving fund.

As of December 31, 2018, the CDRLF awarded in \$74.4 thousand in technical assistance grants from the revolving fund. In 2018, the CDRLF canceled \$10.3 thousand of technical assistance grants awarded from the revolving fund.

6. CONCENTRATION OF CREDIT RISK

The CDRLF has the authority to provide loans to low-income designated credit unions. At the discretion of the NCUA, participating credit unions can record an awarded loan as a nonmember deposit, which qualifies up to \$250,000 of the loan proceeds to be insured by the National Credit Union Share Insurance Fund (NCUSIF). Loan balances that exceed \$250,000 are uninsured and pose a potential credit risk to the CDRLF. The aggregate total of uninsured loans was \$1.6 million and \$3.6 million as of December 31, 2019 and 2018, respectively. The decrease in FY 2019 is primarily due to loan maturities of \$2.0 million in loan amounts over \$250,000.

7. FAIR VALUE MEASUREMENTS

The fair value of an instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following table presents the carrying values and established fair values of the CDRLF's financial instruments as of December 31, 2019 and 2018 (in thousands):

	2019		2018	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and Cash Equivalents	\$ 13,688	\$ 13,688	\$ 8,844	\$ 8,844
Loans Receivable, Net	6,030	6,119	9,705	9,771
Interest Receivable	10	10	14	14
Liabilities				
Accrued Technical Assistance Grants	3,803	3,803	3,030	3,030

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Loans Receivable – Fair value is estimated using an income approach by separately discounting each individual loan's projected future cash flow. The discount rate reflects the pricing and is commensurate with the risk of the loans to the CDRLF. Loans are valued annually on December 31.

Other – The carrying amounts for cash and cash equivalents, interest receivable, and accrued technical assistance grants approximate fair value.

8. RELATED PARTY TRANSACTIONS

The NCUA, through the OF, supports the administration of programs under the CDRLF by paying related personnel costs such as pay and benefits as well as other costs which include but are not limited to telecommunications, supplies, printing, and postage.

For the years ended December 31, 2019 and 2018, the NCUA, through the OF, provided the following unreimbursed administrative support to the CDRLF (in thousands):

	2019	2018
Personnel	\$ 571	\$ 504
Other	59	55
Total	\$ 630	\$ 559

9. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2020, which is the date the financial statements were available to be issued. Management determined there were no significant items to be disclosed as of December 31, 2019.



This page intentionally left blank

Other Information



About the Other Information Section

The Other Information Section includes:

Summary of Financial Statement Audit and Management Assurances

The Summary of Financial Statement Audit and Management Assurances provides information about the material weaknesses reported by the NCUA or through the audit process. The NCUA reported no material weaknesses in 2019.

Civil Monetary Penalty Adjustment for Inflation

The Civil Monetary Penalty Adjustment for Inflation section reports on the NCUA's annual inflation adjustments to civil monetary penalties as required under the Federal

Civil Penalties Inflation Adjustment Act Improvement Act of 2015.

Payment Integrity

The Payment Integrity section summarizes the NCUA's efforts to maintain payment integrity and to develop effective controls designed to prevent, detect, and recover improper payments. The NCUA did not have any high-risk programs in 2019.

Fraud Reduction Report

The Fraud Reduction Report section describes the NCUA's efforts to comply with the Fraud Reduction and Data Analytics Act of 2015 and details initiatives undertaken in 2019 to reduce fraud risk.

Summary of Financial Statement Audits

Summary of the results of the independent audits of the financial statements of NCUA's four funds by the agency's auditors in connection with the 2019 audit.

National Credit Union Share Insurance Fund					
Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Operating Fund					
Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Central Liquidity Facility					
Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Community Development Revolving Loan Fund					
Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Summary of Management Assurances

Summary of management assurances related to the effectiveness of internal control over financial reporting and its conformance with federal financial management system requirements under Sections 2 and 4, respectively, of the Federal Managers' Financial Integrity Act of 1982.

Effectiveness of Internal Control Over Financial Reporting (FMFIA § 2) <i>(Federal Management Financial Integrity Act Paragraph 2)</i>						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

Effectiveness of Internal Control Over Operations (FMFIA § 2) <i>(Federal Management Financial Integrity Act Paragraph 2)</i>						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

Conformance with Federal Financial Management System Requirements (FMFIA § 4) <i>(Federal Management Financial Integrity Act Paragraph 4)</i>						
Statement of Assurance	Federal Systems conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Non-Conformances	0	0	0	0	0	0

Improper Payments Elimination And Recovery Improvement Act

The Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012, requires federal agencies to review all programs and activities they administer and to identify those that may be susceptible to significant improper payments. Agencies must estimate the amount of erroneous payments for programs and activities for which the risk of improper payments is determined to be significant. Significant improper payments are defined as gross annual improper payments in a program exceeding both 1.5 percent of program outlays and \$10 million of all program payments made during the year, or \$100

million. Detailed information on improper payments for the U.S. government is available online at paymentaccuracy.gov. Data from NCUA is not included on this website because we do not have any programs that the OMB considers susceptible to significant improper payments.

The NCUA annually assesses improper payment risks covering all programs, as required by Circular A-123, Appendix C, “Requirements for Payment Integrity Improvement.” Based on the risk assessments, the agency has concluded that it does not have programs that are risk-susceptible to the threshold amounts in Appendix C.

Fraud Reduction And Data Analytics Act

The Fraud Reduction and Data Analytics Act of 2015 requires agencies to implement the Government Accountability Office’s (GAO) *A Framework to Managing Fraud Risks in Federal Programs*. The GAO framework details four components agencies should implement as part of their overall fraud risk management:

- Commit to creating an organizational culture conducive to managing fraud risk;
- Plan regular fraud risk assessments and use these assessments to develop a fraud risk profile;
- Design controls that mitigate risks of fraud, with a particular emphasis on fraud prevention and develop a

collaborative environment to ensure effective implementation of those controls; and

- Evaluate outcomes using a risk-based approach and adapt fraud risk-management activities accordingly based on those evaluations.

Further, the Fraud Reduction and Data Analytics Act of 2015 requires agencies to report on efforts to reduce fraud. The NCUA’s approach to fraud prevention and detection starts with the agency’s leadership. The NCUA has a leadership culture that fosters integrity; training to increase awareness and to identify and report fraud; an active, independent Inspector General, strong internal controls, appropriate segregation of

duties, risk and internal control assessments, and quality assurance and control activities. In addition, our Enterprise Risk Management Council, which consists of senior leadership throughout the NCUA's offices and regions, evaluates fraud risk as part of the enterprise risk-management program. Further, the NCUA has multiple ways to receive anonymous information about potential fraud and insider abuse such as surveys and a confidential fraud hotline.

The NCUA understands that a fraud risk-management program is a continuous process that requires ongoing assessment, evaluation, and adaptation in order to build and improve an overall anti-fraud environment. In 2019, the agency continued to mature

documentation of the agency's fraud risk-management plan to include current practices and to identify targeted opportunities to strengthen the program. Further, the NCUA evaluated certain processes for fraud risk and utilized risk based sampling to detect fraud using data analytics. The agency plans to expand the scope of this evaluation as our fraud program matures.

While no instances of fraud in the NCUA's programs surfaced through management's internal identification and reporting mechanisms or from internal and external auditors, the NCUA will continue to assess the design of process controls to evaluate their efficacy to reduce fraud risk.

Civil Monetary Penalty Adjustment for Inflation

The Federal Civil Penalties Inflation Adjustment Act of 1990, as amended by the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to improve effectiveness and to maintain their deterrent effect.

The following are the civil monetary penalties that NCUA may impose, the authority for imposing the penalty, year enacted, latest year of adjustment and current penalty level. Additional information about these penalties and the latest adjustment is available in the [Federal Register](#).

Penalty	Statutory Authority	Year Enacted	Latest Year of Adjustment	Current Penalty Level
Inadvertent failure to submit a report or the inadvertent submission of a false or misleading report	12 U.S.C. 1782(a)(3)	1989	2020	\$4,098
Non-inadvertent failure to submit a report or the non-inadvertent submission of a false or misleading report	12 U.S.C. 1782(a)(3)	1989	2020	\$40,979
Failure to submit a report or the submission of a false or misleading report done knowingly or with reckless disregard	12 U.S.C. 1782(a)(3)	1989	2020	Lesser of \$2,048,915 or 1 percent of total credit union assets
Tier 1 civil monetary penalty for inadvertent failure to submit certified statement of insured shares and charges due to NCUSIF, or inadvertent submission of false or misleading statement	12 U.S.C. 1782(d)(2)(A)	1991	2020	\$3,747
Tier 2 civil monetary penalty for non-inadvertent failure to submit certified statement or submission of false or misleading statement	12 U.S.C. 1782(d)(2)(B)	1991	2020	\$37,458
Tier 3 civil monetary penalty for failure to submit a certified statement or the submission of a false or misleading statement done knowingly or with reckless disregard	12 U.S.C. 1782(d)(2)(C)	1991	2020	Lesser of \$1,872,957 or 1 percent of total credit union assets

Penalty	Statutory Authority	Year Enacted	Latest Year of Adjustment	Current Penalty Level
Non-compliance with insurance logo requirements	12 U.S.C. 1785(a)(3)	2006	2020	\$127
Non-compliance with NCUA security requirements	12 U.S.C. 1785(e)(3)	1970	2020	\$297
Tier 1 civil monetary penalty for violations of law, regulation, and other orders or agreements	12 U.S.C. 1786(k)(2)(A)	1989	2020	\$10,245
Tier 2 civil monetary penalty for violations of law, regulation, and other orders or agreements and for recklessly engaging in unsafe or unsound practices or breaches of fiduciary duty	12 U.S.C. 1786(k)(2)(B)	1989	2020	\$51,222
Tier 3 civil monetary penalty for knowingly committing the violations under Tier 1 or 2	12 U.S.C. 1786(k)(2)(C)	1989	2020	Natural persons: \$2,048,915; Credit unions: Lesser of \$2,048,915 or 1 percent of total credit union assets
Non-compliance with senior examiner post-employment restrictions	12 U.S.C. 1786(w)(5)(A)(ii)	2004	2020	\$337,016
Non-compliance with appraisal independence standards (first violation)	15 U.S.C. 1639e(k)	2010	2020	\$11,767
Subsequent violations of the same	15 U.S.C. 1639e(k)	2010	2020	\$23,533
Non-compliance with flood insurance requirements	42 U.S.C. 4012a(f)(5)	2012	2020	\$2,226



This page intentionally left blank

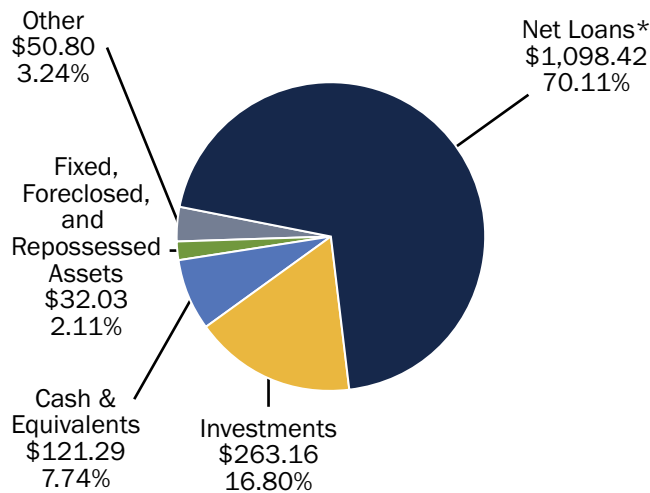
About Statistical Data

The National Credit Union Administration quarterly releases data on the financial performance of federally insured credit unions. This section contains an overview of the credit union system's financial performance and graphics illustrating

financial trends in federally insured credit unions based on information reported in the 2019Q4 Call Report. The NCUA also makes extensive credit union system performance data available in the [Credit Union Analysis](#) section of NCUA.gov.

Overall Trends

Asset Distribution
(in Billions)

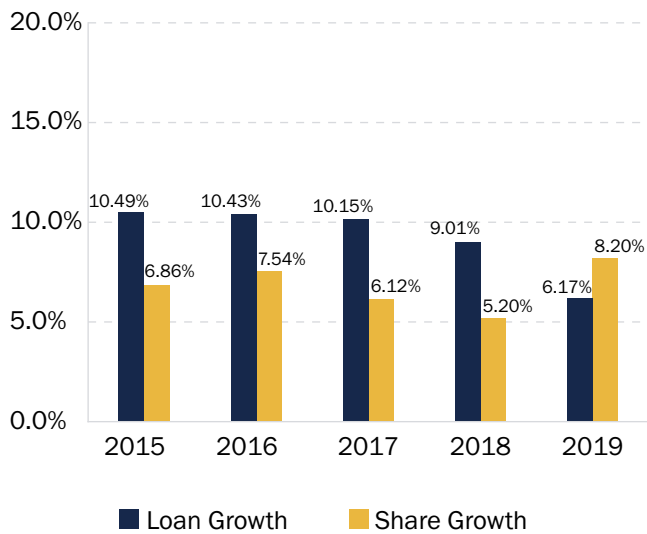


*Net Loans equals Total Loans (\$1,108.0 billion) minus Allowance for Loan and Lease Losses (\$9.6 billion). Numbers may not add up due to rounding.

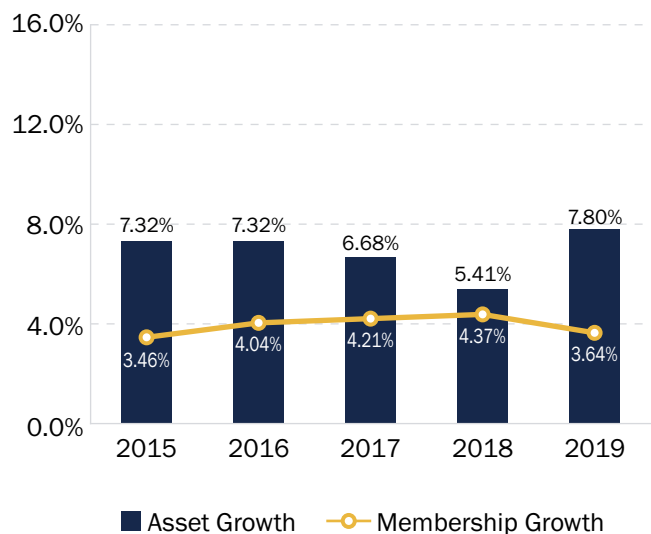
Number of Insured Credit Unions Reporting

	Federal Charter	State Charter	Total
2015	3,764	2,257	6,021
2016	3,608	2,177	5,785
2017	3,499	2,074	5,573
2018	3,376	1,999	5,375
2019	3,283	1,953	5,236

Loan Growth vs. Share Growth

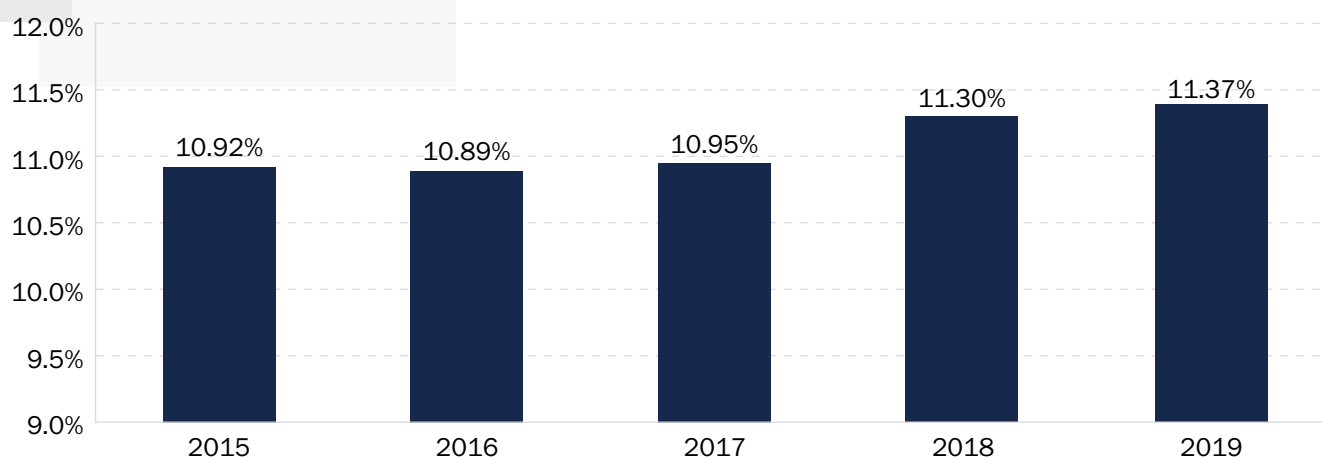


Asset Growth vs. Membership Growth



Net Worth

Aggregate Net Worth Ratio



Net Worth Change

	December 2018 in Billions	December 2019 in Billions	% Change (Annualized)
Total Net Worth	\$164.25	\$178.28	7.42%
Secondary Capital*	\$0.26	\$0.30	13.83%

*For low-income-designated credit unions, net worth includes secondary capital.

Numbers may not add up due to rounding.

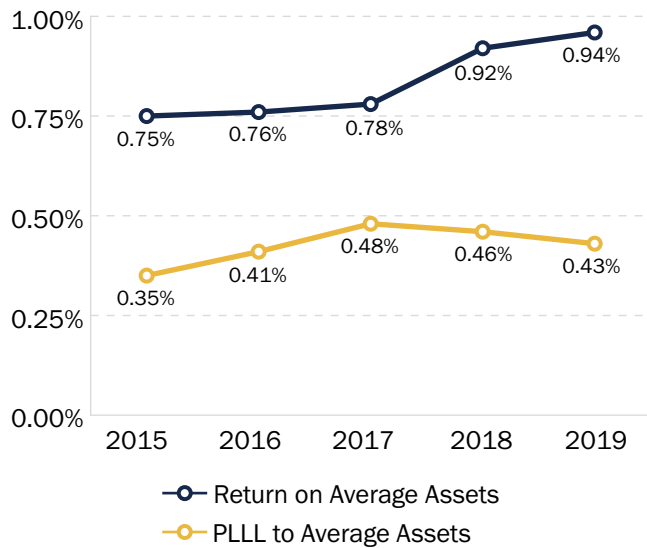
Net Worth Ratios

Number of Credit Unions	December 2018	% of Total	December 2019	% of Total
7% or above	5,294	98.49%	5,160	98.55%
6% to 6.99%	51	0.95%	39	0.74%
4% to 5.99%	24	0.45%	30	0.57%
2% to 3.99%	3	0.06%	4	0.08%
0% to < 2.00%	2	0.04%	2	0.04%
Less than 0%	1	0.02%	1	0.02%

Numbers may not add up due to rounding.

Earnings

Return on Average Assets vs. Provision for Loan & Lease Losses

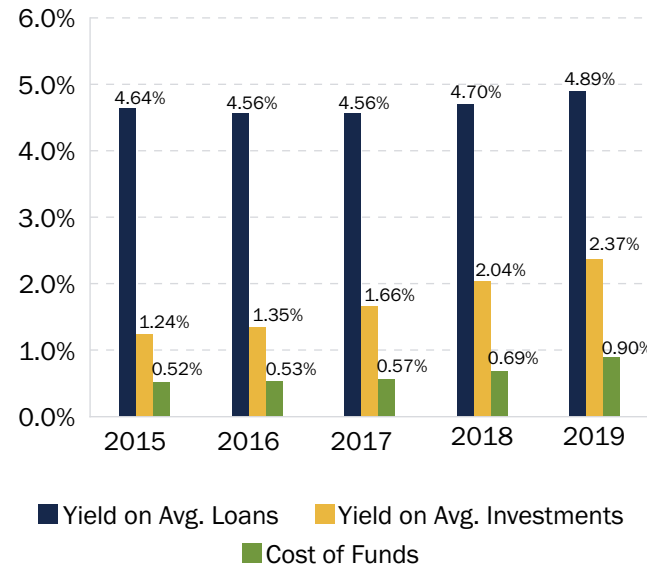


Ratio of Average Assets

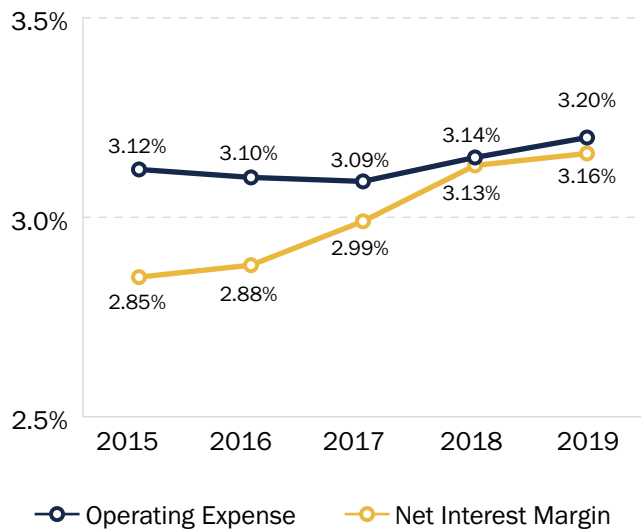
Ratio (% of Average Assets)	December 2018	December 2019	Effect on ROA
Net Interest Margin	3.13%	3.16%	0.03 bp
+ Fee & Other Inc.	1.38%	1.36%	-0.02 bp
- Operating Expenses	3.14%	3.20%	-0.06 bp
- PLLL	0.46%	0.43%	0.03 bp
+ Non-Operating Income	0.02%	0.05%	0.03 bp
= ROA	0.92%	0.94%	0.02 bp

Numbers may not add up due to rounding.

Yields vs. Cost of Funds

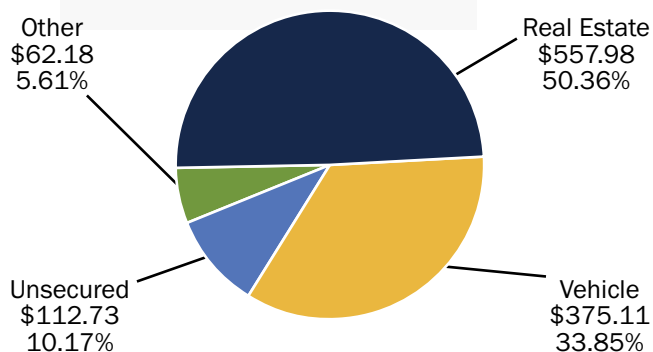


Operating Expenses vs. Net Interest Margin

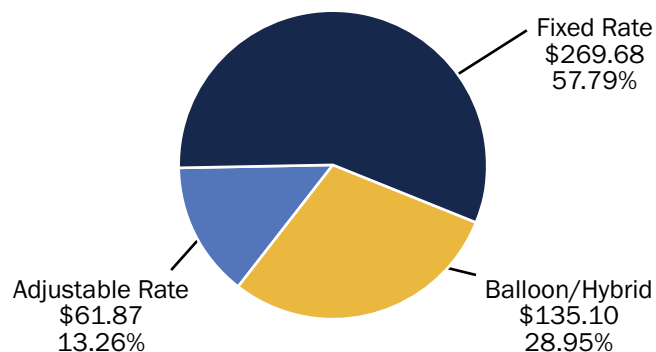


Loan Distribution

**Loan Distribution
(in Billions)**



**First Mortgage Real Estate Loans
(in Billions)**



Numbers may not add up due to rounding.

Numbers may not add up due to rounding.

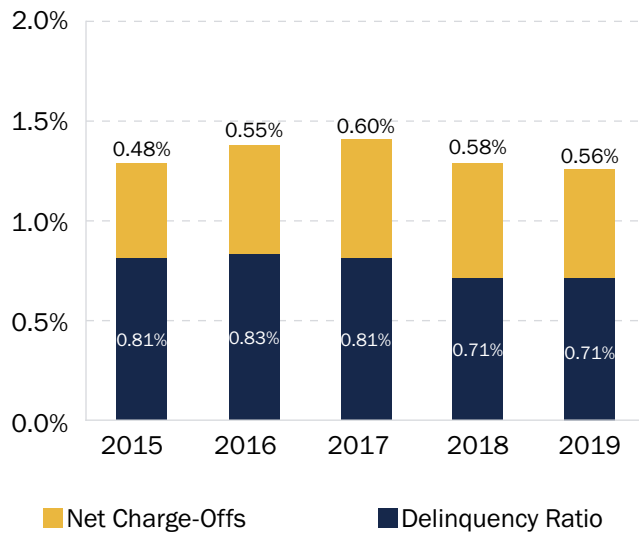
Loan Growth

Loan Category	December 2018 in Billions	% of Total Loans December 2018	December 2019 in Billions	% of Total Loans December 2019	Growth in Billions	Growth Rate (Annualized)
Unsecured Credit Card	\$61.84	5.93%	\$66.02	5.96%	\$4.18	6.76%
All Other Unsecured	\$43.38	4.16%	\$46.70	4.22%	\$3.32	7.66%
New Vehicle	\$147.22	14.11%	\$147.58	13.32%	\$0.37	0.25%
Used Vehicle	\$218.71	20.96%	\$227.52	20.53%	\$8.82	4.03%
First Mortgage Real Estate	\$426.42	40.86%	\$466.66	42.12%	\$40.24	9.44%
Other Real Estate	\$88.09	8.44%	\$91.32	8.24%	\$3.23	3.67%
Leases Receivable & All Other	\$57.90	5.55%	\$62.18	5.61%	\$4.27	7.38%
Total Loans	\$1,043.55		\$1,107.99		\$64.44	6.17%

Numbers may not add up due to rounding.

Loan and Delinquency Trends

Delinquency & Charge-Offs

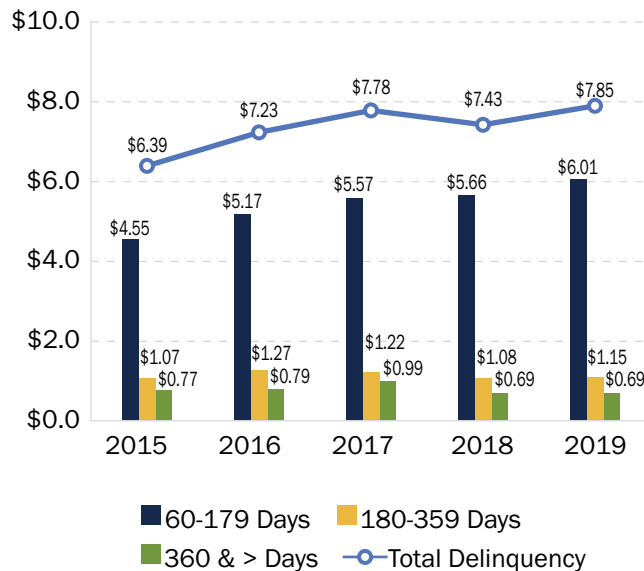


Charge-Offs and Recoveries

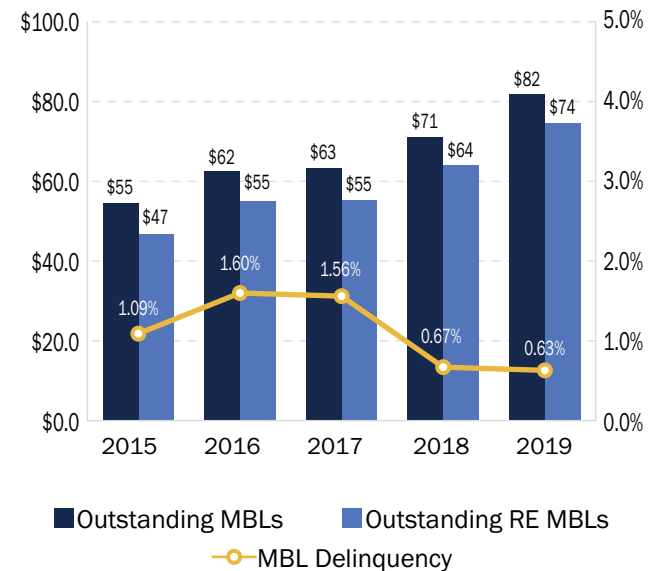
Total Loan Charge-Offs and Recoveries	December 2018 in Billions	December 2019 in Billions*	% Change
Total Loans Charged Off	\$7.04	\$7.43	5.53%
Total Loan Recoveries	\$1.28	\$1.38	7.81%
Total Net Charge-Offs	\$5.76	\$6.05	5.02%

* Annualized
Numbers may not add up due to rounding.

Delinquency (in Billions)

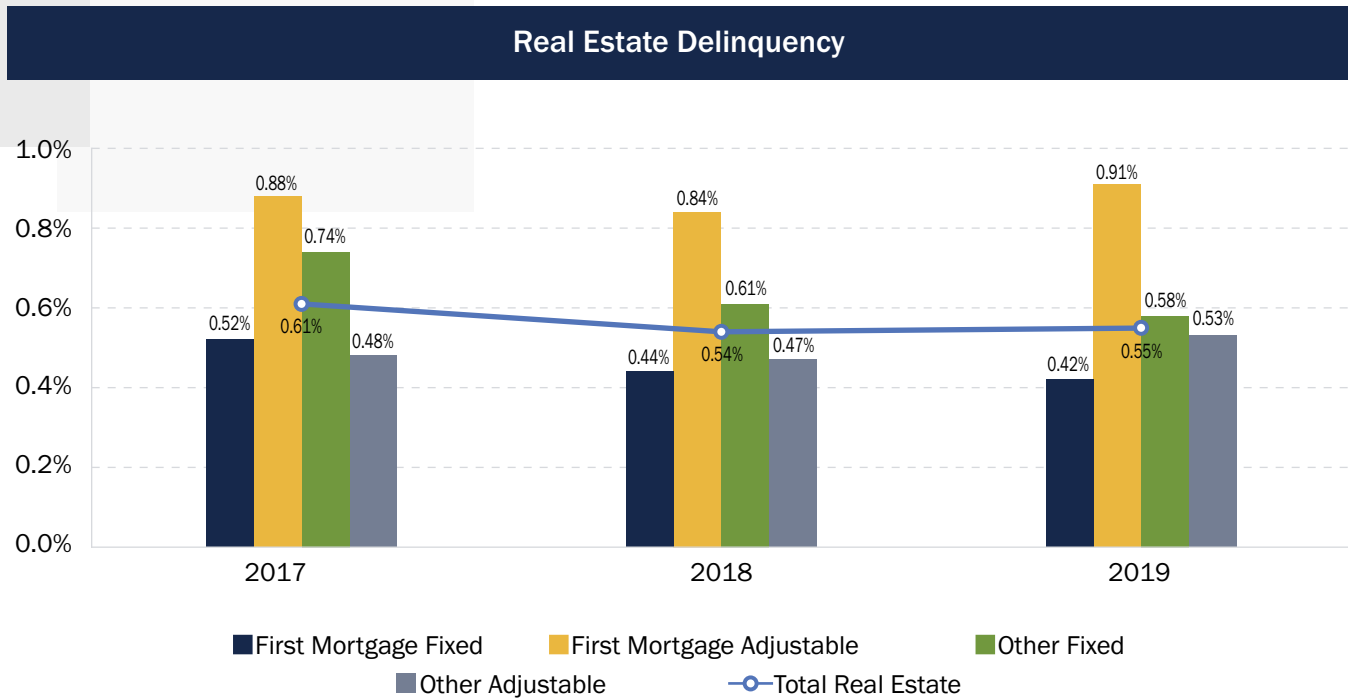


Commercial/Member Business Loans & Delinquency (in Billions)

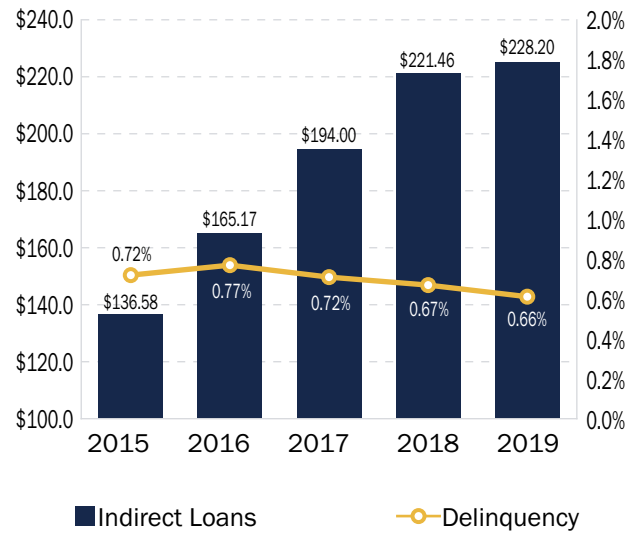


* Reporting requirements for loans were changed with the September 2017 cycle to accommodate the regulatory definition of commercial loans.

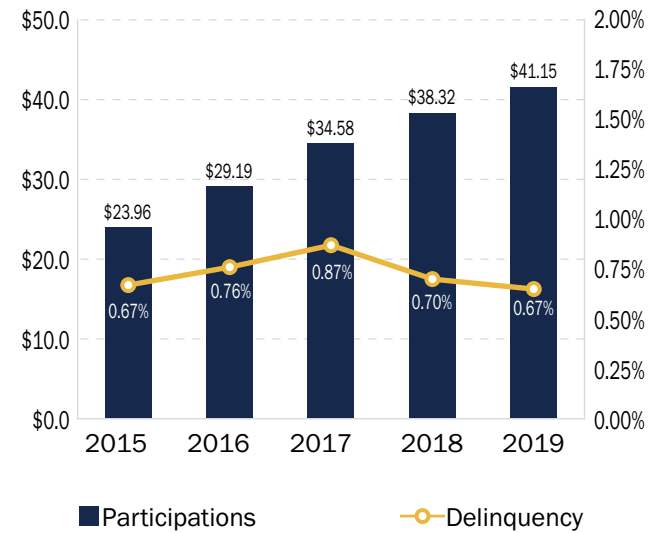
Loan Delinquency Trends (continued)



Indirect Loans & Delinquency (in Billions)

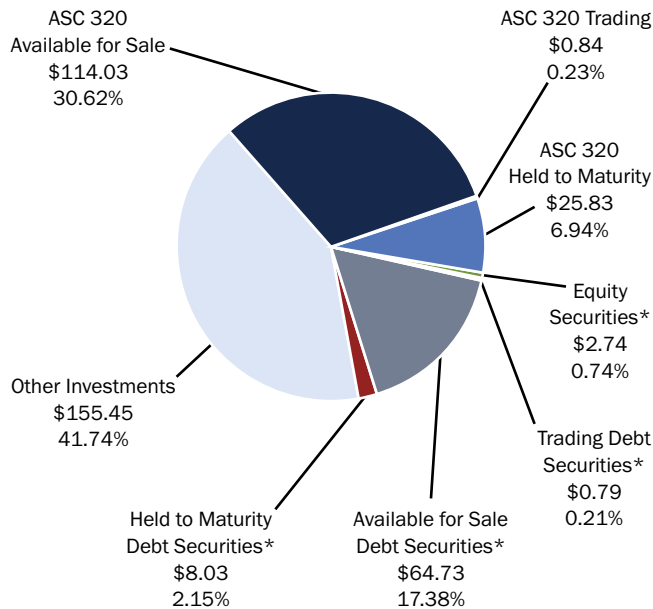


Participation Loans & Delinquency (in Billions)

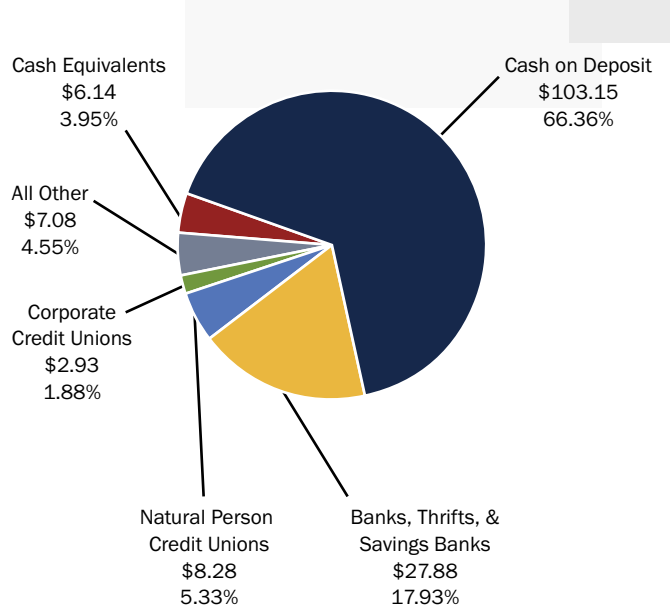


Investment Trends – Accounting Standards Codification

Investment Classification (in Billions)



Other Investments Distribution (in Billions)



* Credit Unions adopting ASU 2016-01
Numbers may not add up due to rounding.

* Credit Unions adopting ASU 2016-01

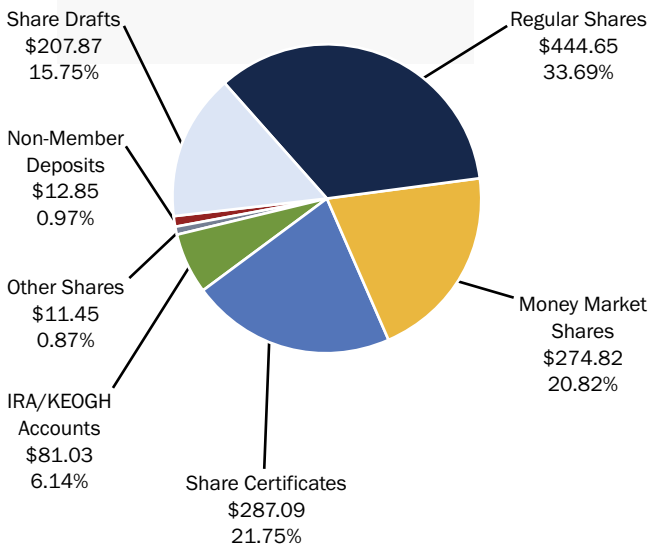
Maturity

Maturity or Repricing Intervals for Investments and Cash on Deposit & Equivalents	December 2018 in Billions	% of Total Investments December 2018	December 2019 in Billions	% of Total Investments December 2019	Growth in Billions	Growth Rate (Annualized)
Less than 1 year	\$154.07	46.00%	\$188.95	50.73%	\$34.88	22.64%
1 to 3 years	\$86.18	25.73%	\$91.78	24.64%	\$5.60	6.50%
3 to 5 years	\$59.26	17.69%	\$54.66	14.68%	-\$4.59	-7.75%
5 to 10 years	\$31.55	9.42%	\$31.36	8.42%	-\$0.19	-0.59%
Greater than 10 years	\$3.91	1.17%	\$5.70	1.53%	\$1.79	45.72%
Total Investments*	\$334.96		\$372.45		\$37.49	11.19%

*Includes borrowing repurchase agreements placed in investments for positive arbitrage
Numbers may not add up due to rounding.

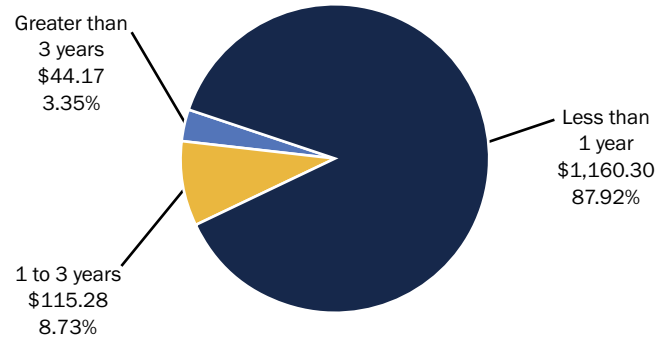
Share Trends

**Share Distribution
(in Billions)**



* Credit Unions adopting ASU 2016-01

**Savings Maturities
(in Billions)**



* Credit Unions adopting ASU 2016-01

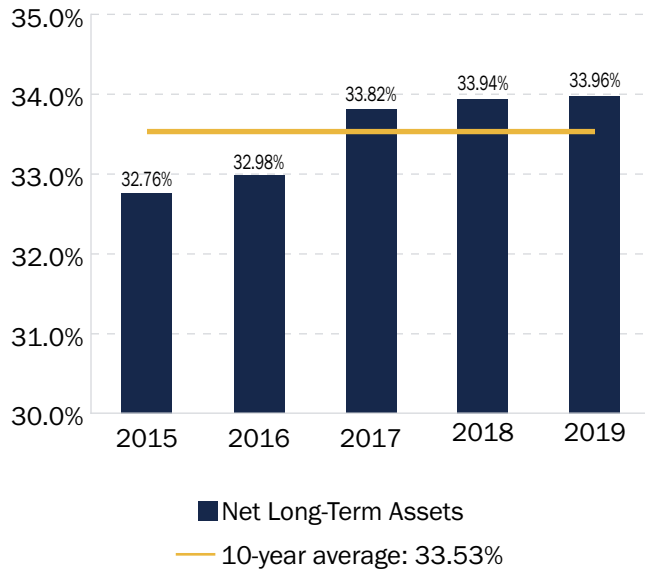
Shares

Share Category	December 2018 Balance in Billions	% of Total Shares December 2018	December 2019 Balance in Billions	% of Total Shares December 2019	Growth in Billions	Growth Rate (Annualized)
Share Drafts	\$190.04	15.58%	\$207.87	15.75%	\$17.83	9.38%
Regular Shares	\$429.64	35.22%	\$444.65	33.69%	\$15.01	3.49%
Money Market Shares	\$261.91	21.47%	\$274.82	20.82%	\$12.90	4.93%
Share Certificates	\$238.16	19.53%	\$287.09	21.75%	\$48.93	20.54%
IRA / KEOGH Accounts	\$77.55	6.36%	\$81.03	6.14%	\$3.48	4.49%
All Other Shares	\$10.56	0.87%	\$11.45	0.87%	\$0.89	8.47%
Non-Member Deposits	\$11.88	0.97%	\$12.85	0.97%	\$0.97	8.18%
Total Shares and Deposits	\$1,219.73		\$1,319.75		\$100.02	8.20%

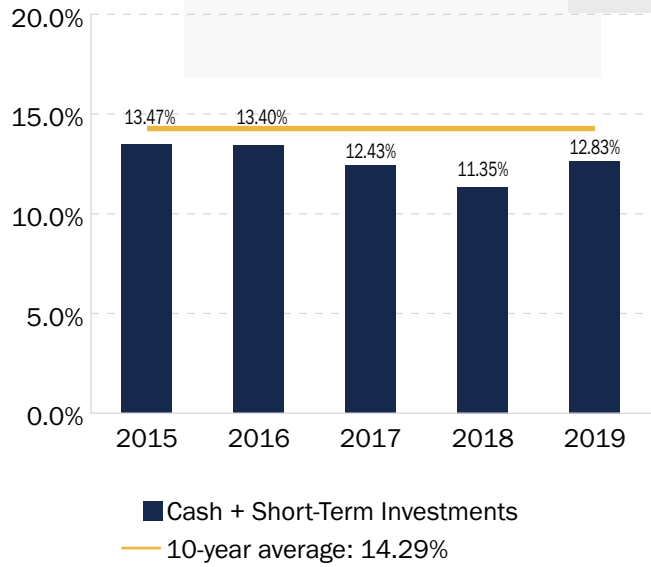
Numbers may not add up due to rounding.

Asset-Liability Management Trends

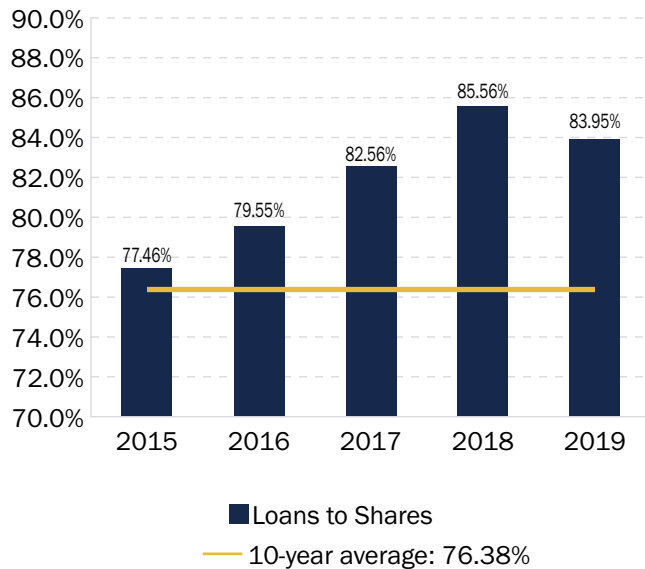
Net Long-Term Assets / Total Assets



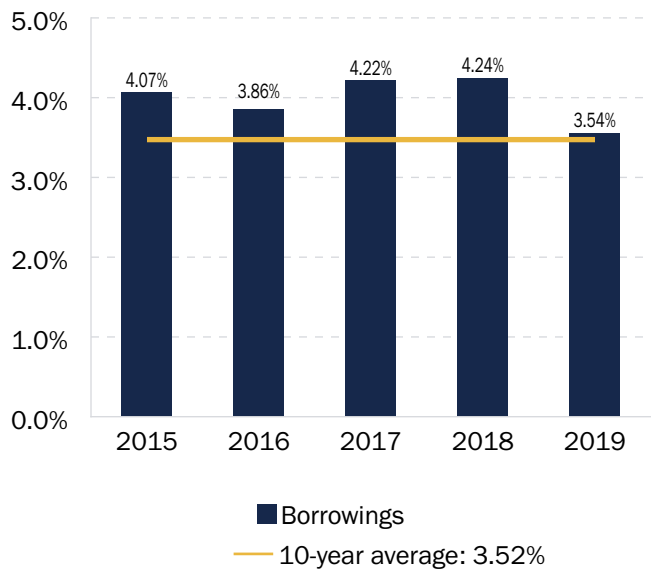
Cash + Short-Term Investments / Assets



Total Loans / Total Shares



Borrowings / Total Shares & Net Worth



Summary of Trends by Asset Group

	Asset Group Under \$10 million	Asset Group \$10 million to \$100 million	Asset Group \$100 million to \$500 million	Asset Group \$500 million and Greater
Number of Credit Unions	1,329	2,312	1,018	577
Total Assets	\$5.53 billion	\$89.79 billion	\$227.78 billion	\$1.24 trillion
Average Assets/CU	\$4.16 million	\$38.84 million	\$223.75 million	\$2.16 billion
Net Worth / Total Assets	16.50%	12.72%	11.57%	11.22%
Average Net Worth (non-dollar weighted)	17.66%	13.17%	11.68%	11.31%
Net Worth Growth*	1.79%	5.14%	7.08%	9.70%
Return on Average Assets (ROA)*	0.31%	0.62%	0.74%	1.00%
Net Interest Margin/Average Assets	3.70%	3.43%	3.35%	3.11%
Fee & Other Income/Average Assets	0.66%	1.20%	1.49%	1.35%
Operating Expense/Average Assets	3.84%	3.77%	3.82%	3.05%
Members / Full-Time Employees	391.39	382.59	337.27	400.00
Provision for Loan Loss/Average Assets	0.35%	0.27%	0.32%	0.46%
Loans / Shares	62.74%	65.30%	78.16%	86.54%
Delinquent Loans / Total Loans	1.89%	0.94%	0.75%	0.69%
% of Real Estate Loans Delinquent > 59 Days	1.59%	0.82%	0.65%	0.52%
% of Member Business Loans Delinquent > 59 Days	0.35%	0.64%	0.92%	0.59%
Net Charge-Offs/Average Loans	0.61%	0.48%	0.48%	0.58%
Share Growth*	-0.92%	2.65%	5.45%	9.82%
Loan Growth*	1.35%	3.03%	4.76%	7.17%
Asset Growth*	-0.52%	2.93%	5.57%	9.20%
Membership Growth*	-1.61%	-0.47%	1.60%	5.27%
Net Long-Term Assets / Total Assets	7.51%	21.38%	30.52%	35.61%
Cash + Short-Term Investments / Assets	31.23%	22.27%	14.92%	11.68%
Borrowings / Shares & Net Worth	0.11%	0.26%	1.24%	4.24%

*Note: These items are based on the same federally insured credit unions reporting at 12/31/2018 and 12/31/2019, based on 12/31/2019 assets.

National Credit Union Share Insurance Fund Ten-Year Trends

Fiscal year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Income (In Thousands)										
Premium	\$ 929,952	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment	\$ 216,921	\$ 226,011	\$ 206,995	\$ 198,264	\$ 208,259	\$ 218,526	\$ 227,172	\$ 209,136	\$ 284,716	\$ 306,467
Other income	\$ 49,223	\$ 1,037	\$ 8,768	\$ 4,550	\$ 5,633	\$ 5,187	\$ 2,463	\$ 487,103	\$ 18,158	\$ 13,768
Total Income ³	\$ 1,196,096	\$ 227,048	\$ 215,763	\$ 202,814	\$ 213,892	\$ 223,713	\$ 229,635	\$ 696,239	\$ 302,874	\$ 320,235
Expenses (In Thousands)										
Operating	165,830	132,358	141,237	148,312	179,818	197,752	209,260	199,015	187,395	191,164
Insurance losses	735,562	(532,408)	(77,784)	(48,638)	(41,840)	(35,411)	7,870	726,295	113,826	(40,595)
Total expenses	901,392	(400,050)	63,453	99,674	137,978	162,341	217,130	925,310	301,221	150,569
Net income (in thousands) ³	\$ 294,704	\$ 627,098	\$ 152,310	\$ 103,140	\$ 75,914	\$ 61,372	\$ 12,505	\$ (229,071)	\$ 1,653	\$ 169,666
Data Highlights										
Total Equity (in millions) ¹	9,670	10,339	10,912	11,266	11,625	12,095	12,742	15,853	15,905	16,596
Equity as a percentage of shares in insured credit unions	1.28%	1.30%	1.30%	1.30%	1.29%	1.26%	1.24%	1.46%	1.39%	1.35%
NCUSIF loss per \$1,000 of insured shares	\$ 0.97	\$ (0.67)	\$ (0.09)	\$ (0.06)	\$ (0.05)	\$ (0.02)	\$ 0.01	\$ 0.67	\$ (0.10)	\$ 0.03
Operating Ratios										
Premium Income	77.8%	-	-	-	-	-	-	-	-	-
Investment Income	18.1%	99.5%					98.9%	30.0%	94.0%	95.7%
Other Income:	4.1%	50.0%					1.1%	70.0%	6.0%	4.3%
Operating Expenses	13.9%	58.3%					91.1%	28.6%	61.9%	59.7%
Insurance Losses (Gain)	61.5%	-234.5%					3.4%	104.3%	37.6%	-12.7%
Total Expenses (neg expense)	75.4%	-176.2%					94.5%	132.9%	99.5%	47.0%
Net Income	24.6%	276.2%					5.4%	-32.9%	0.5%	53.0%
Involuntary Liquidations Commenced										
Number	18	15	14	13	10	11	11	5	7	1
Share payouts (in thousands)	701,145	586,852	667,814	125,621	150,111	138,635	10,163	159,841	1,407,357	61,761
Share payouts as a percentage of total insured shares	0.093%	0.074%	0.080%	0.015%	0.017%	0.014%	0.001%	0.015%	0.123%	0.005%
Shares in liquidated credit unions (in thousands)	870,435	459,403	728,746	105,378	140,581	145,829	8,240	162,783	1,454,234	17,683
Mergers										
Assisted	10	1	8	4	5	5	3	5	1	1
Unassisted	193	212	265	235	234	218	207	201	174	137
Section 208 (FCU Act) Assistance To Avoid Liquidation (In Thousands)										
Capital notes and other cash advance outstanding	-	80,000	80,000	66,500	54,600	-	-	-	-	-
Non-cash guarantee accounts	108,046.00	199,945.00	32,132.00	5,533.00	4,720.00	-	-	1,104,500	-	1,252
Number of active cases	5	9	5	3	5	1	1	3	-	2
Number of Troubled, Insured Credit Unions (CAMEL 4 & 5)										
Number	365	409	370	307	276	220	196	196	194	188
Shares (millions)	38,510	26,285	16,940	12,133	10,234	7,662	8,586	8,665	10,441	9,629
Problem case shares as a percentage of insured shares	4.74%	3.31%	2.00%	1.40%	1.13%	0.80%	0.83%	0.80%	0.92%	0.79%

Values rounded from underlying data.

Credit Union Performance Five-Year Trends

	Units	Same quarter as current, previous years					Most recent four quarters				Most Recent	
		2014.4	2015.4	2016.4	2017.4	2018.4	2019.1	2019.2	2019.3	2019.4	4 Quarter % change	4 Quarter change
Summary Credit Union Data												
Federally insured credit unions												
Federally insured credit unions	Number	6,273	6,021	5,785	5,573	5,375	5,335	5,308	5,281	5,236	-2.6	-139
Federal credit unions	Number	3,927	3,764	3,608	3,499	3,376	3,350	3,335	3,321	3,283	-2.8	-93
Federally insured, state-chartered credit unions	Number	2,346	2,257	2,177	2,074	1,999	1,985	1,973	1,960	1,953	-2.3	-46
Credit unions with low-income designation	Number	2,113	2,297	2,491	2,542	2,554	2,571	2,618	2,615	2,605	2.0	51
Number of members	Millions	99.2	102.7	106.8	111.3	116.2	117.2	118.3	119.6	120.4	3.6	4.2
Number of deposits	Millions	186.4	193.5	201.8	211.3	221.4	224.7	227.2	230.0	232.0	4.8	10.6
Number of loans outstanding	Millions	54.0	57.4	61.0	64.7	68.2	68.0	69.0	70.0	70.7	3.7	2.5
Total assets	\$ Billions	1,122.1	1,204.3	1,292.5	1,378.8	1,453.4	1,506.0	1,520.3	1,538.6	1,566.7	7.8	113
Total assets, four quarter growth	Percent	5.7	7.3	7.3	6.7	5.4	6.3	6.3	6.8	7.8		2.4
Total loans	\$ Billions	712.3	787.0	869.1	957.3	1,043.6	1,048.2	1,066.4	1,086.9	1,108.0	6.2	64
Total loans, four quarter growth	Percent	10.4	10.5	10.4	10.1	9.0	7.9	6.4	5.9	6.2		-2.8
Average outstanding loan balance	\$	13,203	13,709	14,242	14,805	15,298	15,419	15,456	15,526	15,669	2.4	371
Total deposits	\$ Billions	950.8	1,016.0	1,092.6	1,159.5	1,219.7	1,272.8	1,279.8	1,292.3	1,319.8	8.2	100
Total deposits, four quarter growth	Percent	4.5	6.9	7.5	6.1	5.2	5.8	6.0	6.9	8.2		3.0
Average deposit balance	\$	9,582	9,897	10,230	10,418	10,500	10,857	10,817	10,809	10,963	4.4	462
Insured shares and deposits	\$ Billions	901.6	960.0	1,027.4	1,086.5	1,139.8	1,189.4	1,194.8	1,202.7	1,224.4	7.4	85
Insured shares and deposits, four quarter growth	Percent	4.2	6.5	7.0	5.8	4.9	5.5	5.5	6.3	7.4		2.5
Key Ratios												
Net worth ratio	Percent	10.96	10.92	10.89	10.95	11.30	11.13	11.27	11.38	11.37		0.07
Return on average assets	Percent	0.80	0.75	0.76	0.78	0.92	0.95	0.97	0.98	0.94		0.02
Loan to share ratio	Percent	74.9	77.5	79.5	82.6	85.6	82.4	83.3	84.1	84.0		-1.60
Long-term assets, percent of assets ¹	Percent	28.0	27.4	27.1	27.8	27.7	27.1	27.0	27.2	27.9		0.16
Median credit union average cost of funds	Percent	0.29	0.27	0.27	0.28	0.33	0.38	0.40	0.42	0.44		0.11
Median credit union average yield on loans	Percent	5.56	5.40	5.30	5.19	5.16	5.18	5.20	5.23	5.25		0.08
Median credit union net interest margin	Percent	2.99	2.97	3.00	3.07	3.26	3.32	3.35	3.40	3.38		0.12
Median credit union return on average assets	Percent	0.32	0.33	0.34	0.38	0.56	0.55	0.63	0.65	0.60		0.04

¹ 'Long-term assets' is the sum of real estate fixed-rate first mortgages and investments greater than 3 years. Replaces 'Net long-term assets, percent of assets'

Statistical Data

	Units	Same quarter as current, previous years					Most recent four quarters				Most Recent	
		2014.4	2015.4	2016.4	2017.4	2018.4	2019.1	2019.2	2019.3	2019.4	4 Quarter % change	4 Quarter change
Lending (Year-to-Date, Annual Rate)												
Loans granted	\$ Billions	350.9	406.7	456.2	481.2	506.8	441.6	492.0	527.5	546.0	7.7	39
Real estate loans	\$ Billions	116.0	150.5	170.4	171.8	173.3	132.5	166.9	193.8	212.2	22.4	39
Real estate, fixed rate, first mortgage	\$ Billions	68.5	98.3	115.0	110.3	106.5	78.7	105.5	129.4	146.5	37.6	40
Commercial loans	\$ Billions	.	.	.	23.9	24.9	22.2	24.0	25.0	27.2	9.0	2
Payday alternative loans	\$ Millions	114.6	122.8	134.5	131.8	143.2	142.0	160.3	162.7	175.4	22.5	32
Delinquency												
Delinquent loans	\$ Billions	6.1	6.4	7.2	7.8	7.4	6.0	6.7	7.3	7.9	5.7	0.42
Total delinquency rate	Percent	0.85	0.81	0.83	0.81	0.71	0.57	0.63	0.67	0.71		0.00
Fixed real estate delinquency rate	Percent	0.77	0.64	0.54	0.52	0.44	0.31	0.41	0.44	0.42		-0.01
Auto delinquency rate	Percent	0.67	0.68	0.72	0.70	0.66	0.53	0.55	0.58	0.65		-0.01
Credit card delinquency rate	Percent	0.94	1.01	1.14	1.29	1.35	1.26	1.22	1.32	1.40		0.05
Commercial loan delinquency rate	Percent	.	.	.	1.6	0.67	0.63	0.68	0.70	0.63		-0.04
Net charge-offs	\$ Billions	3.4	3.6	4.6	5.4	5.8	6.0	5.9	5.9	6.1	5.0	0.29
Net charge offs, percent of average loans	Percent	0.50	0.48	0.55	0.60	0.58	0.57	0.56	0.55	0.56		-0.01
Asset Distribution												
25% of credit unions are smaller than	\$ Millions	7.0	7.5	8.1	8.8	9.2	9.5	9.6	9.6	9.7	6.0	0.55
50% of credit unions are smaller than	\$ Millions	24.4	26.8	28.9	31.0	33.2	34.6	34.6	34.4	35.2	6.0	2.01
75% of credit unions are smaller than	\$ Millions	92.0	101.4	111.0	120.4	129.2	134.7	135.6	135.9	139.1	7.7	9.96
90% of credit unions are smaller than	\$ Millions	340.6	381.8	431.0	471.9	507.7	525.3	540.6	547.3	564.4	11.2	56.73

	Units	Same quarter as current, previous years					Most recent four quarters				Most Recent	
		2014.4	2015.4	2016.4	2017.4	2018.4	2019.1	2019.2	2019.3	2019.4	4 Quarter % change	4 Quarter change
Income and Expenses (Year-to-date, Annual Rate)												
Federally insured credit unions												
Gross income	\$ Billions	51.7	55.0	60.0	65.6	73.8	78.7	80.5	81.9	82.5	11.8	8.70
Total interest income	\$ Billions	36.9	39.2	42.6	47.5	54.0	59.1	60.0	60.8	61.3	13.4	7.25
Gross interest income	\$ Billions	32.6	34.9	37.8	41.7	47.1	50.8	51.5	52.4	53.0	12.4	5.83
Less interest refunds	\$ Billions	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.1	-19.2	-0.01
Investment income	\$ Billions	4.4	4.4	4.8	5.8	7.0	8.1	8.4	8.4	8.3	17.7	1.24
Trading income	\$ Billions	0.0	0.0	0.0	0.0	0.0	.	.	.	.	--	--
Interest income on securities held in a trading account	\$ Billions	.	.	.	.	.	0.3	0.1	0.1	0.1	--	--
Total non-interest income	\$ Billions	14.7	15.8	17.4	18.1	19.8	19.6	20.6	21.0	21.2	7.3	1.45
Fee income	\$ Billions	7.2	7.5	8.0	8.3	8.8	8.3	8.7	9.0	9.1	3.4	0.30
Other operating income	\$ Billions	7.1	8.0	8.9	9.4	10.7	10.3	10.9	11.2	11.4	6.6	0.71
Other (including gains/losses)	\$ Billions	0.5	0.4	0.5	0.4	0.3	1.0	1.0	0.8	0.7	146.8	0.44
Total expenses (with provision for loan and lease losses)	\$ Billions	43.0	46.3	50.4	55.2	60.8	64.7	66.2	67.2	68.4	12.4	7.55
Non-interest expenses	\$ Billions	34.0	36.3	38.8	41.2	44.5	46.1	47.1	47.7	48.4	8.7	3.85
Labor expense	\$ Billions	17.1	18.4	19.7	21.1	22.6	23.9	24.3	24.5	24.9	10.0	2.26
Office expenses	\$ Billions	8.8	9.3	9.8	10.3	11.2	11.6	11.7	11.9	12.0	7.3	0.82
Loan servicing expenses	\$ Billions	2.5	2.6	2.7	2.8	3.1	3.0	3.1	3.2	3.2	4.1	0.13
Other non-interest expenses	\$ Billions	5.7	6.0	6.5	7.0	7.6	7.6	7.9	8.1	8.3	8.6	0.65
Total interest expense	\$ Billions	5.9	6.0	6.6	7.5	9.8	12.2	12.7	13.1	13.5	38.4	3.75
Interest on borrowed money	\$ Billions	0.8	0.8	0.9	1.2	1.5	1.6	1.5	1.5	1.5	3.4	0.05
Share dividends	\$ Billions	4.6	4.7	5.1	5.7	7.4	9.4	9.9	10.3	10.7	43.5	3.24
Interest on deposits	\$ Billions	0.6	0.6	0.6	0.7	0.9	1.1	1.2	1.3	1.3	52.5	0.46
Provision for loan and lease losses	\$ Billions	3.1	4.1	5.1	6.4	6.5	6.4	6.4	6.4	6.5	-0.8	-0.05
Net income	\$ Billions	8.7	8.7	9.5	10.4	13.0	14.1	14.4	14.7	14.1	8.8	1.14
Net income, percent of average assets	Percent	0.80	0.75	0.76	0.78	0.92	0.95	0.97	0.98	0.94		0.02
Net interest margin	\$ Billions	31.0	33.2	36.0	39.9	44.3	46.9	47.3	47.7	47.8	7.9	3.50
Net interest margin, percent of average assets	Percent	2.84	2.85	2.88	2.99	3.13	3.17	3.18	3.19	3.16		0.04
Average assets	\$ Billions	1,092.0	1,163.2	1,248.4	1,335.6	1,416.1	1,479.7	1,486.8	1,496.0	1,510.1	6.6	93.95

	Units	Same quarter as current, previous years					Most recent four quarters				Most Recent	
		2014.4	2015.4	2016.4	2017.4	2018.4	2019.1	2019.2	2019.3	2019.4	4 Quarter % change	4 Quarter change
Income and Expenses (Year-to-date, Annual Rate, Percent of Average Assets)												
Federally insured credit unions												
Gross income	Percent	4.73	4.73	4.80	4.91	5.21	5.32	5.42	5.47	5.46		0.25
Total interest income	Percent	3.38	3.37	3.41	3.55	3.82	4.00	4.03	4.07	4.06		0.24
Gross interest income	Percent	2.98	3.00	3.03	3.12	3.33	3.43	3.46	3.50	3.51		0.18
Less interest refunds	Percent	0.01	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.00		0.00
Investment income	Percent	0.41	0.38	0.38	0.44	0.50	0.55	0.56	0.56	0.55		0.05
Trading income	Percent	0.00	0.00	0.00	0.00	0.00	.	.	.	.		--
Interest income on securities held in a trading account	Percent	.	.	.	.	.	0.02	0.01	0.01	0.01		--
Total non-interest income	Percent	1.35	1.36	1.39	1.36	1.40	1.33	1.38	1.41	1.41		0.01
Fee income	Percent	0.66	0.65	0.64	0.62	0.62	0.56	0.58	0.60	0.60		-0.02
Other operating income	Percent	0.65	0.68	0.71	0.71	0.76	0.69	0.74	0.75	0.76		0.00
Other (including gains/losses)	Percent	0.04	0.03	0.04	0.03	0.02	0.07	0.06	0.06	0.05		0.03
Total expenses (with provision for loan and lease losses)	Percent	3.93	3.98	4.04	4.14	4.30	4.37	4.45	4.49	4.53		0.23
Non-interest expenses	Percent	3.11	3.12	3.10	3.09	3.14	3.12	3.16	3.19	3.20		0.06
Labor expense	Percent	1.56	1.58	1.58	1.58	1.60	1.62	1.63	1.64	1.65		0.05
Office expenses	Percent	0.81	0.80	0.79	0.77	0.79	0.78	0.79	0.79	0.79		0.00
Loan servicing expenses	Percent	0.23	0.22	0.22	0.21	0.22	0.21	0.21	0.21	0.21		-0.01
Other non-interest expenses	Percent	0.52	0.52	0.52	0.52	0.54	0.51	0.53	0.54	0.55		0.01
Total interest expense	Percent	0.54	0.52	0.53	0.57	0.69	0.82	0.85	0.88	0.90		0.21
Interest on borrowed money	Percent	0.07	0.07	0.07	0.09	0.10	0.11	0.10	0.10	0.10		0.00
Share dividends	Percent	0.42	0.40	0.40	0.43	0.52	0.64	0.67	0.69	0.71		0.18
Interest on deposits	Percent	0.05	0.05	0.05	0.05	0.06	0.08	0.08	0.09	0.09		0.03
Provision for loan and lease losses	Percent	0.28	0.35	0.41	0.48	0.46	0.43	0.43	0.43	0.43		-0.03
Net income	Percent	0.80	0.75	0.76	0.78	0.92	0.95	0.97	0.98	0.94		0.02
Net interest margin	Percent	2.84	2.85	2.88	2.99	3.13	3.17	3.18	3.19	3.16		0.04

	Units	Same quarter as current, previous years					Most recent four quarters				Most Recent	
		2014.4	2015.4	2016.4	2017.4	2018.4	2019.1	2019.2	2019.3	2019.4	4 Quarter % change	4 Quarter change
Balance Sheet												
Federally insured credit unions												
Total assets	\$ Billions	1,122.1	1,204.3	1,292.5	1,378.8	1,453.4	1,506.0	1,520.3	1,538.6	1,566.7	7.8	113.31
Cash and equivalents (less than 3 months)	\$ Billions	85.8	94.5	97.7	98.7	92.6	131.3	120.2	115.8	121.3	30.9	28.65
Cash on hand	\$ Billions	9.7	9.9	10.1	10.5	10.9	10.6	10.7	10.9	12.0	10.0	1.09
Investments												
Total investments (more than 3 months)	\$ Billions	275.8	272.8	269.1	261.9	253.2	258.6	261.3	261.0	263.2	3.9	9.93
Investments less than 1 year	\$ Billions	67.3	67.6	75.5	72.7	72.3	75.1	78.3	78.6	79.7	10.1	7.33
Investments 1-3 years	\$ Billions	99.5	101.7	94.9	86.4	86.2	86.3	91.6	93.4	91.8	6.5	5.60
Investments 3-10 years	\$ Billions	103.3	99.0	94.8	98.8	90.8	92.8	87.2	83.5	86.0	-5.3	-4.78
Investments 3-5 years	\$ Billions	75.6	71.2	64.2	67.3	59.3	58.4	57.3	53.7	54.7	-7.8	-4.59
Investments 5-10 years	\$ Billions	27.7	27.7	30.7	31.5	31.5	34.4	30.0	29.9	31.4	-0.6	-0.19
Investments more than 10 years	\$ Billions	5.6	4.5	3.9	4.0	3.9	4.3	4.2	5.5	5.7	45.7	1.79
Total loans	\$ Billions	712.3	787.0	869.1	957.3	1,043.6	1,048.2	1,066.4	1,086.9	1,108.0	6.2	64.44
Loans secured by 1-4 family residential properties	\$ Billions	.	.	.	405.9	446.9	449.4	456.9	466.8	480.3	7.5	33.44
Secured by first lien	\$ Billions	.	.	.	339.2	367.4	369.2	375.2	384.4	397.8	8.3	30.34
Secured by junior lien	\$ Billions	.	.	.	66.7	79.4	80.2	81.7	82.5	82.5	3.9	3.10
All other real estate loans	\$ Billions	.	.	.	11.7	3.8	3.6	3.6	3.6	3.1	-16.4	-0.62
Credit cards	\$ Billions	46.0	48.8	52.7	57.5	61.8	61.1	62.4	63.8	66.0	6.8	4.18
Auto loans	\$ Billions	230.0	261.8	298.4	332.5	365.9	366.4	370.5	374.2	375.1	2.5	9.19
New autos	\$ Billions	86.4	99.9	116.6	132.1	147.2	146.0	146.5	147.3	147.6	0.3	0.37
Used autos	\$ Billions	143.7	162.0	181.8	200.4	218.7	220.5	224.0	226.9	227.5	4.0	8.82
Non-federally guaranteed student loans	\$ Billions	3.1	3.5	3.8	4.4	5.1	5.3	5.3	5.5	5.5	7.4	0.38
Commercial loans (excludes unfunded commitments)	\$ Billions	.	.	.	63.2	71.0	73.0	75.3	78.0	81.8	15.3	10.86
Secured by real estate	\$ Billions	.	.	.	55.3	63.9	66.0	68.1	70.6	74.5	16.7	10.65
Not secured by real estate	\$ Billions	.	.	.	8.0	7.1	7.0	7.3	7.4	7.4	2.9	0.21
Other loans	\$ Billions	.	.	.	82.0	89.1	89.4	92.3	95.0	96.1	7.9	7.01

	Units	Same quarter as current, previous years					Most recent four quarters				Most Recent	
		2014.4	2015.4	2016.4	2017.4	2018.4	2019.1	2019.2	2019.3	2019.4	4 Quarter % change	4 Quarter change
Unfunded commitments for commercial loans	\$ Billions	.	.	.	4.8	5.7	6.0	6.2	6.6	6.9	20.3	1.16
Other assets	\$ Billions	48.2	49.9	56.5	61.0	64.0	67.8	72.5	74.9	74.3	16.1	10.30
Total liabilities and net worth	\$ Billions	1,122.1	1,204.3	1,292.5	1,378.8	1,453.4	1,506.0	1,520.3	1,538.6	1,566.7	7.8	113.31
Total deposits	\$ Billions	950.8	1,016.0	1,092.6	1,159.5	1,219.7	1,272.8	1,279.8	1,292.3	1,319.8	8.2	100.02
Share drafts	\$ Billions	131.4	150.4	154.3	168.5	190.0	189.2	187.8	200.3	207.9	9.4	17.83
Regular shares	\$ Billions	320.9	352.0	393.1	421.6	429.6	462.7	459.7	443.1	444.6	3.5	15.01
Other deposits	\$ Billions	498.5	513.6	545.2	569.4	600.1	621.0	632.3	648.9	667.2	11.2	67.18
Money market accounts	\$ Billions	219.5	231.8	249.2	259.6	261.9	264.2	264.0	266.6	274.8	4.9	12.90
Share certificate accounts	\$ Billions	188.9	190.1	199.5	212.2	238.2	254.7	264.9	277.7	287.1	20.5	48.93
IRA/Keogh accounts	\$ Billions	76.9	76.6	78.1	77.7	77.6	78.5	79.5	80.5	81.0	4.5	3.48
Non-member deposits	\$ Billions	5.1	6.7	8.7	10.2	11.9	12.3	12.2	12.2	12.8	8.2	0.97
All other shares	\$ Billions	8.2	8.5	9.7	9.8	10.6	11.3	11.6	11.9	11.5	8.5	0.89
Other liabilities	\$ Billions	48.3	56.7	59.1	68.3	69.4	65.4	69.1	71.1	68.7	-1.1	-0.74
Net worth	\$ Billions	123.0	131.5	140.8	151.1	164.3	167.8	171.4	175.2	178.3	8.5	14.03
Net worth, percent of assets	Percent	10.96	10.92	10.89	10.95	11.30	11.13	11.27	11.38	11.37		0.07
Addenda												
Real estate loans	\$ Billions	364.2	396.8	431.1	473.0	514.5	519.0	528.5	541.0	558.0	8.4	43.47
Real estate fixed rate, first mortgage	\$ Billions	205.0	226.5	251.2	281.0	308.0	311.4	318.6	329.1	344.8	12.0	36.88
Business loans												
Net member business loan balance for regulatory reporting, Part 723 ¹	\$ Billions	45.4	51.3	58.9	67.5	67.7	69.2	71.7	74.1	78.4	15.8	10.71

¹ Account 400A

	Units	Same quarter as current, previous years					Most recent four quarters				Most Recent	
		2014.4	2015.4	2016.4	2017.4	2018.4	2019.1	2019.2	2019.3	2019.4	4 Quarter % change	4 Quarter change
Balance Sheet (Percent of Assets)												
Federally insured credit unions												
Total assets	Percent	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		
Cash and equivalents (less than 3 months)	Percent	7.6	7.9	7.6	7.2	6.4	8.7	7.9	7.5	7.7		1.37
Cash on hand	Percent	0.9	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.8		0.02
Investments												
Total investments (more than 3 months)	Percent	24.6	22.6	20.8	19.0	17.4	17.2	17.2	17.0	16.8		-0.63
Investments less than 1 year	Percent	6.0	5.6	5.8	5.3	5.0	5.0	5.1	5.1	5.1		0.11
Investments 1-3 years	Percent	8.9	8.4	7.3	6.3	5.9	5.7	6.0	6.1	5.9		-0.07
Investments 3-10 years	Percent	9.2	8.2	7.3	7.2	6.2	6.2	5.7	5.4	5.5		-0.76
Investments 3-5 years	Percent	6.7	5.9	5.0	4.9	4.1	3.9	3.8	3.5	3.5		-0.59
Investments 5-10 years	Percent	2.5	2.3	2.4	2.3	2.2	2.3	2.0	1.9	2.0		-0.17
Investments more than 10 years	Percent	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.4	0.4		0.09
Total loans	Percent	63.5	65.4	67.2	69.4	71.8	69.6	70.1	70.6	70.7		-1.08
Loans secured by 1-4 family residential properties	Percent	.	.	.	29.4	30.7	29.8	30.1	30.3	30.7		-0.09
Secured by first lien	Percent	.	.	.	24.6	25.3	24.5	24.7	25.0	25.4		0.11
Secured by junior lien	Percent	.	.	.	4.8	5.5	5.3	5.4	5.4	5.3		-0.20
All other real estate loans	Percent	.	.	.	0.9	0.3	0.2	0.2	0.2	0.2		-0.06
Credit cards	Percent	4.1	4.1	4.1	4.2	4.3	4.1	4.1	4.1	4.2		-0.04
Auto loans	Percent	20.5	21.7	23.1	24.1	25.2	24.3	24.4	24.3	23.9		-1.23
New autos	Percent	7.7	8.3	9.0	9.6	10.1	9.7	9.6	9.6	9.4		-0.71
Used autos	Percent	12.8	13.4	14.1	14.5	15.0	14.6	14.7	14.7	14.5		-0.53
Non-federally guaranteed student loans	Percent	0.3	0.3	0.3	0.3	0.4	0.4	0.3	0.4	0.3		0.00
Commercial loans (excludes unfunded commitments)	Percent	.	.	.	4.6	4.9	4.8	5.0	5.1	5.2		0.34
Secured by real estate	Percent	.	.	.	4.0	4.4	4.4	4.5	4.6	4.8		0.36
Not secured by real estate	Percent	.	.	.	0.6	0.5	0.5	0.5	0.5	0.5		-0.02
Other loans	Percent	.	.	.	5.9	6.1	5.9	6.1	6.2	6.1		0.00
Unfunded commitments for commercial loans	Percent	.	.	.	0.3	0.4	0.4	0.4	0.4	0.4		0.05
Other assets	Percent	4.3	4.1	4.4	4.4	4.4	4.5	4.8	4.9	4.7		0.34
Total liabilities and net worth	Percent	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		
Total deposits	Percent	84.7	84.4	84.5	84.1	83.9	84.5	84.2	84.0	84.2		0.31
Share drafts	Percent	11.7	12.5	11.9	12.2	13.1	12.6	12.4	13.0	13.3		0.19
Regular shares	Percent	28.6	29.2	30.4	30.6	29.6	30.7	30.2	28.8	28.4		-1.18
Other deposits	Percent	44.4	42.6	42.2	41.3	41.3	41.2	41.6	42.2	42.6		1.30
Money market accounts	Percent	19.6	19.2	19.3	18.8	18.0	17.5	17.4	17.3	17.5		-0.48
Share certificate accounts	Percent	16.8	15.8	15.4	15.4	16.4	16.9	17.4	18.0	18.3		1.94
IRA/Keogh accounts	Percent	6.9	6.4	6.0	5.6	5.3	5.2	5.2	5.2	5.2		-0.16
Non-member deposits	Percent	0.5	0.6	0.7	0.7	0.8	0.8	0.8	0.8	0.8		0.00
All other shares	Percent	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.7		0.00
Other liabilities	Percent	4.3	4.7	4.6	5.0	4.8	4.3	4.5	4.6	4.4		-0.39
Net worth	Percent	10.96	10.92	10.89	10.95	11.30	11.13	11.27	11.38	11.37		0.07

	Units	Same quarter as current, previous years					Most recent four quarters				Most Recent	
		2014.4	2015.4	2016.4	2017.4	2018.4	2019.1	2019.2	2019.3	2019.4	4 Quarter % change	4 Quarter change
Addenda												
Real estate loans	Percent	32.5	32.9	33.4	34.3	35.4	34.5	34.8	35.2	35.6		0.21
Real estate fixed rate, first mortgage	Percent	18.3	18.8	19.4	20.4	21.2	20.7	21.0	21.4	22.0		0.82
Business loans												
Net member business loan balance for regulatory reporting, Part 723 ¹	Percent	4.0	4.3	4.6	4.9	4.7	4.6	4.7	4.8	5.0		0.35

¹ Account 400A

Summary of Performance for Federally Insured Credit Unions

	Asset Categories						Federal Credit Unions	Federally Insured State-Chartered Credit Unions	Credit Unions with Low-Income Designation in 2019Q4	Small Credit Unions (Assets less than \$100 million)
	Less than \$10 million	\$10 to \$50 million	\$50 to \$100 million	\$100 to \$500 million	\$500 million to \$1 billion	Greater than \$1 billion				
Current Quarter: 2019Q4										
Number of credit unions	1,329	1,635	677	1,018	247	330	3,283	1,953	2,605	3,641
Number of members (millions)	1.0	4.9	5.0	20.8	13.9	74.7	63.1	57.3	56.3	11.0
Total assets (\$ billions)	5.5	41.3	48.5	227.8	172.7	1,070.9	803.0	763.7	661.6	95.3
Total loans (\$ billions)	2.9	22.2	28.5	154.0	123.7	776.7	561.2	546.8	485.7	53.6
Total deposits (\$ billions)	4.6	35.6	42.1	197.1	146.8	893.6	670.9	648.8	562.2	82.2
Key ratios (percent)										
Return on average assets	0.30	0.56	0.63	0.72	0.79	1.04	0.95	0.92	0.95	0.58
Net worth ratio	16.50	13.21	12.30	11.57	11.27	11.21	11.50	11.24	11.28	12.94
Loan-to-share ratio	62.7	62.6	67.6	78.2	84.2	86.9	83.6	84.3	86.4	65.2
Net interest margin (median)	3.63	3.41	3.37	3.35	3.29	3.06	3.37	3.38	3.52	3.44
Long-term assets, percent of assets	5.3	13.6	18.1	22.4	27.7	30.2	28.4	27.3	25.2	15.4
Cost of funds / average assets (median)	0.30	0.34	0.44	0.56	0.72	0.87	0.40	0.51	0.43	0.35
Delinquency rate	1.89	1.06	0.84	0.75	0.69	0.69	0.81	0.61	0.69	0.99
Net charge-offs to average loans	0.59	0.46	0.46	0.47	0.49	0.60	0.67	0.45	0.50	0.47
Growth from a year earlier (percent)										
Shares (total deposits)	-7.8	-3.6	-1.8	-1.4	4.2	12.5	7.3	9.2	9.0	-3.0
Total loans	-7.0	-3.0	-2.4	-3.0	1.9	9.7	5.4	7.0	7.3	-2.9
Total assets	-7.4	-3.3	-1.5	-1.3	3.6	11.8	6.6	9.1	8.5	-2.7
Members	-9.1	-5.8	-4.3	-4.6	0.3	8.4	3.0	4.4	3.8	-5.4
Net worth	-4.6	-1.0	1.1	0.6	3.3	12.4	7.5	9.7	9.4	-0.3
Historical Data (same quarter)										
Return on average assets (percent)										
2019	0.30	0.56	0.63	0.72	0.79	1.04	0.95	0.92	0.95	0.58
2018	0.24	0.49	0.59	0.67	0.76	1.05	0.93	0.90	0.91	0.52
2017	0.06	0.30	0.44	0.46	0.71	0.93	0.80	0.75	0.78	0.35
2016	0.04	0.25	0.38	0.51	0.59	0.94	0.77	0.75	0.74	0.30
2015	0.03	0.28	0.39	0.54	0.66	0.91	0.74	0.75	0.77	0.31
Net worth ratio (percent)										
2019	16.50	13.21	12.30	11.57	11.27	11.21	11.50	11.24	11.28	12.94
2018	16.02	12.90	11.98	11.34	11.30	11.15	11.40	11.18	11.19	12.62
2017	15.42	12.40	11.62	11.01	10.92	10.80	11.04	10.86	10.92	12.20
2016	15.14	12.32	11.50	10.92	10.96	10.71	10.97	10.80	10.86	12.10
2015	15.05	12.32	11.45	10.92	11.08	10.70	10.94	10.89	10.95	12.09
Loan to Share Ratio (percent)										
2019	62.74	62.57	67.62	78.16	84.23	86.92	83.65	84.27	86.39	65.16
2018	62.21	62.15	67.99	79.44	86.14	89.17	85.17	85.96	87.80	65.11
2017	59.04	59.36	65.14	76.10	84.30	86.45	82.42	82.71	84.52	62.25
2016	58.04	57.77	63.95	73.69	81.18	83.58	79.40	79.70	81.18	60.86
2015	57.53	57.35	63.03	72.41	77.82	81.90	77.52	77.40	78.59	60.11

NCUA Board Member Bios

Chairman Rodney E. Hood



President Donald J. Trump nominated Rodney E. Hood for the NCUA Board on January 19, 2019. The U.S. Senate confirmed him on March 14, 2019;

he took the oath of office on April 8, 2019; and he was designated as the eleventh NCUA Chairman by President Trump.

As NCUA Board Chairman, Mr. Hood also serves as a voting member of the Financial Stability Oversight Council. He also represents the NCUA on the Federal Financial Institutions Examination Council and the Financial and Banking Information Infrastructure Committee.

Mr. Hood was previously nominated to the NCUA Board by former President George W. Bush and served from November 2005 until August 2009. He was appointed Vice Chairman, and he served as the NCUA's representative on the Board of Directors of NeighborWorks America.

Immediately prior to rejoining the NCUA Board, Mr. Hood served as a corporate responsibility manager for JPMorgan Chase, managing national partnerships with non-profit organizations, financial regulators,

and community stakeholders to promote financial inclusion and shared prosperity in underserved communities throughout the United States.

His previous experience includes serving as associate administrator of the Rural Housing Service at the U.S. Department of Agriculture. In this role, he helped to address the housing needs in rural communities and administered the agency's \$43 billion mortgage portfolio.

Prior to his public service, Mr. Hood served as marketing director and group sales manager for the North Carolina Mutual Life Insurance Company in Durham, North Carolina. He also served as national director of the Emerging Markets Group for Wells Fargo Home Mortgage and served on the board of the Wells Fargo Housing Foundation. Earlier in his career, he worked for Bank of America as a Community Reinvestment Act officer and completed the management development program at G.E. Capital.

In addition to his public and private sector service, Mr. Hood served as a member of the University of North Carolina at Chapel Hill Board of Visitors and as member of the UNC School of Arts Board of Trustees. He also served as a member of the Board of Trustees for the North Carolina Museum of Art and as a member of the Board of Governors for the University of North Carolina College System.

Mr. Hood’s professional awards include being named one of the “40 Young Leaders Under the Age of 40” by the Triangle Business Journal in Raleigh, North Carolina. He is also the first recipient of the “Dream Award,” an award given by the Wells Fargo Housing Foundation to honor individuals who have exhibited an outstanding commitment to affordable housing.

A native of Charlotte, North Carolina, Mr. Hood holds a bachelor’s degree in business, communications, and political science from the University of North Carolina at Chapel Hill.

Board Member J. Mark McWatters



NCUA Board Member J. Mark McWatters has served on the NCUA Board since 2014.

Mr. McWatters previously served as the tenth NCUA

Board Chairman from June 23, 2017 to April 8, 2019, and as Acting Chairman from January 23, 2017 to June 23, 2017. He was nominated to the NCUA Board by former President Barack Obama on January 7, 2014. Following Senate confirmation, he took the oath of office as an NCUA Board Member on August 26, 2014.

The NCUA undertook a number of initiatives during his tenure as Chairman, the most significant being the closure of the Temporary Corporate Credit Union Stabilization Fund prior to its scheduled expiration in 2021 and the transfer of its assets to the National Credit Union Share Insurance Fund. This action resulted in nearly \$900 million in Share

Insurance Fund dividends to eligible federally insured credit unions.

As NCUA Board Chairman, Mr. McWatters led efforts to provide greater transparency and accountability to credit union members during voluntary mergers, improve the appeals process for agency supervisory and program decisions, and implement the greater use of offsite examination and supervision. He also led the agency’s first large-scale restructuring initiative in more than a decade to meet the future demands of the credit union system and financial services landscape.

Mr. McWatters has advocated for additional legislative and regulatory changes that would expand how credit unions define their fields of membership. This includes allowing credit unions to serve communities that exist online to better reflect today’s society and to add underserved areas to their fields of membership to expand access to affordable financial services for the unserved and underserved, and those of modest means.

Prior to joining the NCUA Board, Mr. McWatters served as the Assistant Dean for Graduate Programs and as a Professor of Practice at the Southern Methodist University Dedman School of Law, and as an Adjunct Professor at the university’s Cox School of Business. He also served on the Governing Board of the Texas Department of Housing and Community Affairs, and the Advisory Committee of the Texas Emerging Technology Fund.

Previously, Mr. McWatters served as a member of the Troubled Asset Relief Program Congressional Oversight Panel and as counsel to Rep. Jeb Hensarling (R-Texas). He also

practiced law as a partner with three large, cross-border law firms and as counsel to an international hedge and private equity firm where he specialized in taxation, corporate finance, and mergers and acquisitions. Immediately after graduating from law school, Mr. McWatters served as a judicial clerk to the Honorable Walter Ely of the U.S. Ninth Circuit Court of Appeals in Los Angeles.

Mr. McWatters is licensed to practice law in Texas and New York, and as a Certified Public Accountant in Texas. He earned a J.D. degree from the University of Texas at Austin School of Law and LL.M. degrees from Columbia University School of Law and New York University School of Law.

Board Member Todd M. Harper



Todd M. Harper was nominated to serve on the NCUA Board on February 6, 2019. The U.S. Senate confirmed him on March 14, 2019, and he was

sworn in as a member of the NCUA Board on April 8, 2019.

Prior to joining the NCUA Board, Mr. Harper served as director of the agency's Office of Public and Congressional Affairs and chief policy advisor to former Chairman Debbie Matz and Rick Metsger. He is the first member of the NCUA staff to become an NCUA Board Member.

Mr. Harper previously worked for the U.S. House of Representatives as staff director for the Subcommittee on Capital Markets, Insurance, and Government-Sponsored Enterprises and as legislative director and senior legislative assistant to former Rep. Paul Kanjorski (D-Pennsylvania). In these roles, he contributed to every major financial services law from the enactment of the Gramm-Leach-Bliley Financial Services Modernization Act in 1999 through the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010.

During the Great Recession, Mr. Harper coordinated the first congressional hearing to explore the creation of a Temporary Corporate Credit Union Stabilization Fund. He also spearheaded staff efforts in the U.S. House to secure enactment of a law to lower the costs of managing both the Corporate Stabilization Fund and the National Credit Union Share Insurance Fund.

Mr. Harper led staff negotiations over several sections of the Dodd-Frank Act, including the Kanjorski amendment to empower regulators to preemptively rein in and break up "too-big-to-fail" institutions and proposals to enhance the powers of the Securities and Exchange Commission. He also developed the legislative framework for the bill that created the Federal Insurance Office to monitor domestic and international insurance issues.

Mr. Harper holds an undergraduate degree in business analysis from Indiana University's Kelley School of Business and a graduate degree in public policy from Harvard University's Kennedy School of Government.

Senior Staff Reporting to the NCUA Board

- H. Lenwood Brooks, V
Chief of Staff for Chairman Hood
 - Gisele Roget
Deputy Chief of Staff for Chairman Hood and Office of External Affairs and Communications Director
 - Sarah Vega
Senior Policy Advisor to Board Member McWatters
 - Catherine Galicia
Senior Policy Counsel to Board Member Harper
 - Mark A. Treichel
Larry Fazio
Executive Director
 - Rendell L. Jones
Deputy Executive Director
 - Frank Kressman
Acting General Counsel
 - James Hagen
Inspector General
 - Monica Davy
Office of Minority and Women Inclusion Director
 - Johnny E. Davis Jr.
Special Advisor to the Chairman for Cybersecurity
-

NCUA Offices and Regions



Monica Davy
Director,
Office of Minority and
Women Inclusion

The **Office of Minority and Women Inclusion** oversees issues related to diversity in the agency's management, employment and business activities. The office works to ensure equal opportunities for

everyone in NCUA's workforce, programs and contracts. The Office of Minority and Women Inclusion also assesses the diversity policies and practices of credit unions regulated by NCUA.



Gisele Roget
Director,
Office of External
Affairs and
Communications

The **Office of External Affairs & Communications** serves as NCUA's liaison with the U.S. Congress, federal government agencies and local government. The office directs and manages NCUA's communications strategy

with the media and key stakeholders.



Frank Kressman
Acting General
Counsel

The **Office of General Counsel** addresses legal matters affecting NCUA. The duties of the office include representing the agency in litigation, executing administrative actions, interpreting the Federal Credit Union Act

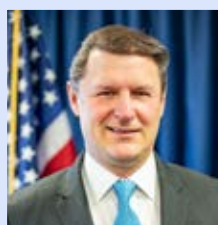
and NCUA rules and regulations, processing Freedom of Information Act requests, and advising the Board and the agency on general

legal matters, and maintaining the agency's records management program. The General Counsel's office also drafts regulations designed to ensure the safety and soundness of credit unions.



Mark Treichel
Executive Director

The **Office of the Executive Director** is responsible for the agency's daily operations. The executive director reports directly to the NCUA Chairman. All regional directors and most central office directors report to the executive director.



Larry Fazio
Executive Director



James Hagen
Inspector General

The **Office of Inspector General** promotes the economy, efficiency and effectiveness of NCUA programs and operations. The office also detects and deters fraud, waste and abuse in support of

the NCUA's mission of monitoring and promoting safe and sound federally insured credit unions. Additionally, it conducts independent audits, investigations and other activities and keeps the NCUA Board and Congress fully informed.

The **Ombudsman** provides consumer complainants with an objective third party to resolve disputes that cannot be resolved

through the NCUA Consumer Assistance Center. The Ombudsman reports to the NCUA Board and is independent from the agency's operational programs.



Myra Toeppe

Acting Director,
Office of Examination
and Insurance

The **Office of Examination and Insurance** is responsible for NCUA's supervision programs that ensure the safety and soundness of federally insured credit unions. Within the Office of Examination and

Insurance, the Division of Supervision oversees NCUA's examination and supervision program, including resource management and allocation, and oversees the development and maintenance of exam and supervision policy manuals. The Division of Risk Management oversees the agency's problem resolution program and manages risk to the National Credit Union Share Insurance Fund. The Division of Analytics and Surveillance, manages the agency's data gathering, surveillance and national risk assessment programs. It also supports NCUA's supervision of technology risk in credit unions. The Division of Capital and Credit Markets evaluates and develops policies and procedures related to credit union loans and investments and asset-liability management. The division also oversees the day-to-day operations of the Central Liquidity Facility. The Division of NGN Support monitors the NCUA Guaranteed Notes program.



Andrew Leventis

Chief Economist

The **Office of the Chief Economist** supports NCUA's safety and soundness goals by developing and distributing economic intelligence. The office also enhances NCUA's understanding of emerging microeconomic and macroeconomic risks by producing modeling and risk identification tools and participating in agency and interagency policy development.



Eugene H. Schied

Acting Chief Financial
Officer

The **Office of the Chief Financial Officer** oversees the agency's budget preparation and management, ongoing finance and accounting functions, facilities management, and procurement. The office also handles billing and collection of credit union Share Insurance Fund premiums and deposit adjustments as well as federal credit union operating fees. The office also is responsible for leading the NCUA's strategic planning process.



Robert Foster

Chief Information
Officer

The **Office of the Chief Information Officer** manages NCUA's automated information resources. The office's work includes collecting, validating, and securely storing electronic agency information; developing, implementing, and maintaining computer hardware, software, and data communications

infrastructure; and ensuring related security and integrity risks are recognized and controlled. The office also manages the NCUA.gov and MyCreditUnion.gov websites.



Matthew J. Biliouris
Director,
Office of Consumer
Financial Protection

The **Office of Consumer Financial Protection** is responsible for the agency's consumer financial protection program. Within the office, the Division of Consumer Affairs is responsible for NCUA's consumer financial

literacy efforts, the MyCreditUnion.gov consumer information website, and NCUA's Consumer Assistance Center, which handles consumer inquiries and complaints. The Division of Consumer Compliance Policy and Outreach is responsible for consumer financial protection compliance policy and rulemaking, fair lending examinations, interagency coordination on consumer financial protection compliance matters, and outreach.



Towanda Brooks
Chief Human Capital
Officer

The **Office of Human Resources** provides a full range of human resources functions to all NCUA employees. The office administers recruitment and merit promotion, position classification,

compensation, employee records, employee and labor relations, training, employee benefits, performance appraisals, incentive awards, adverse actions, and grievance programs.



Martha Ninichuk
Director,
Office of Credit Union
Resources and
Expansion

The **Office of Credit Union Resources and Expansion**, created as part of the agency's realignment, began operations in January 2018. The office is responsible for chartering and field-of-membership matters, low-income

designations, charter conversions, and bylaw amendments. The office also provides online training to credit union board members, management and staff, and technical assistance through grants and loans funded by the Community Development Revolving Loan Fund. Additionally, the office is responsible for the agency's minority depository institutions preservation program.



Kelly Gibbs
Director,
Office of Continuity
and Security
Management

The **Office of Continuity and Security Management** evaluates and manages security and continuity programs across NCUA and its regional offices. The office is responsible for continuity of operations, emergency planning and

response, critical infrastructure and resource protection, cybersecurity and intelligence threat warning, and the security of agency personnel and facilities.



Kelly Lay
Director,
Office of Business
Innovation

The **Office of Business Innovation** began operations on January 1, 2019. This office is responsible for the NCUA's information technology modernization and business-process optimization efforts as

well as information security support, data management, and data governance for the agency.



Keith Morton
Director,
Southern Region and
Asset Management
and Assistance Center

The NCUA's **Southern Region** is headquartered in Austin, Texas, and covers Alabama, Arkansas, Florida, Georgia, Indiana, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, Puerto Rico, South

Carolina, Tennessee, Texas, and the U.S. Virgin Islands.

FIELD PROGRAM OFFICES



Scott Hunt
Director,
Office of National
Examinations and
Supervision

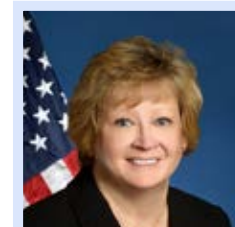
The **Office of National Examinations and Supervision** supervises the corporate credit union system and consumer credit unions with \$10 billion or more in assets.



John Kutchey
Director,
Eastern Region

The NCUA's **Eastern Region** is headquartered in Alexandria, Virginia, and covers Connecticut, Delaware, the District of Columbia, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New

Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, Virginia, and West Virginia.



Cherie Freed
Director,
Western Region

The NCUA's **Western Region** is headquartered in Tempe, Arizona, and covers Alaska, Arizona, California, Colorado, Guam, Hawaii, Idaho, Illinois, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska,

Nevada, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington, Wisconsin, and Wyoming.

Key Terms and List of Acronyms

ACET: Automated Cybersecurity Examination Tool

AMAC: Asset Management and Assistance Center

AME: Asset Management Estate

ASC: Accounting Standards Codification

Automated Integrated Regulatory Examination System or AIREs: This is the computer program that the NCUA and nearly all state supervisory authorities use to document and complete their examinations of federal and state-chartered credit unions. The program uses a series of workbooks and questionnaires to guide examiners through their reviews of credit unions' financial performance, compliance with regulations and relevant laws, and potential risks.

Call Report: A call report is a report that must be filed by credit unions with the National Credit Union Administration on a quarterly basis. The NCUA uses the Call Report and Profile to collect financial and nonfinancial information from federally insured credit unions. The resulting data are integral to risk supervision at institution and industry levels, which is central to safeguarding the integrity of the Share Insurance Fund.

CAMEL Rating: NCUA's composite CAMEL rating consists of an assessment of a credit union's **C**apital adequacy, **A**sset quality, **M**anagement, **E**arnings and **L**iquidity. The CAMEL rating system is designed to take into account and reflect all significant financial,

operational and management factors field staff assess in their evaluation of credit unions' performance and risk profiles.

CAMEL ratings range from 1 to 5, with 1 being the best rating. Credit unions with a composite CAMEL rating of 3 exhibit some degree of supervisory concern in one or more components. CAMEL 4 credit unions generally exhibit unsafe or unsound practices, and CAMEL 5 institutions demonstrate extremely unsafe or unsound practices and conditions. NCUA collectively refers to CAMEL 4 and 5 credit unions as "troubled credit unions."

CBA: Collective bargaining agreement

CECL: Current expected credit losses

Central Liquidity Facility or CLF: This is a mixed-ownership government corporation that serves as an important source for emergency funding for credit unions and corporate credit unions that join the facility. Membership is voluntary and open to all credit unions that purchase a prescribed amount of stock. The NCUA Board has direct oversight of the fund's operations.

In situations where a credit union may be experiencing a shortage of liquidity (essentially a shortage of cash or assets that can be easily converted into cash), a credit union can borrow funds from the Central Liquidity Facility for a period not to exceed one year, though the typical period is 90 days.

C.F.R.: Code of Federal Regulations

Community Development Revolving Loan Fund or CDRLF: Congress created this fund

in 1979 to stimulate economic development in low-income communities. Congress provides funding for the CDRLF through the yearly appropriations process.

NCUA administers the fund and uses it to provide eligible low-income credit unions with technical assistance grants and low-interest loans. Credit unions use these funds to develop new products and services, train staff and weather disasters or disruptions in their operations. This support helps these credit unions continue to serve low- to moderate-income populations throughout the country.

Consumer Credit Union: See natural person credit union.

Corporate Credit Union or CCU: These are member-owned and controlled, not-for-profit cooperative financial institutions that act as “credit unions for credit unions” and provide a number of critical financial services to credit unions, such as payment processing. Most federally insured credit unions are members of at least one corporate credit union.

Corporate System Resolution Program or CSRP: A multi-stage plan for stabilizing the corporate credit union system, providing short-term and long-term funding to resolve a portfolio of residential mortgage-backed securities, commercial mortgage-backed securities, and other asset-backed securities and corporate bonds (collectively referred to as the Legacy Assets) held by the failed corporate credit unions, and establishing anew regulatory framework for corporate credit unions.

Credit Union Service Organization or CUSO: These are corporate entities owned by

federally chartered or federally insured, state-chartered credit unions. These institutions provide a number of services to credit unions, including loan underwriting, payment services and back-office functions like human resources and payroll, among others.

CSA: Community Services Administration

CSRS: Civil Service Retirement System

CUMAA: Credit Union Membership Access Act of 1998, Public Law 105–219

CURE: NCUA Office of Credit Union Resources & Expansion

DOL: U.S. Department of Labor

E&I: NCUA Office of Examination and Insurance

EGRPRA: Economic Growth and Regulatory Paperwork Reduction Act

ESC: U.S. Department of Transportation’s Enterprise Services Center

ESM: Enterprise Solutions Modernization

FASAB: Federal Accounting Standards Advisory Board

FASB: Financial Accounting Standards Board

FBWT: Fund Balance with Treasury

FCU: Federal Credit Union

FECA: Federal Employees’ Compensation Act

Federal Credit Union Act: Signed into law in 1934, the Federal Credit Union Act establishes the legal framework for federally

chartered credit unions in the U.S. The act also defines the coverage and terms of federal share insurance at all federally insured credit unions, and it outlines the structure, duties and authority of the NCUA.

FERS: Federal Employees Retirement System

FFB: Federal Financing Bank

FFIEC: Federal Financial Institutions Examination Council

Field of Membership: A credit union's field of membership defines who is eligible to join the credit union. Depending on the credit union's charter, a field of membership can include individuals who:

- Are members of an association like a civic association or religious institution;
- Are part of a community, like a county or town;
- Are employed in a particular occupation, like a firefighter or teacher;
- Are a part of an underserved area, like a rural county; or
- Who share a common bond, such as those that work at a factory and those that work for the factory's suppliers.

FISCU: Federally Insured, State-chartered Credit Union

FISMA: Federal Information Security Management Act, Public Law 107-347

FMFIA: Federal Managers' Financial Integrity Act of 1982, Public Law 97-255

FOMC: The Federal Open Market Committee

FSOC: The Financial Stability Oversight Council

GAAP: U.S. generally accepted accounting principles

GAO: U.S. Government Accountability Office

HHS: U.S. Department of Health and Human Services

HMDA: Home Mortgage Disclosure Act

KPMG: KPMG LLP

Low-income Designated Credit Union: The Federal Credit Union Act allows the NCUA to designate a credit union as low-income if it meets certain criteria. This designation gives these credit unions a greater ability to help stimulate economic growth and provide affordable financial services in communities that have been historically underserved.

To qualify as a low-income credit union, a majority of a credit union's membership must meet certain low-income thresholds based on data from the U.S. Census Bureau.

The designation offers several benefits for credit unions that qualify, including the ability to accept non-member deposits, an exemption from the member business lending cap, eligibility for technical assistance grants and loans, and the ability to obtain supplemental capital from organizations, such as banks or outside investors.

Member: A person who uses a credit union is referred to as a member rather than a customer. This is because a credit union member actually owns a portion, or share, of their credit union. This differs from a bank,

which is owned by its shareholders, not its customers. A credit union member also has the ability to determine the credit union's board of directors through a democratic election.

Minority Depository Institution or MDI:

This term is used to describe a credit union that has a majority of its current or potential membership composed of minorities (in this case Black American, Hispanic American, Asian American, Native American or Multi-cultural) and a majority of minority members on its board of directors.

Modern Examination and Risk

Identification Tool or MERIT: This is a new examination platform that's replacing AIRES. Through MERIT, credit unions will be able to securely exchange documents with examiners.

Natural Person Credit Union or NPCU:

Natural person credit unions provide financial services primarily to individual people, as opposed to corporate credit unions which provide financial services to natural person credit unions.

NCUA: National Credit Union Administration

NGN: NCUA Guaranteed Notes

Normal Operating Level or NOL: The Share Insurance Fund's normal operating level is the desired equity level for the Share Insurance Fund that is set by the NCUA Board. The Federal Credit Union Act allows the NCUA Board to set the normal operating level between 1.20 percent and 1.50 percent. If the equity ratio of the Share Insurance Fund is above normal operating level at the end of the calendar year, a dividend is triggered and

paid to federally insured credit unions. The normal operating level set by the NCUA Board in December 2019 is 1.38 percent.

NTEU: National Treasury Employees Union

OBI: Office of Business Innovation

OEAC: Office of External Affairs & Communications

OF: Operating Fund

OIG: Office of the Inspector General

OMB: Office of Management and Budget

OMWI: Office of Minority and Women Inclusion

OPM: U.S. Office of Personnel Management

OTR: Overhead transfer rate

OTTI: Other-than temporary impairment

PALs: Payday alternative loans

Regulatory Burden: Is defined as the administrative cost of a single regulation or the totality of all regulations in terms of dollars, time, and the rules complexity, that a regulated entity like a credit union must incur to operate in compliance with various laws and regulations in the United States.

Regulatory Reform Task Force: The Regulatory Reform Task Force was established in the NCUA to oversee the implementation of the agency's regulatory reform agenda. This is consistent with the spirit of Executive Order 13777, "Enforcing the Regulatory Reform Agenda."

Safety and Soundness: Federal and state supervision of credit unions is designed to provide for a financially stable system that meets the financial needs of credit union members, as well as to prevent runs and panics by providing assurances that funds deposited will be protected from loss. A credit union is considered to be safe and sound if it is being run effectively and is compliant with all applicable laws and regulations.

SFFAS: Statement of Federal Financial Accounting Standards

Share Insurance Fund Equity Ratio: The equity ratio approximates the overall health and financial position of the Share Insurance Fund.

The equity ratio is calculated as the ratio and consists of the contributed 1-percent deposit that all federally insured credit unions must make, plus the cumulative results of operations, excluding net cumulative unrealized gains and losses on the fund's investments, divided by the aggregate amount of the insured shares in all federally insured credit unions.

By law, the equity ratio of the Share Insurance Fund cannot decline below 1.20 percent. When the NCUA Board projects that the equity ratio will fall below 1.20 percent within six months, the NCUA Board must establish and implement a restoration plan to rebuild the equity ratio, which may include a premium assessment to each insured credit union.

Temporary Corporate Credit Union

Stabilization Fund or TCCUSF: Created by Congress, the Stabilization Fund assumed the losses associated with the failure of five corporate credit unions—U.S. Central, WesCorp, Members United, Southwest and Constitution—in 2010. This fund has allowed the credit union system to absorb these losses over time. The Stabilization Fund closed on October 1, 2017. As required by statute, the Stabilization Fund's remaining funds, property, and other assets were distributed to the Share Insurance Fund. Through the distribution, the Share Insurance Fund assumed the assets and obligations of the Stabilization Fund, including the NCUA Guaranteed Notes (NGN) Program.

the "Fund": National Credit Union Administration Operating Fund

The National Credit Union Share

Insurance Fund or NCUSIF: This fund provides deposit insurance for member accounts at all credit unions that are federally insured. The Share Insurance Fund is funded by premiums paid by credit unions, which is one percent of the shares or deposits at credit unions. It is backed by the full faith and credit of the United States.

The Share Insurance Fund insures individual accounts up to \$250,000, and a member's interest in all joint accounts combined is insured up to \$250,000. The fund separately protects IRA and KEOGH retirement accounts up to \$250,000.

List of Hyperlinks to Additional Information by Report Section

About this Report

- NCUA Annual Reports
<https://www.ncua.gov/news/annual-reports>

Message from the Chairman

- *2018–2022 Strategic Plan*
<https://www.ncua.gov/files/agenda-items/AG20180125Item3b.pdf>

About the Management’s Discussion and Analysis

- NCUA Annual Reports
<https://www.ncua.gov/news/annual-reports>

NCUA in Brief

- *2018–2022 Strategic Plan*
<https://www.ncua.gov/files/agenda-items/AG20180125Item3b.pdf>

Year in Review

- *2018–2022 Strategic Plan*
<https://www.ncua.gov/files/agenda-items/AG20180125Item3b.pdf>
- Letter to Credit Unions, 19-CU-01, “Supervisory Priorities for 2019”
<https://www.ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/supervisory-priorities-2019>
- Stabilization Fund Closure
<https://www.ncua.gov/support-services/corporate-system-resolution/stabilization-fund-closure>
- The Federal Credit Union Act
https://www.ncua.gov/Legal/Documents/fcu_act.pdf
- Press Release, May 17, 2019, “Municipal Credit Union Conserved”
<https://www.ncua.gov/newsroom/press-release/2019/municipal-credit-union-conserved>
- Press Release, April 23, 2019, “Mid East Tennessee Community Credit Union Conserved”
<https://www.ncua.gov/newsroom/press-release/2019/mid-east-tennessee-community-credit-union-conserved>
- Alternating Exam Program FAQs
<https://www.ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/examination-modernization-initiatives>
- NCUA’s consumer website, MyCreditUnion.gov
www.mycreditunion.gov

- NCUA's Proposed, Pending and Recently Final Regulations
<https://www.ncua.gov/regulation-supervision/rules-regulations/proposed-pending-and-recently-final-regulations>
- NCUA Consumer Assistance Center
<https://www.mycreditunion.gov/consumer-assistance-center/Pages/default.aspx>
- Press Release, May 20, 2019, "NCUA Charters Otoe-Missouria Federal Credit Union"
<https://www.ncua.gov/newsroom/press-release/2019/ncua-charters-otoe-missouria-federal-credit-union>
- Press Release, August 23, 2019, "NCUA Charters Maine Harvest Federal Credit Union"
<https://www.ncua.gov/newsroom/press-release/2019/ncua-charters-maine-harvest-federal-credit-union>
- NCUA-CDFI Certification Initiative
<https://www.ncua.gov/support-services/credit-union-resources-expansion/resources/ncua-cdfi-certification-initiative>
- *2018-2022 Diversity and Inclusion Strategic Plan*
<https://www.ncua.gov/files/publications/reports/diversity-inclusion-strategic-plan-2018-2022.pdf>
- Enterprise Solution Modernization Program
<https://www.ncua.gov/regulation-supervision/examination-modernization-initiatives/enterprise-solution-modernization-program>
- *Federal Register Notice, The NCUA Staff Draft 2020-2021 Budget Justification, November 1, 2019*
<https://www.federalregister.gov/documents/2019/11/01/2019-23856/the-ncua-staff-draft-2020-2021-budget-justification>
- *2020-2021 Budget Justification: Staff Draft, October 28, 2019*
<https://www.ncua.gov/files/publications/budget/budget-justification-proposed-2020-2021.pdf>

Looking Forward

- The Financial Stability Oversight Council 2019 Annual Report
<https://home.treasury.gov/system/files/261/FSOC2019AnnualReport.pdf>
- Implementation of the NCUA's Regulatory Reform Agenda
<https://www.ncua.gov/regulation-supervision/rules-regulations/regulatory-reform-agenda/implementation-ncuas-regulatory-reform-agenda>
- *2018-2022 Strategic Plan*
<https://www.ncua.gov/files/agenda-items/AG20180125Item3b.pdf>

Performance Highlights

- *2018-2022 Strategic Plan*
<https://www.ncua.gov/files/agenda-items/AG20180125Item3b.pdf>
- *2019 Annual Performance Plan*
<https://www.ncua.gov/files/agenda-items/AG20190117Item1b.pdf>

- 12 CFR Part 704, “Corporate Credit Unions”
<https://www.ecfr.gov/cgi-bin/text-idx?SID=fde4c4c1fe00f3ad7a8c43fa26b7541d&mc=true&node=pt12.7.704&r>
- NCUA Regulatory Reform Agenda
<https://www.ncua.gov/regulation-supervision/rules-regulations/regulatory-reform-agenda>

Management Assurances and Compliance

- Office of Inspector General Reports
<https://www.ncua.gov/About/Pages/inspector-general/reports.aspx>

Performance Results

- *2018–2022 Strategic Plan*
<https://www.ncua.gov/files/agenda-items/AG20180125Item3b.pdf>
- *2019 Annual Performance Plan*
<https://www.ncua.gov/files/agenda-items/AG20190117Item1b.pdf>
- NCUA’s consumer website, MyCreditUnion.gov
www.mycreditunion.gov
- NCUA Regulatory Reform Agenda
<https://www.ncua.gov/regulation-supervision/rules-regulations/regulatory-reform-agenda>
- NCUA Recent Final and Interim Final Regulations
<https://www.ncua.gov/regulation-supervision/rules-regulations/proposed-pending-and-recently-final-regulations/recent-final-interim-final-regulations>
- NCUA’s Proposed, Pending and Recently Final Regulations
<https://www.ncua.gov/regulation-supervision/rules-regulations/proposed-pending-and-recently-final-regulations>
- NCUA Consumer Assistance Center
<https://www.mycreditunion.gov/consumer-assistance-center/Pages/default.aspx>
- Spanish-language version of MyCreditUnion.gov
<https://espanol.mycreditunion.gov/Pages/default.aspx>
- *2018-2022 Diversity and Inclusion Strategic Plan*
<https://www.ncua.gov/files/publications/reports/diversity-inclusion-strategic-plan-2018-2022.pdf>

Civil Monetary Penalty Adjustment for Inflation

- Final Rule, Part 747, Civil Monetary Penalty Inflation Adjustment, The Federal Register, January 14, 2020
<https://www.govinfo.gov/content/pkg/FR-2020-01-14/pdf/2020-00309.pdf>

Statistical Data

- NCUA Credit Union Analysis
<https://www.ncua.gov/analysis>

Contact Information

Public Information:	(703) 518-6330	oeacmail@ncua.gov
Office of the Board:	(703) 518-6300	boardmail@ncua.gov
Office of the Chief Financial Officer:	(703) 518-6570	ocfomail@ncua.gov
General Counsel Fraud Hotline:	(800) 827-9650	ogcmail@ncua.gov
Credit Union Investments:	(800) 755-5999	ocmpmail@ncua.gov
NCUA Consumer Assistance Center:	(800) 755-1030	https://www.mycreditunion.gov/consumer-assistance-center
Office of Credit Union Resources and Expansion	(703) 518-6610	curemail@ncua.gov
Report Improper or Illegal Activities:	(800) 778-4806	oigmail@ncua.gov
Technical Support:	(800) 827-3255	onestop@ncua.gov

Thank you for your interest in NCUA's *2019 Annual Report*. This report and prior annual reports are available on NCUA's website at <https://www.ncua.gov/news/annual-reports>.

Please send any comments or suggestions about this report to oeacmail@ncua.gov.

NCUA's *2019 Annual Report* was produced through the energies and talents of NCUA staff, to whom we offer our most sincere thanks and acknowledgment. We would also like to acknowledge NCUA's Office of Inspector General for the professional manner in which they conducted the audit of the 2019 financial statements.

National Credit Union Administration
Office of External Affairs and Communications
1775 Duke Street
Alexandria, VA 22314-3428
Fax: (703) 837-2852



National Credit Union Administration

1775 Duke Street | Alexandria, VA 22314-3428

www.NCUA.gov

OFFICIAL BUSINESS

Penalty for Private Use, \$300