



National Credit Union Administration
2014-2015 Annual Performance Plan

Table of Contents

Executive Summary	3
Mission and Vision	4
Organizational Structure	4
Major Agency Programs	6
Cross-Agency Priority Goals and Collaboration	7
Management Priorities	7
Summary of Strategic Goals and Objectives	8
Strategic Goals, Objectives, Performance Goals	10
Strategic Goal 1	10
Strategic Goal 2	21
Strategic Goal 3	30
Strategic Goal 4	36
Agency Priority Goals	47
Management Review	48
Program Evaluation and Research	48
Data Management and Reliability	49
Low Priority Programs	49
Appendix A – Budgetary Requirements by Program	50
Appendix B – Performance Management Programs Process	51
Appendix C – External Factors 2014 and 2015	52

Executive Summary

The National Credit Union Administration's (NCUA) 2014-2015 Annual Performance Plan (Plan) continues the effort to enhance NCUA's overall efficiency and effectiveness. The Plan outlines the priorities and performance goals for the next two years to ensure NCUA continues to meet the mission of promoting confidence in the national system of cooperative credit. This Plan is guided by NCUA's 2014-2017 Strategic Plan and complies with the Government Performance and Results Modernization Act of 2010 (GPRA Modernization Act) and the Office of Management and Budget's (OMB) Circular A-11.

This Plan strives to provide stakeholders, including NCUA employees, consumers, credit unions, other agencies, and Congress, with transparency and understanding around NCUA's performance goals by drawing a clear line from the agency's mission to the strategic goals, strategic objectives, performance goals, and performance indicators and targets.

The Plan includes four strategic goals supported by strategic objectives and performance goals. The 2014-2017 strategic goals are to:

1. Ensure a safe, sound, and sustainable credit union system
2. Promote consumer protection and financial literacy
3. Further develop a regulatory environment that is transparent and effective, with clearly articulated and easily understood regulations
4. Cultivate an environment that fosters a diverse, well-trained and motivated staff

NCUA has appointed a senior executive as the goal leader for each strategic goal. The goal leader is responsible for managing the strategic goal and underlying objectives. NCUA will use the performance indicators and targets in this Plan to monitor progress in meeting established objectives and performance goals.

NCUA Chairman Matz established six management priorities in 2009. These management priorities, discussed on page 7, align with NCUA's strategic goals and further guide agency initiatives and objectives.

This Plan addresses NCUA's key challenges and leverages agency strengths. The credit union industry continues to consolidate, requiring ongoing adjustments to the examination and supervision program. NCUA is experiencing an increase in senior management retirements necessitating a greater focus on staff and leadership development as well as capturing valuable institutional knowledge. NCUA's greatest strength continues to be its dedicated, knowledgeable, and professional staff. Specific information on leveraging the strengths to address the challenges is detailed in the remainder of this Plan.

Credit unions provide a valuable service to the public as accessible financial institutions that are not driven by profit, but by the well-being of their members. The NCUA Board and staff will continue to promote the success of the credit union industry by providing the framework for a safe, sound system that is responsibly managed and able to provide desired services to current and future members.

Mission and Vision

Throughout 2014 and 2015, 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 *“NCUA will protect consumer rights and member deposits.”*

Organizational Structure

Created by Congress, 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 NCUA’s operations by setting policy, approving budgets, and adopting rules.

As of September 30, 2013, over 95.9 million members have \$905.9 billion in deposits at 6,620 federally insured credit unions. These credit unions have \$1.056 trillion in assets.

Through a robust and effective examination and supervision program, NCUA protects the safety and soundness of the credit union system by mitigating risks to the National Credit Union Share Insurance Fund (NCUSIF). Backed by the full faith and credit of the U.S. Government, the NCUSIF provides members with at least \$250,000 of insurance. NCUA provides insurance to all federal credit unions (FCUs) and the overwhelming majority of state-chartered credit unions.

Throughout the Plan period, NCUA will rely upon 1,262 employees to perform all the tasks in NCUA’s insurance, consumer protection, and regulatory roles. NCUA operates a central office, an Asset Management and Assistance Center (AMAC) to liquidate credit unions and recover assets, and five regional offices. Reporting to these regional offices, NCUA has 71 supervisory groups each with eight to ten examiners responsible for a portfolio of credit unions covering all 50 states, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands.

The examination, supervision and insurance programs are the central focus for NCUA. These functions are the primary responsibility of the regions and the Office of National Examinations and Supervision (ONES). Field staff works in a virtual environment and represents nearly two-thirds of the workforce.

Since nearly two-thirds of the workforce do not report to an office on a daily basis, NCUA is a highly decentralized organization. This structure requires creative methods to deliver the necessary administrative and office support to all staff. The support functions of the central offices are critical in providing the infrastructure for the success of the field program in the virtual environment.

NCUA's organizational chart is below. An interactive organizational chart is available at: http://www.ncua.gov/about/Leadership/Pages/page_org.aspx.



Major Agency Programs

Supervision

The supervision program contributes to the safety and soundness of the credit union system. A program priority includes identifying and resolving risk concerns such as interest rate risk, operational risks including cyber-security, credit risk, and reputational risk. NCUA supervises federally insured credit unions through examinations and regulatory enforcement including providing guidance through various publications and taking administrative actions as necessary to manage risk.

Insurance

NCUA manages the NCUSIF, which provides insurance for deposits held at federally insured credit unions. The fund is capitalized by credit unions. NCUA manages the fund to ensure member deposits are insured to at least \$250,000.

Small Credit Union Initiatives

NCUA fosters credit union development, particularly the expansion of services provided by small credit unions to eligible members. This is addressed through consulting, training, partnerships and assistance. A major source of assistance is the Community Development Revolving Loan Fund (CDRLF), which provides loans and technical grants to credit unions serving low-income members to provide basic financial services and stimulate economic activities in their communities.

Consumer Protection

NCUA protects credit union members through effective enforcement of federal financial services consumer protection laws, regulations, and requirements. NCUA is developing and promoting financial literacy education programs for credit unions to assist members in making financial decisions.

Asset Management

NCUA conducts credit union liquidations and performs management and recovery of assets through AMAC. AMAC strives to maximize the recovery of assets in liquidations where fraud occurred. AMAC assists NCUA regional offices with the review of large, complex loan portfolios and actual or potential bond claims. It also participates extensively in the operational phases of conservatorships and records reconstruction. The purpose of AMAC is to minimize costs to the NCUSIF and credit union members.

Cross-Agency Priority Goals and Collaboration

The GPRA Modernization Act requires federal agencies to address Cross-Agency Priority (CAP) Goals in their strategic plan, annual performance plan, and annual performance report. The national level CAP Goals are located at www.Performance.gov. While NCUA is an independent federal agency and not part of the federal budget, it contributes toward four CAP Goals: Cyber-Security, Closing Skills Gap (among federal work force), Sustainability ([greeNCUA](#)), and Open Government Data.

NCUA is also involved in numerous cross agency initiatives by collaborating with the other financial regulatory agencies through participation in several councils. Some significant councils include the Financial Stability Oversight Council (FSOC), the Federal Financial Institutions Examination Council (FFIEC), and the OMB Performance Improvement Council. While NCUA does not have specific cross agency priority goals, these Councils and many associated task forces and working groups contribute to the success of NCUA's mission.

Management Priorities

To fully implement NCUA's mission, the following are NCUA priorities that factor into the strategic plan and annual performance plan. These priorities were established by Chairman Matz in 2009 and have been the core theme of NCUA's actions since that time. These priorities will enable NCUA to continue to address industry changes and they provide the core of the four strategic goals. The priorities include:

1. Recognized as a fair, effective regulator that sets the highest standards for safety and soundness (Goal 1).
2. An advocate of initiatives to protect members from predatory, unsafe financial products (Goal 2).
3. A regulator that ensures access to credit union service for all eligible members (Goal 2).
4. An agency that listens and encourages an exchange of ideas with the credit union industry while maintaining its independence (Goal 3).
5. A model corporate citizen that recognizes its responsibility to implement environmentally sound practices and procedures wherever and whenever feasible (Goals 3 & 4).
6. An employer of choice and will foster positive relations with elected labor representatives (Goal 4).

Summary of Strategic Goals and Objectives

The chart below summarizes NCUA’s 2014-2017 strategic goals and objectives. The objectives support and complement the strategic goals. Each strategic objective has performance goals with measurable indicators and targets. Performance indicators use available data to provide a way to determine if NCUA’s goals and objectives are met in the proposed time frame. Targets serve to establish a level of performance NCUA strives to achieve. NCUA reviews performance indicators and targets to assess the effectiveness of programs and strategies. This assessment allows the agency to make adjustments to improve performance throughout each year and the strategic plan timeframe.

<u>Strategic Goals</u>	<u>Strategic Objectives</u>
Goal 1: Ensure a Safe, Sound, and Sustainable Credit Union System	<p>1.1 Identify, measure, monitor, and mitigate levels of risk in the credit union industry through effective regulations, supervision, and examination.</p> <p>1.2 Manage operational vulnerabilities resulting from new products and services, especially shifts in balance sheet composition.</p> <p>1.3 Implement tools and models for evaluation and assessment of industry-wide risks.</p> <p>1.4 Be prepared for and promote awareness of critical risk issues, emerging technologies, and related threats.</p> <p>1.5 Increase ability to manage risk through an effective examination and supervision program that minimizes loss to the NCUSIF.</p>
Goal 2: Promote Consumer Protection and Financial Literacy	<p>2.1 Establish a framework of well-balanced regulations and policy statements.</p> <p>2.2 Ensure federally insured credit unions comply with rules and regulations established to protect consumers.</p> <p>2.3 Develop and promote financial literacy education programs to empower consumers to make informed financial decisions.</p> <p>2.4 Promote access to federally insured financial services for consumers of all backgrounds and income levels.</p> <p>2.5 Review marketing and business plans of community charters to ensure progress toward meeting stated goals.</p> <p>2.6 Educate credit unions about consumer compliance issues.</p>
Goal 3: Further Develop a Regulatory Environment that is Transparent and Effective, with Clearly Articulated and Easily Understood Regulations	<p>3.1 Reduce unnecessary obstacles to credit union competitiveness through modernized regulations.</p> <p>3.2 Collaborate with other regulators to discuss strategies and goals for implementing new or revised regulations.</p> <p>3.3 Maintain a regulatory environment that safeguards member interests and stability in the credit union system.</p> <p>3.4 Enhance NCUA’s communication with credit unions through transparent regulations and guidance.</p>

<p>Goal 4: Cultivate an Environment that Fosters a Diverse, Well-Trained and Motivated Staff</p>	<p>4.1 Develop and maintain the optimal knowledge, skills, and abilities of the agency’s workforce to meet emerging needs.</p> <p>4.2 Enhance staff effectiveness and efficiency through the use of technology.</p> <p>4.3 Recruit and retain a well-diversified and highly qualified workforce that reflects the relevant labor force.</p> <p>4.4 Maintain an effective plan of succession to ensure continuity of leadership throughout all levels of the organization.</p> <p>4.5 Improve NCUA's internal communication, both horizontally and vertically.</p> <p>4.6 Enhance NCUA’s position as one of the best places in the government to work.</p>
--	---

Strategic Goals, Objectives, Performance Goals

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

Strategic Objectives	2014/2015 Performance Goals
1.1 Identify, measure, monitor, and mitigate levels of risk in the credit union industry through effective regulations, supervision, and examination.	1.1.1 Maintain strong levels of credit union system-wide net worth and corporate credit union leverage ratios.
	1.1.2 Improve the number of rehabilitated problem credit unions (CAMEL Composite Codes 3, 4, and 5) as a percentage of problem credit unions.
	1.1.3 Examine all federal credit unions annually.
	1.1.4 Examine all federally insured state credit unions with assets above \$250 million annually.
1.2 Manage operational vulnerabilities resulting from new products and services, especially shifts in balance sheet composition.	1.2.1 Implement a robust supervision framework for NCUA's financial reform regulations including interest rate risk, liquidity and contingency funding plans, derivatives authority, and capital planning and stress testing (<i>Agency Priority Goal</i>).
	1.2.2 Update the automated examination system to incorporate economic model analysis.
1.3 Implement tools and models for evaluation and assessment of industry-wide risks.	1.3.1 Employ business intelligence tools to identify and monitor risks to the credit union industry.
1.4 Be prepared for and promote awareness of critical risk issues, emerging technologies, and related threats.	1.4.1 Identify regional and national emerging risks requiring necessary actions.
	1.4.2 Issue industry guidance related to emerging cyber-security risks and related threats (<i>Agency Priority Goal</i>).
	1.4.3 Provide training in emerging technologies, especially for field and management staff.
	1.4.4 Assist small and low-income credit unions to secure the proper technology and resources to ensure regulatory compliance and avoid any potential negative threats.
1.5 Increase ability to manage risk through an effective examination and supervision program that minimizes loss to the NCUSIF.	1.5.1 Maintain yearly NCUSIF losses as a percentage of total insured shares.
	1.5.2 Minimize total assets in CAMEL Code 4/5 rated credit unions.

The Director of the Office of Examination and Insurance (OEI) is the goal leader for Strategic Goal 1 and the underlying objectives.

NCUA's primary function is to identify credit union industry risks, determine the magnitude, and mitigate unacceptable levels through the examination and supervision program. Strategic Goal 1 objectives focus on minimizing current and future risks as early as possible and encouraging sustainability within the system. Industry risks include interest rate risk, operational risks including cyber-security, credit risk, and reputation risk. NCUA addresses emerging issues in order to minimize losses to the NCUSIF.

The Federal Credit Union Act assigns statutory responsibility of the NCUSIF and oversight of the credit union system to NCUA. NCUA focuses on balancing safety and soundness and credit unions' abilities to meet member needs by ensuring all programs work in concert to achieve this goal.

Through its supervision program, NCUA conducts credit union examinations, enforces regulations, and provides guidance to assist credit unions in understanding regulations and emerging risks. Examinations, onsite and offsite supervision, and credit union call report data provide information that helps identify high-risk credit unions and resolve risks to the credit union system through increased supervisory guidance and administrative actions.

To maintain safety and soundness for credit unions, NCUA continues to implement its annual examination program. In 2012, NCUA issued its National Supervision Policy Manual (NSPM) to improve and standardize the supervision of credit unions. In 2013, the agency streamlined the examination report to better clarify the priority exam action items to be resolved, reduce redundancy, and ensure consistency. These modernizations of the supervision program position NCUA to effectively identify and manage risks in the industry. Examiners also continue to use administrative actions as necessary to mitigate risks before they escalate to costly problems for the system.

Additionally, NCUA's asset management program, administered by NCUA's AMAC, ensures members are paid promptly after any necessary liquidation and reduces losses to the NCUSIF through effective liquidation of failed credit union assets. AMAC staff also provide expertise by conducting examinations of large complex loan portfolios and participating in operational phases of conservatorships.

Part of ensuring a safe, sound and sustainable credit union system includes assessing the tools and authorities at NCUA's disposal to fulfill its mission. NCUA considers the following legislative priorities important to NCUA fulfilling its mission:

1. Providing NCUA with vendor authority through statutory changes that achieve parity with the other federal financial regulatory agencies to regulate, examine, and take enforcement actions against vendors and Credit Union Service Organizations (CUSOs).
2. Restoring NCUA's access to back-up liquidity. The specific statutory changes NCUA seeks include re-establishing NCUA's emergency borrowing authority of \$30 billion which sunset on December 31, 2010, and revising Title III of the Federal Credit Union Act to modernize the Central Liquidity Facility.
3. Improving NCUA's ability to manage the NCUSIF by providing more flexibility in setting the normal operating level and building retained earnings for the NCUSIF in a manner consistent with the size and complexity of the credit union industry and financial stability goals.

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

Strategic Objective 1.1

Identify, measure, monitor, and mitigate levels of risk in the credit union industry through effective regulations, supervision, and examination.

Identifying and managing risk in credit unions is NCUA's core program. A stable and sustainable credit union system is the foundation enabling credit unions to continue to provide services to their members and introduce new services or products to meet member needs. NCUA will continue identifying and managing risk through the following means, strategies, and initiatives:

Operational Processes and Strategies:

- Effectively and efficiently manage the annual examination program by ensuring:
 - Timely completion of examinations
 - Effective follow-up with CAMEL 3, 4, and 5 credit unions
 - Prompt and effective supervisory and resolution actions, if warranted.
- Ensure consistency of supervision and examination for all credit unions.
- Enhance internal tools and reports to support NSPM requirements.
- Continue to enhance existing and develop additional risk management tools and reports to support the supervision program and NSPM requirements.
- Evaluate ways to enhance the agency's current internal data collection processes.
- Provide ongoing staff training in identified emerging risk areas to enhance examination effectiveness.
- Work closely with the State Supervisory Authorities to ensure necessary action to mitigate risk within the state credit union program.

Human Capital:

NCUA continues to hire and train new examiners to ensure effective credit union supervision and examination. External technical expertise is acquired as necessary to supplement internal staff.

Information Technology:

NCUA will continue using its online learning system to facilitate training and to increase staff efficiency.

The Office of the Chief Information Officer (OCIO) resources will be used to upgrade information technology systems, such as improving NCUA's Automated Integrated Regulatory Examination System (AIRES) and supporting NSPM tools.

Performance Goal 1.1.1

Maintain strong levels of credit union system-wide net worth and corporate credit union leverage ratios.

Indicators and Targets

1. Maintain aggregate net worth above 10 percent, annually.
2. Maintain the aggregate corporate credit union leverage ratio above 5 percent, annually.

Performance Goal 1.1.2

Improve the number of rehabilitated problem credit unions (CAMEL Composite Codes 3, 4, and 5) as a percentage of problem credit unions.

Indicators and Targets

1. Maintain the total number of problem credit unions upgraded to a CAMEL 1 or 2 as percentage of total problem credit unions at a minimum of 15 percent.

Performance Goal 1.1.3

Examine all federal credit unions annually.

Indicators and Targets

1. Examine 100 percent of all federal credit unions, annually.

Performance Goal 1.1.4

Examine all federally insured state credit unions (FISCUs) with assets above \$250 million annually.

Indicators and Targets

1. Examine 100 percent of all FISCUs with assets greater than \$250 million, annually.

Strategic Objective 1.2

Manage operational vulnerabilities resulting from new products and services, especially shifts in balance sheet composition.

Operational vulnerabilities resulting from the introduction of new products and services must be well managed to ensure a safe, sound and sustainable credit union system. Shifts in balance sheet

composition, including acquiring new products in large concentrations, can pose risks to the credit union industry if the changes to the balance sheet are not well managed monitored or controlled.

Operational Processes and Strategies:

- Provide timely guidance to the credit union industry and examiners related to effectively incorporating new products and services into credit union operations.
- Continue to perform focused reviews of credit unions exhibiting increased levels of balance sheet risk.
- Continue to enhance existing and develop additional risk management tools and reports to support the supervision program.

Human Capital:

NCUA will continue to hire and train new examiners to ensure effective credit union supervision and examination and acquire external talent to supplement internal staff as a way to increase the agency's technical expertise.

Information Technology:

NCUA will continue using an online learning system to facilitate training on products and services new to the credit union industry.

OCIO resources will be used to upgrade information technology systems, such as improving NCUA's eLibrary and AIRES.

Performance Goal 1.2.1 (Agency Priority Goal)

Implement a robust supervision framework for NCUA's financial reform regulations including interest rate risk, liquidity and contingency funding plans, derivatives authority, and capital planning and stress testing.

Indicators and Targets

1. Complete interest rate risk focused supervision contacts at applicable high-risk credit unions by June 30, 2014.
2. Issue examiner and industry guidance introducing revised policy on quantitative risk measurements for interest rate risk by year-end 2014.
3. Develop additional supervision guidance on interest rate risk sensitivity methods by year-end 2015.

Performance Goal 1.2.2

Update the automated examination system to incorporate economic model analysis.

Indicators and Targets

1. Develop a business solution and specifications for a revised automated examination system, including the incorporation of an economic model analysis, by year-end 2014.
2. Complete programming and testing of a revised automated examination system, by year-end 2015.

Strategic Objective 1.3

Implement tools and models for evaluation and assessment of industry-wide risks.

The evaluation and assessment of risks in the credit union industry is essential to the sustainability of the credit union system. NCUA's risk report team designs, develops, and maintains offsite monitoring tools and risk reports to help identify adverse trends and emerging issues. NCUA plans to employ additional business intelligence tools to identify and monitor risks to the credit union industry using the following means, strategies and initiatives:

Operational Processes and Strategies:

- Develop a system to standardize and automate the risk monitoring and reporting process across the agency.
- Update existing applications to assist examiner and analysts with monitoring risks to the credit union industry.
- Continue to refine information derived from tools and models to prioritize the issuance of industry and examiner guidance and to focus supervision efforts to minimize losses to the NCUSIF.

Human Capital:

The risk reports team is comprised of representatives from each region and the offices of ONES, OEI, OCIO, the Chief Economist (OCE), Small Credit Union Initiatives (OSCUI), and Human Resources (OHR). Staff from all offices contribute to the implementation of tools and models to evaluate and assess industry-wide risks.

Information Technology:

OCIO resources will be used to develop and upgrade information technology systems, such as an automated risk monitoring report and AIRES.

Performance Goal 1.3.1

Employ business intelligence tools to identify and monitor risks to the credit union industry.

Indicators and Targets

1. Obtain approval for resources for developing an automated risk monitoring report in 2014.
2. Commence development of an automated risk monitoring report in 2015.

Strategic Objective 1.4

Be prepared for and promote awareness of critical risk issues, emerging technologies, and related threats.

NCUA established a Risk Forum, comprised of senior executives, to enhance awareness of the macro risks facing the industry and to develop proactive strategies to address identified threats and integrate organizational improvements. NCUA has also streamlined the process for conducting quarterly trending analysis by introducing a risk analysis and trending evaluation tool. The agency will continue to promote awareness of critical risk issues, emerging technologies, and related threats to the credit union industry using the following means, strategies and initiatives:

Operational Processes and Strategies:

- Conduct quality control reviews of trending and risk analyses to identify critical risks and related threats.
- Continue to evaluate emerging risks, including threats to cyber-security through qualitative and quantitative analysis.
- Communicate strategies to address critical risk issues, emerging technologies and related threats to NCUA staff and the credit union industry.

Human Capital:

No additional human capital is necessary.

Information Technology:

NCUA will continue to enhance its ability to evaluate risk through continual improvements to tools and reports.

Performance Goal 1.4.1

Identify regional and national emerging risks requiring necessary actions.

Indicators and Targets

1. Each region will perform quality control over a sample of risk reviews to identify trends and note whether supervision plans are appropriate.
2. Hold Risk Forum meetings at least semi-annually.

Performance Goal 1.4.2 (Agency Priority Goal)

Issue industry guidance related to emerging cyber-security risks and related threats.

Indicators and Targets

1. Coordinate issuance of guidance with other financial regulators related to emerging cyber-security risks and related threats, by year-end 2014.

Performance Goal 1.4.3

Provide training in emerging technologies, especially for field and management staff.

Indicators and Targets

1. Review and assess training needs to ensure that information on emerging technologies is current, annually.
2. Deliver Information Technology (IT) Subject Matter Examiner (SME) training and make materials available to all staff on the learn management system, annually.

Performance Goal 1.4.4

Assist small and low-income credit unions to secure the proper technology and resources to ensure regulatory compliance and avoid any potential negative threats.

Indicators and Targets

1. Provide operational and strategic management consulting services to 450 small credit unions to assist in to ensure regulatory compliance and avoid any potential negative threats.
2. Issue \$181,000 for new product initiatives, which includes payment systems and electronic banking to assist low-income credit unions in obtaining proper technology and resources.
3. Maintain a minimum number of 20,000 attendees at OSCUI training, annually.

4. Issue 12 FOCUS newsletters throughout the year addressing technology, resources and regulatory compliance.

Strategic Objective 1.5

Increase ability to manage risk through an effective examination and supervision program that minimizes loss to the NCUSIF.

NCUA issued the NSPM to establish national policies, procedures, and guidelines for effective supervision of credit unions. NCUA also modernized the examination report to better clarify priority exam action items, reduce redundancy, and ensure consistency. NCUA will continue to minimize losses to the NCUSIF by managing risks in the credit union industry using the following means, strategies and initiatives:

Operational Processes and Strategies:

- Fully implement modernizations to the NCUA examination report.
- Ensure prompt and efficient resolution actions when appropriate.
- Implement changes to the examination and supervision program to further align resources with risk.

Human Capital:

NCUA continues to hire and train new examiners to ensure effective credit union supervision and examination.

Information Technology:

NCUA will continue using its online learning system to facilitate training and to increase staff efficiency.

Performance Goal 1.5.1

Maintain yearly NCUSIF losses as a percentage of total insured shares.

Indicators and Targets

1. Maintain NCUSIF losses at less than 0.03 percent of total insured shares, annually.

Performance Goal 1.5.2

Minimize total assets in CAMEL Code 4/5 rated credit unions.

Indicators and Targets

1. Declining trend in the total assets of CAMEL Code 4/5s year over year.

Strategic Goal 1: Summary Performance Indicators and Targets

Goal	Indicator	2011 Actual	2012 Actual	2013 Est	2014/2015 Target
1.1.1	Aggregate net worth.	10.2%	10.4%	10.7%	> 10%
	Aggregate corporate leverage ratio.	5.02%	6.30%	7.11%	> 5 %
1.1.2	Maintain the total number of problem credit unions upgraded as percentage of total problem credit unions at a minimum of 15 percent.	21.4%	23.2%	16.7%	≥ 15%
1.1.3	Examine 100 percent of FCUs.	92.1% (18-mos cycle)	99.7%	99.7%	100%
1.1.4	Examine 100 percent of FISCUs > \$250 million.	98.5%	97.3%	100%	100%
1.2.1	Complete IRR focused supervision contacts.	N/A	N/A	N/A	Achieve by 2Q2014
	Issue quantitative risk measurements guidance.	N/A	N/A	N/A	Achieve in 2014
	Develop additional supervision guidance on interest rate risk sensitivity methods.	N/A	N/A	N/A	Achieve in 2015
1.2.2	Develop a business solution and specifications for a revised automated examination system.	N/A	N/A	N/A	Achieve in 2014
	Complete programming and testing of a revised automated examination system.	N/A	N/A	N/A	Achieve in 2015
1.3.1	Obtain approval for resources to develop automated risk monitoring report.	N/A	N/A	N/A	Achieve in 2014
	Commence development of automated risk monitoring report.	N/A	N/A	N/A	Achieve in 2015
1.4.1	Perform quality control over risk reviews.	N/A	N/A	N/A	5%
	Hold semiannual meetings of the Risk Forum.	N/A	N/A	Achieved	2
1.4.2	Coordinate issuance of guidance with other financial regulators related to emerging cyber-security risks.	N/A	N/A	N/A	Issue guidance in 2014
1.4.3	Conduct annual review of emerging technology training needs.	N/A	N/A	N/A	Achieve
	Deliver IT SME training and make materials available to all staff on the learn management system.	Achieved	Achieved	Achieved	Achieve
1.4.4	Provide consulting services to small credit unions.	342	410	474	≥ 450
	Issue grants for new product initiatives.	N/A	N/A	N/A	\$181,000
	Maintain minimum number of attendees at OSCUI training.	5,184	7,791	26,134	≥ 20,000
	Issue FOCUS newsletters throughout the year.	0	2	12	12
1.5.1	Net losses for current year failures/avg insured shares < 0.03 percent.	0.007%	0.024%	0.008%	< 0.03%
1.5.2	Declining trend in total assets of Code 4/5s.	-32.3.0%	-35.3.0%	-27.4%	< 0%

Strategic Goal 2: Promote Consumer Protection and Financial Literacy

Strategic Objectives	2014/2015 Performance Goals
2.1 Establish a framework of well-balanced regulations and policy statements.	2.1.1 Collaborate and consult with other federal regulators on consumer financial protection issues and potential regulations.
	2.1.2 Solicit information on potential abusive or deceptive practices through various outreach efforts.
2.2 Ensure federally insured credit unions comply with rules and regulations established to protect consumers.	2.2.1 Complete the risk-based fair lending exam procedures and exam scoping steps to measure credit union compliance with consumer financial protection regulations.
	2.2.2 Ensure quality control reviews of fair lending examination reports highlight potential consumer compliance issues and follow-up for needed corrective actions.
	2.2.3 Increase guidance to the credit union industry to help reduce the number of compliance violations.
2.3 Develop and promote financial literacy education programs to empower consumers to make informed financial decisions.	2.3.1 Monitor issues or trends in consumer complaints to develop effective financial literacy education programs and initiatives (<i>Agency Priority Goal</i>).
	2.3.2 Partner with outside resources to effectively market the availability of financial literacy programs.
2.4 Promote access to federally insured financial services for consumers of all backgrounds and income levels.	2.4.1 Notify credit unions of their eligibility for low-income status.
	2.4.2 Continue to increase usability and contemporary information on MyCreditUnion.gov, including Pocket Cents.
	2.4.3 Increase availability of non-English materials on NCUA websites.
2.5 Review marketing and business plans of community charters to ensure progress toward meeting stated goals.	2.5.1 Ensure community charter penetration rate, loans, shares, and other member services are consistent with credit union submitted community charter business plans.
2.6 Educate credit unions about consumer compliance issues.	2.6.1 Use all available delivery channels to provide information on consumer compliance related guidance and information.

The Director of the Office of Consumer Protection (OCP) is the goal leader for Strategic Goal 2 and the underlying objectives.

Strategic Goal 2 seeks to ensure a regulatory framework exists to provide consumers appropriate and timely disclosures, sufficient protections against unscrupulous products or services, and financial literacy education programs to help consumers make informed financial decisions.

OCP is responsible for overseeing NCUA’s fair lending, consumer protection and access, chartering, and field of membership programs and policies. OCP also focuses on providing information directly to consumers on MyCreditUnion.gov.

The NCUA Board and program staff continue to create an environment allowing credit unions to better serve their members while maintaining safety and soundness of the system. It is NCUA’s objective to

protect consumer rights and member deposits by establishing appropriate regulations, enhancing consumer confidence, and providing financial literacy and education. To this end, NCUA will:

- Collaborate with the other federal regulatory agencies as appropriate, to maintain a safe and sound regulatory environment to protect consumers using credit union products and services.
- Support credit unions in their efforts to offer essential products and services, including financial education programs to all eligible members, especially those of modest means.
- Structure the CDRLF to emphasize credit union outreach and financial services to low-income communities.
- Uphold public confidence in the NCUSIF.
- Review credit union compliance with their community charter business plan.
- Use all available media outlets to promote consumer rights.

These strategies, including the following objectives and performance goals support NCUA's goal of promoting consumer protection and financial literacy.

Strategic Objective 2.1

Establish a framework of well-balanced regulations and policy statements.

NCUA coordinates with other financial regulators to develop policy, regulation and guidance. As part of the FFIEC Taskforce on Consumer Compliance and the Financial Literacy Education Commission (FLEC), NCUA contributes to developing well-balanced regulations and policy statements related to consumer protection and financial literacy.

NCUA collects information related to consumer compliance violations and concerns identified during examinations. Coordination with other agencies combined with information collection results in a well-rounded framework for developing regulations, policies and guidance. NCUA will continue to establish a framework of well-balanced regulations and policy statements through the following means, strategies, and initiatives:

Operational Processes and Strategies:

- Actively participate on FFIEC working groups and in FLEC meetings.
- Continue to ensure regulations and policy statements are well formulated and minimize regulatory burden.

Human Capital:

No additional staffing necessary.

Information Technology:

NCUA anticipates no need for new information technology.

Performance Goal 2.1.1

Collaborate and consult with other federal regulators on consumer financial protection issues and potential regulations.

Indicators and Targets

1. Attend 100 percent of FFIEC Taskforce on Consumer Compliance Meetings.

Performance Goal 2.1.2

Solicit information on potential abusive or deceptive practices through various outreach efforts.

Indicators and Targets

1. Request information from regions on potential abusive or deceptive practices, semi-annually.

Strategic Objective 2.2

Ensure federally insured credit unions comply with rules and regulations established to protect consumers.

NCUA's fair lending examination program is designed to ensure credit unions comply with the rules and regulations established to protect consumers. NCUA will continue to ensure credit unions comply with consumer protection rules and regulations using the following means, strategies, and initiatives:

Operational Processes and Strategies:

- Provide timely guidance to the credit union industry and examiners related to changes in rules and regulations established to protect consumers.
- Perform fair lending examinations.

Human Capital:

NCUA will continue to train staff so they are fully knowledgeable on regulations and their effective implementation.

Information Technology:

NCUA will continue to use AIRES for fair lending examinations.

Performance Goal 2.2.1

Complete the risk-based fair lending exam procedures and exam scoping steps to measure credit union compliance with consumer financial protection regulations.

Indicators and Targets

1. Complete 25 fair lending examinations, annually.
2. Complete 40 offsite fair lending supervision contacts, annually.

Performance Goal 2.2.2

Ensure quality control reviews of fair lending examination reports highlight potential consumer compliance issues and follow-up for needed corrective actions.

Indicators and Targets

1. Complete quality control reviews on 100 percent of fair lending examinations to identify risk trends and guide future supervision efforts, annually.

Performance Goal 2.2.3

Increase guidance to the credit union industry to help reduce the number of compliance violations.

Indicators and Targets

1. Conduct one Town Hall webinar to follow-up on implementation of Dodd-Frank mortgage and remittance rules in 2014.

Strategic Objective 2.3

Develop and promote financial literacy education programs to empower consumers to make informed financial decisions.

OCP maintains its focus on empowering consumers to make informed financial decisions by developing and promoting financial literacy education. This furthers the purpose of Strategic Goal 2. OCP responds to inquiries from credit unions, credit union members, and consumers involving consumer protection and share insurance matters. OCP also processes member complaints filed against federal credit unions.

NCUA will continue developing and promoting financial literacy education programs through the following means, strategies, and initiatives:

Operational Processes and Strategies:

- Monitor consumer complaints and fair lending examination results to guide educational program development.
- Engage with external parties to promote the use of NCUA's financial literacy tools.

Human Capital:

No additional staffing necessary.

Information Technology:

NCUA anticipates no need for new information technology.

Performance Goal 2.3.1 (Agency Priority Goal)

Monitor issues or trends in consumer complaints to develop effective financial literacy education programs and initiatives.

Indicators and Targets

1. Produce a monthly report on the top 10 aggregate consumer complaints received in the Consumer Assistance Center to guide educational program development.

Performance Goal 2.3.2

Partner with outside resources to effectively market the availability of financial literacy programs.

Indicators and Targets

1. Identify and engage with public and private entities to increase use of NCUA's financial literacy materials as part of the third party entities outreach efforts. Possible organizations include: (1) The Consumer Financial Protection Bureau and other federal financial regulators; (2) state financial regulators and agencies; (3) educational institutions; and (4) non-profits.
2. As an active member of FLEC, attend all (100 percent) public FLEC meetings.

Strategic Objective 2.4

Promote access to federally insured financial services for consumers of all backgrounds and income levels.

NCUA strives to promote access to credit union services for consumers of all backgrounds and income levels. Credit unions with low-income designations are eligible for grants and loans, and OSCUI's consulting, training, and partnership and outreach initiatives.

NCUA also promotes access to financial services through its consumer education focused website Mycreditunion.gov. This site, available in both English and Spanish, provides a one-stop financial information toolbox for adults and children. NCUA will continue to promote access to federally insured financial services for all consumers using the following means, strategies, and initiatives:

Operational Processes and Strategies:

- Provide credit unions newly qualifying for a low-income designation with notification of their eligibility.
- Promote OSCUI programs to assist credit unions with providing access to financial services.
- Collaborate with OCIO to regularly update and expand the content of NCUA's consumer websites.

Human Capital:

NCUA will continue to use existing staff and responsibilities to promote access to financial services.

Information Technology:

Resources to continue to update and maintain Mycreditunion.gov, including Pocket Cents.

Performance Goal 2.4.1

Notify credit unions of their eligibility for low-income status.

Indicators and Targets

1. Notify credit unions newly qualifying for low-income status of their eligibility, quarterly.

Performance Goal 2.4.2

Continue to increase usability and contemporary information on MyCreditUnion.gov, including Pocket Cents.

Indicators and Targets

1. Increase the number of visitors to Mycreditunion.gov, including Pocket Cents year over year.

Performance Goal 2.4.3

Increase availability of non-English materials on NCUA websites.

Indicators and Targets

1. Develop a Spanish language share insurance estimator in 2014.

Strategic Objective 2.5

Review marketing and business plans of community charters to ensure progress toward meeting stated goals.

Community chartered credit unions are required to develop marketing and business plans during the application for a new or expanded community charter, as outlined in NCUA's Chartering and Field of Membership Manual. NCUA will review these business plans periodically after approval to ensure achievement of the objectives, including providing services to consumers in the new or expanded field of membership. NCUA will continue to review business plans of community charters to ensure progress toward the business plan's goals using the following means, strategies, and initiatives:

Operational Processes and Strategies:

- Continue to follow-up with federal credit unions on the implementation of their business plan every year for three years after receiving a new or expanded community charter.
- Increase partnership and outreach efforts to provide more opportunities for credit unions to learn about and participate in programs to enhance their service delivery or improve operations.

Human Capital:

NCUA staff will continue to contribute to meeting this objective as part of the supervision program.

Information Technology:

No additional information technology required.

Performance Goal 2.5.1

Ensure community charter penetration rate, loans, shares, and other member services are consistent with credit union submitted community charter business plans.

Indicators and Targets

1. Issue regional reports assessing compliance with marketing and business plans submitted to support recent community charter actions, semi-annually.

Strategic Objective 2.6

Educate credit unions about consumer compliance issues.

NCUA informs and educates credit unions on a variety of issues through various reports, Letter to Credit Unions and town hall webinars. Educating credit unions on consumer compliance issues aligns with NCUA's vision statement and furthers the purpose of Strategic Goal 2.

NCUA will continue educating the credit union industry about consumer compliance issues through the following means, strategies, and initiatives:

Operational Processes and Strategies:

- Engage with the credit union industry about consumer compliance matters.
- Provide consumer compliance educational materials to credit union staff.

Human Capital:

No additional staffing necessary.

Information Technology:

No additional information technology necessary.

Performance Goal 2.6.1

Use all available delivery channels to provide information on consumer compliance related guidance and information.

Indicators and Targets

1. Develop four consumer protection series videos in 2014.

Strategic Goal 2: Summary Performance Indicators and Targets

Goal	Indicator	2011 Actual	2012 Actual	2013 Est	2014/2015 Target
2.1.1	Attend 100 percent FFIEC Taskforce on Consumer Compliance Meetings.	92%	92%	83%	100%
2.1.2	Request information from regions on potential abusive or deceptive practices.	N/A	N/A	N/A	2 Requests
2.2.1	Complete 25 fair lending examinations.	19	11	25	≥ 25
	Complete 40 offsite fair lending supervision contacts.	N/A	N/A	45	≥ 40
2.2.2	Complete quality control reviews on 100 percent of fair lending examinations.	100%	100%	100%	100%
2.2.3	Conduct one Town Hall webinar to follow-up on implementation of Dodd-Frank mortgage and remittance rules in 2014.	N/A	N/A	N/A	1
2.3.1	Produce a monthly report on the top 10 aggregate consumer complaints received in the Consumer Assistance Center to guide educational program development.	N/A	N/A	Established	12
2.3.2	Identify and engage with public and private entities to increase use of NCUA's financial literacy materials as part of the third party entities outreach efforts.	N/A	N/A	N/A	Establish Partnerships
	Attend all (100 percent) public FLEC meetings.	N/A	N/A	N/A	100%
2.4.1	Notify credit unions newly qualifying for low-income status of their eligibility, quarterly.	N/A	N/A	Annual	Quarterly
2.4.2	Increase the number of visitors to Mycreditunion.gov including Pocket Cents year over year.	13,001	156,546	332,596	500,000
2.4.3	Develop a Spanish language share insurance estimator.	N/A	N/A	N/A	Complete
2.5.1	Issue regional reports assessing compliance with marketing and business plans submitted to support recent community charter actions.	N/A	N/A	Achieved	2
2.6.1	Develop four consumer protection series videos.	N/A	N/A	N/A	4

Strategic Goal 3: Further Develop a Regulatory Environment that is Transparent and Effective, with Clearly Articulated and Easily Understood Regulations

Strategic Objectives	2014/2015 Performance Goals
3.1 Reduce unnecessary obstacles to credit union competitiveness through modernized regulations.	3.1.1 Update existing and develop new regulations through the annual regulatory review process.
	3.1.2 Coordinate with congressional committees on priority risk issues.
	3.1.3 Identify industry risks necessitating new or revised regulations in industry guidance.
3.2 Collaborate with other regulators to discuss strategies and goals for implementing new or revised regulations.	3.2.1 Actively participate in financial regulators meetings to contribute to the development and implementation of industry guidance.
3.3 Maintain a regulatory environment that safeguards member interests and stability in the credit union system.	3.3.1 Provide sufficient comment periods when introducing new or revised regulations and consider public comments when finalizing regulations.
3.4 Enhance NCUA’s communication with credit unions through transparent regulations and guidance.	3.4.1 Develop guidance to credit unions to provide explanation of regulatory changes and best practices for implementation (<i>Agency Priority Goal</i>).
	3.4.2 Increase target audience awareness of regulatory activities and their positive effects on the industry’s safety and soundness.
	3.4.3 Issue information on new and changed regulations through multiple delivery channels including the NCUA website, Twitter, Facebook, LinkedIn, and YouTube.

NCUA’s General Counsel is the goal leader for Strategic Goal 3 and the underlying objectives.

NCUA strives to effectively manage the balance between regulatory flexibility and responsible oversight. NCUA’s goal is to issue simple, clear, and straightforward regulations while addressing emerging issues before they become major problems.

NCUA continues to improve the effectiveness and transparency of its regulations by increasing communications with credit unions and examiners, as well as the means used to communicate, to ensure greater transparency and fair application of these regulations. The NCUA Board continues its regulatory modernization strategy, which strives to reduce the regulatory burden on credit unions while balancing safety and soundness of the system. The NCUA Board will continue to pursue ways to streamline regulations and reduce regulatory burdens, while still maintaining appropriate safety and soundness.

Strategic Objective 3.1

Reduce unnecessary obstacles to credit union competitiveness through modernized regulations.

NCUA reviews one-third of its regulations annually, including publishing them for public comment, and updating and streamlining regulations where necessary. NCUA will conduct this review using the following means, strategies, and initiatives.

Operational Processes and Strategies:

- By early January 2014, identify the one-third of NCUA's regulations up for review in 2014.
- Post the list on NCUA's website and invite public comment on the listed regulations to be received by August 2014.
- The Office of General Counsel (OGC) will review the submitted comments and report to the NCUA Board.
- The NCUA Board will consider changes recommended by comment letters and NCUA staff in late 2014 and 2015.

Human Capital:

No additional human capital will be required.

Information Technology:

No additional information technology will be required.

Performance Goal 3.1.1

Update existing and develop new regulations through the annual regulatory review process.

Indicators and Targets

1. Review one-third of all regulations annually.

Performance Goal 3.1.2

Coordinate with congressional committees on priority risk issues.

Indicators and Targets

1. Send letters to the Chairmen and Ranking Members of primary committees and subcommittees of jurisdiction about NCUA's legislative priorities, and conduct follow-up meetings with key congressional staff as warranted.

Performance Goal 3.1.3

Identify industry risks necessitating new or revised regulations in industry guidance.

Indicators and Targets

1. Discuss risks at the semi-annual Risk Forum meetings and develop action plans to address risks identified following each meeting.

Strategic Objective 3.2

Collaborate with other regulators to discuss strategies and goals for implementing new or revised regulations.

NCUA participates on various councils and interagency groups responsible for regulating the financial industry. Frequently, revised regulations and interagency guidance on current risk issues are developed by task forces and working groups, and issued to all insured financial institutions.

Operational Processes and Strategies:

- Participate in development of financial industry regulations and guidance as applicable to credit unions.
- Participate in monthly and periodic council, task force, and working group meetings.
- Coordinate guidance development and issuance through various program offices.

Human Capital:

No additional human capital is necessary.

Information Technology:

No addition information technology is required.

Performance Goal 3.2.1

Actively participate in financial regulators meetings to contribute to the development and implementation of industry guidance.

Indicators and Targets

1. Participate in 100 percent of all interagency meetings including FSOC, FFIEC Council, Task Force, and Subcommittees. Actively participate in the development process on all applicable guidance.
2. Issue interagency guidance applicable to the credit union industry as necessary.

Strategic Objective 3.3

Maintain a regulatory environment that safeguards member interests and stability in the credit union system.

The NCUA Board is concerned with balancing safety and soundness with the credit union industry's competitive needs to maintain viability and stability.

Operational Processes and Strategies:

New or revised rules and regulations are generally issued for a minimum of 30 days for public comment; most are issued for 60 days for public comment.

Human Capital:

No additional human capital is necessary.

Information Technology:

No additional information technology is required.

Performance Goal 3.3.1

Provide sufficient comment periods when introducing new or revised regulations and consider public comments when finalizing regulations.

Indicators and Targets

1. Provide a minimum comment period of 30 days for new and revised regulations.

Strategic Objective 3.4

Enhance NCUA's communication with credit unions through transparent regulations and guidance.

NCUA will maintain open and transparent communications with credit unions to help increase their understanding and implementation of regulations and NCUA initiatives.

Operational Processes and Strategies:

In order to assist in regulation comprehension, NCUA will continue presenting informative webinars regarding recent risk issues and relevant guidance. The agency will also continue producing YouTube videos addressing NCUA Board actions, economic data, and regulatory information.

Human Capital:

No additional human capital will be required.

Information Technology:

Available technologies such as webinars, websites, and social media will be used to increase credit union access to NCUA Board actions, economic data, and regulatory information.

Performance Goal 3.4.1 (Agency Priority Goal)

Develop guidance to credit unions to provide explanation of regulatory changes and best practices for implementation.

Indicators and Targets

1. Issue appropriate guidance such as Letters to Credit Unions, Supervisory Letters, Webinars, AIREs questionnaires, or other multi-media outreach in conjunction with regulatory changes issued by the Board when warranted.

Performance Goal 3.4.2

Increase target audience awareness of regulatory activities and their positive effects on the industry's safety and soundness.

Indicators and Targets

1. Hold four Town Hall meetings or webinars with the credit union industry in 2014, coordinated with regulatory changes.
2. Issue monthly NCUA Report newsletters containing information on regulatory changes, as applicable in 2014.

Performance Goal 3.4.3

Issue information on new and changed regulations through multiple delivery channels including the NCUA website, Twitter, Facebook, LinkedIn, and YouTube.

Indicators and Targets

1. NCUA will use social media channels to communicate each rule change as warranted.

Strategic Goal 3: Summary Performance Indicators and Targets

Goal	Indicator	2011 Actual	2012 Actual	2013 Est	2014/2015 Target
3.1.1	Review one-third of all regulations.	1/3	1/3	1/3	1/3
3.1.2	Send letters to the Chairmen and Ranking Members of primary committees and subcommittees of jurisdiction about NCUA's legislative priorities, and conduct follow-up meetings with key congressional staff as warranted.	N/A	N/A	N/A	Achieve
3.1.3	Discuss risks at the at the semi-annual Risk Forum meetings and develop action plans to address risks identified following each meeting.	N/A	N/A	N/A	Achieve
3.2.1	Participate in 100 percent of all interagency meetings.	N/A	N/A	N/A	100%
	Issue interagency guidance applicable to the credit union industry as necessary.	N/A	N/A	N/A	Achieve
3.3.1	Provide a minimum comment period of 30 days on new and revised regulations.	30 days	30 days	30 days	30 days
3.4.1	Issue appropriate guidance in conjunction with regulatory changes issued by the board when warranted.	N/A	N/A	N/A	Achieve
3.4.2	Hold four Town Hall meetings or webinars with the credit union industry, coordinated with regulatory changes.	2	7	2	4
	Issue monthly NCUA Report newsletters.	12	12	12	12
3.4.3	Use social media channels to communicate each rule change as warranted.	N/A	N/A	N/A	Achieve

Strategic Goal 4: Cultivate an Environment that Fosters a Diverse, Well-Trained and Motivated Staff

Strategic Objectives	2014/2015 Performance Goals
4.1 Develop and maintain the optimal knowledge, skills, and abilities of the agency’s workforce to meet emerging needs.	4.1.1 Use all available delivery channels to educate staff on new and updated guidance and regulations.
	4.1.2 Deliver quality training consistent with the various staff areas of discipline.
4.2 Enhance staff effectiveness and efficiency through the use of technology.	4.2.1 Develop specialized systems, tools, and models to create a more effective examination program.
	4.2.2 Deliver leading edge information technology hardware and software to maximize staff efficiency.
	4.2.3 Increase virtual, remote and telework employee efficiency through the use of current technology.
4.3 Recruit and retain a well-diversified and highly qualified workforce that reflects the relevant labor force.	4.3.1 Increase the number of women, persons with disabilities, and minority staff at all levels particularly in the management ranks (<i>Agency Priority Goal</i>).
	4.3.2 Partner with organizations to increase the diversity of NCUA staff, particularly management.
	4.3.3 Fill vacancies timely with the best-qualified applicants available.
4.4 Maintain an effective plan of succession to ensure continuity of leadership throughout all levels of the organization.	4.4.1 Capture valuable institutional knowledge of retiring senior executives.
	4.4.2 Enhance leadership training programs to provide continued education for all levels of staff.
4.5 Improve NCUA's internal communication, both horizontally and vertically.	4.5.1 Provide clear and timely communication between all levels of staff.
	4.5.2 Coordinate agency communications to maintain consistent strategic messaging.
4.6 Enhance NCUA’s position as one of the best places in the government to work.	4.6.1 Solicit staff input on areas requiring attention.
	4.6.2 Strive to balance organizational needs with comparability with the other financial regulatory agencies in the areas of pay and benefits.
	4.6.3 Streamline operation policies and practices to reduce administrative burden for all staff.
	4.6.4 Strengthen the security program in the areas of personnel, facilities, continuity of operation and secure communications (<i>Agency Priority Goal</i>).

NCUA’s Deputy Executive Director is the goal leader for Strategic Goal 4 and the underlying objectives.

NCUA's most important resource is high quality, skilled staff. To maximize their contributions to the mission, they must be supported by efficient and effective processes and have the tools and leading edge technology.

Strategic Goal 4 emphasizes staff effectiveness through hiring, training, and career development. It also focuses on maintaining sufficient levels of communication and preparing staff to assume additional responsibilities and duties in leadership positions. The goal also covers the need for high quality administrative and support functions for all staff.

Strategic Objective 4.1

Develop and maintain the optimal knowledge, skills, and abilities of the agency's workforce to meet emerging needs.

To properly regulate federally insured credit unions, staff must be trained to have the requisite skills and abilities to identify and mitigate risk. Providing ongoing training in identified emerging risk areas is necessary to maintain an effective examination process. Webinars should highlight regulatory changes, and provide training on required examination processes.

Operational Processes and Strategies:

Continue providing training on a timely basis to help staff understand emerging risk areas and mitigation strategies. Incorporate staff feedback to improve future training.

Human Capital:

No additional human capital is necessary.

Information Technology:

NCUA will update or replace its existing learn management system.

Performance Goal 4.1.1

Use all available delivery channels to educate staff on new and updated guidance and regulations.

Indicators and Targets

1. Hold webinars with NCUA staff on significant regulatory changes.

Performance Goal 4.1.2

Deliver quality training consistent with the various staff areas of discipline.

Indicators and Targets

1. Obtain at least a 4.4 out of 5 average rating in training class evaluations.

Strategic Objective 4.2

Enhance staff effectiveness and efficiency through the use of technology.

Staff significantly relies upon technology to perform their duties and responsibilities associated with their positions. The technology needs to be at a level appropriate to carry out the agency's mission. In order to create additional efficiencies, administrative tasks need to be streamlined through the use of new programs.

Operational Processes and Strategies:

- Continue making technological hardware and software improvements as required to maintain a high performing staff.
- Work with program offices to develop any necessary programs to improve staff's ability to identify industry risks.

Human Capital:

No additional human capital is necessary.

Information Technology:

Technology including updated hardware and software will be necessary to make progress in this area.

Performance Goal 4.2.1

Develop specialized systems, tools, and models to create a more effective examination program.

Indicators and Targets

1. Finalize and deliver the revamped eLibrary offering online and offline viewing, and search capabilities by May 2014.
2. Deliver a collaboration tool including wiki-like capabilities, to staff by May 2014.
3. Roll out an online corporate credit union call reporting system for ONES by year-end 2014.

Performance Goal 4.2.2

Deliver leading edge information technology hardware and software to maximize staff efficiency.

Indicators and Targets

1. Upgrade connectivity hardware in 2014.
2. Complete transition to new computers by March 2015.

Performance Goal 4.2.3

Increase virtual, remote and telework employee efficiency through the use of current technology.

Indicators and Targets

1. Increase the number of telework agreements by at least 25 in 2014.
2. Redesign NCUACentral to incorporate a more user-friendly interface and new features by year-end 2014.

Strategic Objective 4.3

Recruit and retain a well-diversified and highly qualified workforce that reflects the relevant labor force.

NCUA incorporates the principles of diversity as ones of its core values. These principles serve as the foundation for building an environment where the talents of all individuals are fully utilized. When applied effectively, these principles create a workforce where employees not only succeed, but reach their fullest potential.

Operational Processes and Strategies:

- Evaluate the best approaches for implementing diversity objectives.
- Develop strategies to address low participation rates of identified groups.
- Address and eliminate barriers to equal employment opportunity where low participation exists.

Human Capital:

No additional human capital is required.

Information Technology:

No additional information technology is required.

Performance Goal 4.3.1 (Agency Priority Goal)

Increase the number of women, persons with disabilities, and minority staff at all levels particularly in the management ranks.

Indicators and Targets

1. Increase female representation by at least 2 percentage points.
2. Increase representation of persons with disabilities by at least 2 percentage points.
3. Increase Hispanic representation by at least 1 percentage point.
4. Increase female, persons with disabilities, and minority representation in leadership ranks (CU-14 and above) by at least 1 percentage point.
5. Maintain NCUA's position in the top five mid-sized agencies for the Support for Diversity Indicator (Employee Viewpoint Survey Questions 34, 45, and 55). These questions measure the extent to which employees believe that actions and policies of leadership and management promote and respect diversity.

Performance Goal 4.3.2

Partner with organizations to increase the diversity of NCUA staff, particularly management.

Indicators and Targets

1. Partner with at least one new organization by year-end 2014. Possible organizations include: (1) National Association of Hispanic Federal Executives; (2) Asian American Government Executives Association; (3) African American Federal Executives Association; and (4) Association of Latino Professionals in Finance and Accounting.

Performance Goal 4.3.3

Fill vacancies timely with the best-qualified applicants available.

Indicators and Targets

1. Fill vacancies within an average of 100 days.

Strategic Objective 4.4

Maintain an effective plan of succession to ensure continuity of leadership throughout all levels of the organization.

Human capital is the agency's most important resource. NCUA must be prepared to pursue other opportunities as staff retire or leave their positions. Planning for succession will help determine knowledge, skills, and abilities necessary to fill critical staff positions.

Operational Processes and Strategies:

- Evaluate the leadership programs available to staff and make changes as necessary.
- Track the success of graduates from the leadership programs into leadership positions.
- Cultivate talent by providing training, mentoring, detail assignments, and other leadership development opportunities.
- Facilitate leadership transition by striving for an overlap between the incumbent and the retiring senior executive.

Human Capital:

No additional human capital is necessary.

Information Technology:

No additional information technology is required.

Performance Goal 4.4.1

Capture valuable institutional knowledge of retiring senior executives.

Indicators and Targets

1. Develop a process for capturing corporate information from retiring executives by 2015.
2. Have at least four management staff participate in the executive development program per year.
3. Provide executive coaching to at least five managers per year.

Performance Goal 4.4.2

Enhance leadership training programs to provide continued education for all levels of staff.

Indicators and Targets

1. Conduct post-program evaluations of external leadership programs to determine if meeting NCUA needs throughout the year and identify additional leadership programs to consider by June 2014.

2. Conduct post-program reviews of internal management and executive development programs in coordination with oversight committees by year-end 2014.
3. Promote successful graduation of all NCUA leadership program participants as warranted.
4. Gather baseline data on leadership program graduates moving into leadership positions by year-end 2014.

Strategic Objective 4.5

Improve NCUA's internal communication, both horizontally and vertically.

NCUA leadership understands the importance of keeping all staff informed of major issues internal and external to the agency. Communications will continue to be enhanced using the following means, strategies, and initiatives.

Operational Processes and Strategies:

NCUA has implemented several tools to enhance communication within the agency. NCUA will continue to:

- Empower employees by maintaining the partnership council relationship with the National Treasury Employees Union (NTEU).
- Offer webinars, teleconferences, and timely emails to improve communications with staff.
- Send regulatory and policy action briefings to staff prior to external release.
- Publish the Inside NCUA Weekly newsletter to keep staff apprised of changes and issues.

Human Capital:

Continue providing resources for the internal communications working group.

Information Technology:

Use available technology to communicate information to staff and allow for interaction and feedback.

Performance Goal 4.5.1

Provide clear and timely communication between all levels of staff.

Indicators and Targets

1. Hold quarterly Chairman's webinars with all staff.
2. Publish weekly Inside NCUA communication emails.

3. Hold semiannual regional and annual central office management meetings.

Performance Goal 4.5.2

Coordinate agency communications to maintain consistent strategic messaging.

Indicators and Targets

1. Complete remaining chapters of the Communications Manual by year-end 2014.
2. Publish communications reminders monthly in Inside NCUA.

Strategic Objective 4.6

Enhance NCUA's position as one of the best places in the government to work.

NCUA leadership recognizes the agency needs its most important resource, its people, in order to meet its goals and mission. Leadership is committed to creating an environment that fosters a diverse, well-trained, and motivated staff. Over the past several years, the agency hired additional staff as needed to implement agency programs to mitigate industry risks.

Operational Processes and Strategies:

- Evaluate the results of the Employee Viewpoint Survey in particular areas. Make changes as necessary to address lower scoring areas.
- Fully staff the Office of Continuity and Security Management and complete security reviews of all NCUA offices and buildings.

Human Capital:

The Office of Continuity and Security Management will need to be fully staffed.

Information Technology:

Hardware and software will need to be updated to maintain secure communications and staff efficiencies.

Performance Goal 4.6.1

Solicit staff input on areas requiring attention.

Indicators and Targets

1. Maintain at least 65 percent staff participation in employee viewpoint survey.

Performance Goal 4.6.2

Strive to balance organizational needs with comparability with the other financial regulatory agencies in the areas of pay and benefits.

Indicators and Targets

1. Coordinate with the other Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) agencies to evaluate pay and benefits comparability in 2014.
2. Begin Collective Bargaining Agreement (CBA) negotiations during 2014 and strive to balance a pay and benefit system with organizational needs and current FIRREA comparability levels.

Performance Goal 4.6.3

Streamline operation policies and practices to reduce administrative burden for all staff.

Indicators and Targets

1. Reduce or eliminate at least two administrative management requirements as part of labor relations activities.

Performance Goal 4.6.4 (Agency Priority Goal)

Strengthen the security program in the areas of personnel, facilities, continuity of operation and secure communications.

Indicators and Targets

1. Ensure the Sensitive Compartmented Information Facility (SCIF) is operable by year-end 2014.
2. Fully staff Continuity and Security Management Office by year-end 2014.
3. Complete onsite security review of all NCUA leased and owned facilities for physical security enhancements by yearend 2014.
4. Develop and implement at least two new security policies in 2014 to further the safety of NCUA staff.

Strategic Goal 4: Summary Performance Indicators and Targets

Goal	Indicator	2011 Actual	2012 Actual	2013 Est	2014/2015 Target
4.1.1	Hold webinars with NCUA staff on significant regulatory changes.	Achieved	Achieved	Achieved	Achieve
4.1.2	Obtain at least a 4.4 out of 5 average rating in training class evaluations.	3.5	4.2	4.1	> 4.4
4.2.1	Finalize and deliver the revamped eLibrary offering online and offline viewing and search capabilities.	N/A	N/A	Funded	Achieve in 2Q2014
	Deliver a collaboration tool including wiki-like capabilities.	N/A	N/A	Funded	Achieve in 2Q2014
	Roll out an online corporate credit union call reporting system for ONES.	N/A	N/A	N/A	Achieve in 2014
4.2.2	Upgrade connectivity hardware in 2014.	N/A	N/A	N/A	Achieve in 2Q2014
	Complete transition to new computers.	N/A	Achieved	N/A	Achieve in 1Q2015
4.2.3	Increase the number of telework agreements by at least 25.	225	241	318	Minimum of 25 additional
	Redesign NCUACentral.	N/A	N/A	N/A	Achieve in 2014
4.3.1	Increase female representation by at least 2 percentage points.	45.2%	44.8%	43.4%	45.4% (+2%)
	Increase representation of persons with disabilities by at least 2 percentage points.	8.2%	10.0%	N/A	12% (+2%)
	Increase Hispanic representation by at least 1 percentage point.	4.2%	4.2%	4.3%	5.3% (+1%)
	Increase female, persons with disabilities, and minority representation in leadership ranks by at least 1 percentage point.	46%	48%	50%	51% (+1%)
	Maintain NCUA's position in the top five mid-sized agencies for the Support for Diversity Indicator (Employee Viewpoint Survey Questions 34, 45, and 55).	N/A	4 th	4 th	Top 5
4.3.2	Partner with at least one new organization.	N/A	N/A	1	1
4.3.3	Fill vacancies within an average of 100 days.	N/A	114	107	100 days
4.4.1	Develop a process for capturing corporate information from retiring executives.	N/A	N/A	N/A	Achieve in 2015
	Have at least four management staff participate in the executive development program.	N/A	N/A	Resumed Program	4
	Provide executive coaching to at least five managers.	N/A	N/A	10	5

Goal	Indicator	2011 Actual	2012 Actual	2013 Est	2014/2015 Target
4.4.2	Conduct post-program evaluations of external leadership programs and identify additional leadership programs.	N/A	N/A	N/A	Achieve by 2Q2014
	Conduct post-program reviews of internal management and executive development programs.	N/A	N/A	N/A	Achieve
	Promote successful graduation of all NCUA leadership program participants as warranted.	100%	100%	95%	100%
	Gather baseline data on leadership program graduates moving into leadership positions.	N/A	N/A	N/A	Establish Baseline
4.5.1	Hold quarterly Chairman's webinars with all staff.	N/A	2	4	4
	Publish weekly Inside NCUA communication emails.	47	52	52	52
	Hold semiannual regional and annual central office management meetings.	10	10	10	11
4.5.2	Complete remaining chapters of the Communications Manual.	N/A	N/A	Published	Complete
	Publish communications reminders monthly in Inside NCUA weekly.	N/A	N/A	4	12
4.6.1	Maintain at least 65 percent staff participation in employee viewpoint survey.	N/A	65%	72%	≥ 65%
4.6.2	Coordinate with the other FIRREAs to evaluate pay and benefits comparability.	N/A	N/A	N/A	Complete
	Begin Collective Bargaining Agreement (CBA) negotiations during 2014 and strive to balance a pay and benefit system with organizational needs and current FIRREA comparability levels and.	Complete	N/A	N/A	Achieve
4.6.3	Reduce or eliminate at least two administrative management requirements as part of labor relations activities.	2	2	2	2
4.6.4	Operable SCIF.	N/A	N/A	Approved	Achieve
	Fully staff the Office of Continuity and Security Management Office.	N/A	N/A	Office Approved	Achieve
	Complete onsite security review of all NCUA leased and owned facilities.	N/A	N/A	N/A	Complete
	Develop and implement security policies.	N/A	N/A	N/A	2

Agency Priority Goals

OMB encourages all agencies to prioritize goals in their strategic and annual plans. An Agency Priority Goal (APG) is a subset of the agency's performance goals and represents the highest implementation priorities. An APG is a near-term result or achievement to accomplish within approximately 24 months. NCUA identifies the following six performance goals as APGs.

1. Performance Goal 1.2.1

Implement a robust supervision framework for NCUA's financial-reform regulations including interest rate risk, liquidity and contingency funding plans, derivative authority, and capital planning and stress testing as measured by:

- Completing interest rate risk focused supervision contacts at applicable high-risk credit unions by June 30, 2014.
- Issuing examiner and industry guidance introducing revised policy on evaluating quantitative risk measurements for interest rate risk, by year-end 2014.
- Developing additional supervision guidance on interest rate risk sensitivity methods by year-end 2015.

2. Performance Goal 1.4.2

Issue industry guidance related to emerging cyber-security risks and related threats achieved by coordinating with other financial regulators the issuance of guidance related to emerging cyber-security risks and related threats, by year-end 2014.

3. Performance Goal 2.3.1

Monitor issues or trends in consumer complaints to develop effective financial literacy education programs and initiatives as measured by producing a monthly report on the top 10 aggregate consumer complaints received in the Consumer Assistance Center to guide educational program development.

4. Performance Goal 3.4.1

Develop guidance to credit unions to provide explanation of regulatory changes and best practices for implementation achieved by issuing appropriate guidance such as Letters to Credit Unions, Supervisory Letters, Webinars, AIREs questionnaires, or other multi-media outreach in conjunction with regulatory changes issued by the Board, when warranted.

5. Performance Goal 4.3.1

Increase the number of women, persons with disabilities, and minority staff at all levels particularly in the management ranks as measured by:

- Increasing female representation by at least 2 percentage points.

- Increasing representation of persons with disabilities by at least 2 percentage points.
- Increasing Hispanic representation by at least 1 percentage point.
- Increasing female, persons with disabilities, and minority representation in leadership ranks (CU-14 and above) by at least 1 percentage point.
- Maintaining NCUA's position in the top five mid-sized agencies for the Support for Diversity Indicator (Employee Viewpoint Survey Questions 34, 45, and 55). These questions measure the extent to which employees believe that actions and policies of leadership and management promote and respect diversity.

6. Performance Goal 4.6.4

Strengthen the security program in the areas of personnel, facilities, continuity of operation and secure communications achieved by:

- Ensuring the SCIF is operable by year-end 2014.
- Fully staffing the Office of Continuity and Security Management by year-end 2014.
- Completing onsite security reviews of all NCUA leased and owned facilities for physical security enhancements by year-end 2014.
- Developing and implementing at least two new security policies in 2014 to further the safety of NCUA staff.

Management Review

NCUA is implementing a quarterly data driven review process. Each designated goal leader is responsible for the progress in meeting the goals, reporting the results, and making operational adjustments. These reviews will be coordinated by the Office of the Chief Financial Officer.

Program Evaluation and Research

NCUA will use the results of the quarterly reviews and its annual performance report as a data point for future development of the strategies, goals, measures, and targets. For this Plan, each office provided their analysis and support for each performance goals. Several performance goal indicators in this Plan are new for 2014 and 2015; therefore, historical data is not available. These indicators are marked as N/A in the Summary Performance Indicator and Target tables. The results from the quarterly reviews and these evaluations will be included as some of the factors considered in determining NCUA's Plan.

Data Management and Reliability

Data management and data reliability are important in determining performance outcomes. Currently, the data is reviewed by OEI, ONES, OCE and the regions.

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

Low Priority Programs

NCUA is not part of the President's Budget and, therefore, has no programs to recommend to Congress for consolidation and/or elimination. As part of the annual plan development process, NCUA reviewed all programs and their supporting functions for possible consolidation, elimination or enhancement to optimize the overall agency efficiency and effectiveness of operations. NCUA continues to realign and consolidate various functions with the goal of gaining greater efficiency.

Appendix A – Budgetary Requirements by Program

FY 2014 Budgeted Dollars by Major Program (in Millions)										
Supervision		Insurance		Small CU Init.		Consumer Prot.		Asset Mgt.		Total
Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars
\$74.7	27.8%	\$172.0	64.1%	\$6.0	2.2%	\$9.4	3.5%	\$6.2	2.3%	\$268.3
FY 2014 Projected FTE by Major Program										
Supervision		Insurance		Small CU Init.		Consumer Prot.		Asset Mgt.		Total
FTE	Percent	FTE	Percent	FTE	Percent	FTE	Percent	FTE	Percent	FTE
350	27.7%	806	63.9%	27	2.1%	42	3.3%	37	2.9%	1262

FY 2015 Budgeted Dollars by Major Program (in Millions)										
Supervision		Insurance		Small CU Init.		Consumer Prot.		Asset Mgt.		Total
Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars
\$77.0	27.9%	\$177.1	64.1%	\$6.1	2.2%	\$9.7	3.5%	\$6.4	2.3%	\$276.3
FY 2015 Projected FTE by Major Program										
Supervision		Insurance		Small CU Init.		Consumer Prot.		Asset Mgt.		Total
FTE	Percent	FTE	Percent	FTE	Percent	FTE	Percent	FTE	Percent	FTE
350	27.7%	807	63.9%	27	2.1%	41	3.2%	37	2.9%	1262

Appendix B – Performance Management Programs Process

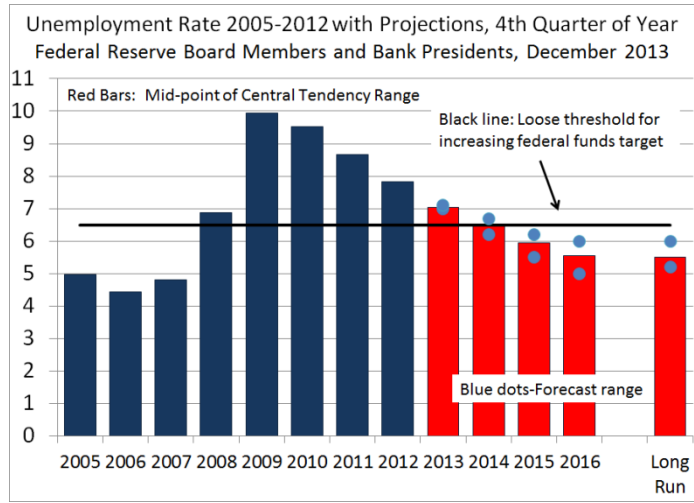
NCUA's performance management programs process begins with the agency's strategic plan that provides long-term strategic goals for the agency and serves as the cornerstone of the performance management process. The Plan serves as the agency's operational plan. It outlines NCUA's annual (short-term) objectives,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

Appendix C – External Factors 2014 and 2015

The economic environment will exert considerable influence on the credit union industry in 2014 and 2015. The near-term outlook calls for a pickup in economic growth, although the pace will still be slower than the long-term average; both labor and housing markets should continue to improve, and inflation is expected to stay restrained in 2014 and 2015. These factors should diminish credit risk at the national level. A key concern is the potentially volatile interest rate environment credit unions will face in 2014 and 2015. Credit unions need to take steps to mitigate and manage interest rate risk.

Economy and Credit Unions

The recovering economy means the environment facing credit unions will be supportive in many dimensions, including growth in lending and falling delinquency rates. However, an improving economy will likely be accompanied by rising interest rates, which can negatively affect credit union performance and may result in reduced earnings, lower asset valuations and liquidity stress. In addition, there are a number of structural changes that will continue to affect credit unions going forward.



Key Risk Areas for U.S. Growth

While forecasters expect the economy to grow over the near-term, there are a couple areas of risk that could undermine this growth.

Global Factors: Growth in the U.S. is partially dependent on growth in the rest of the world. Changes in crude oil supplies and prices also remain important. Recent information suggests growth around the world is improving. However, areas of potential risk include the state of the European financial system, the impact of Japanese stimulus (Japan is the third-largest economy), political volatility and military unrest in the Middle East, and inflationary pressures in emerging markets (for example, India and Brazil).

Federal Budget and Debt Ceiling: In December 2013, Congress passed a budget deal that outlined funding for fiscal years 2014 and 2015. However, the December agreement did not address either long-term debt concerns or the debt ceiling. While an improving economy and fiscal austerity helped reduce the federal budget deficit, the long-term imbalance between federal revenues and outlays can only be addressed through fundamental reforms. In the near term, key fiscal policy risks persist as policymakers continue to develop a long-term solution.

The Low Rate Environment and Interest Rate Risk

The current interest rate environment – with short-term rates near zero and long-term rates at historic lows – is unprecedented. As a regulator, NCUA does not have a specific view on interest rates. Credit unions’ balance sheets should be robust to a wide variety of rate environments. However, there is much evidence to suggest that a rising and volatile interest rate environment is not only on the horizon, but is already underway. Therefore, credit unions should be particularly attuned to the risks of a rising rate environment.

In 2013, short-term rates were steady, but longer-term interest rates began increasing. The average rate on the 10-year Treasury rose nearly 120 basis points from December 2012 through December 2013. By the end of December, the 10-year rate rose above 3 percent for the first time in over two years.

The interest rate environment in 2014 and 2015 is likely to be marked by uncertainty and dominated by a transition to a more normal interest rate environment, including the impact of strategies the Federal Reserve might follow as the economy gets firmer footing. This transition period may have profound impacts on both the level of interest rates and the shape of the yield curve –the relative level of rates for short-term bonds versus longer-term bonds.

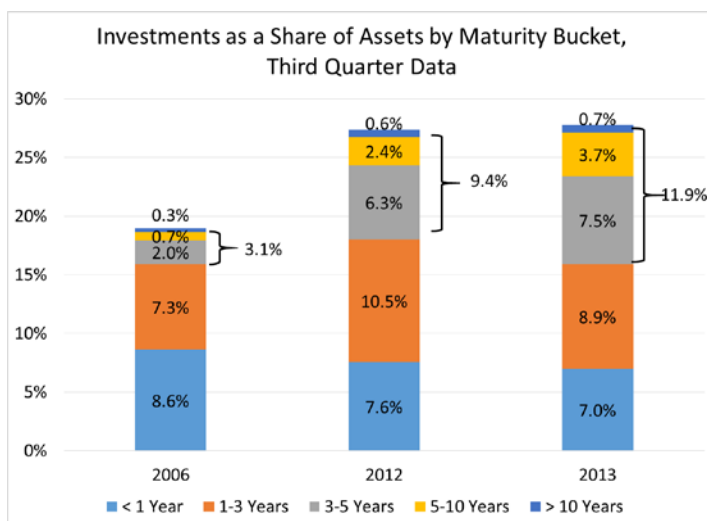
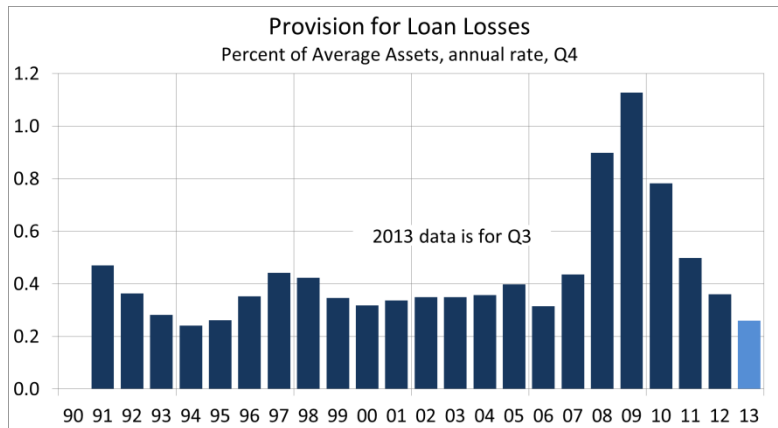
In its December 2013 meeting, the Federal Reserve announced its intention to start to “taper” its purchases of long-term securities. This decision suggests that the Federal Reserve will steadily decrease asset purchases through 2014. While tapering occurs, longer-term interest rates will likely rise, though the path may not be smooth. Short-term rates are likely to remain grounded in the near-term, because monetary policy is still quite accommodative. Recent Federal Reserve communications have softened the tie between an explicit unemployment rate threshold and changes in traditional monetary policy tools, in particular an increase in the federal funds rate. Nevertheless, at some point in the forecast period, the Federal Reserve is likely to adopt a less accommodative stance, resulting in rising short-term interest rates.

While the most recent professional forecasts available were made prior to the Federal Reserve’s tapering announcement, they still provide a general sense of how experts expect the interest rate environment to change. The December 2013 Wall Street Journal forecast consensus projects the rate on the 10-year Treasury note to be 3.8 percent at the end of 2014 – up about 90 basis points from a year earlier. Forecasters anticipate the 10-year Treasury note rate will continue to rise through 2017. Surveys of Federal Reserve policymakers show that the current consensus is that conditions will warrant increasing the federal funds rate starting in 2015. However, as in all issues related to interest rates, monetary policy may need to change in response to unanticipated events. As such, credit unions should be prepared for a wide variety of rate conditions.

The Low Interest Rate Environment and Reach for Yield Behavior

Over the past two years, credit union income and Return on Average Assets (ROAA) have increased despite a continued compression of net interest margins. Credit unions were able to increase earnings from other parts of their operations to increase total income. Over the past three years, non-interest income as a share of average assets has risen and non-interest expenses relative to assets have fallen. A crucial part of the improvement in ROAA is that provisions for loan losses have been falling

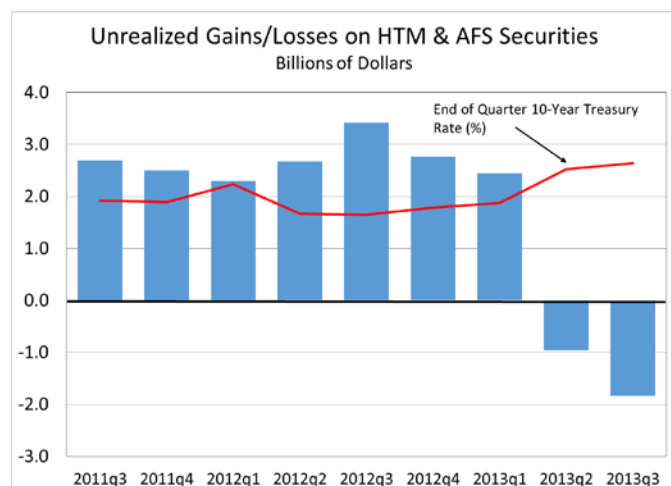
dramatically since 2009. From the end of 2009 to 2013Q3, provisions have fallen by almost 87 basis points as a share of average assets, while ROAA has risen by a little more than 62 basis points. Entering 2014, industry-wide provisions have returned to their pre-crisis level. Similarly, over the past year, trends in operating expenses and non-interest income have flattened and are not likely to be continued sources of net income growth for many credit unions.



Many credit unions appear to be using their investment portfolio – in particular, lengthening the term of investments – to boost earnings. This “reaching for yield” raises important concerns and can exacerbate interest rate risk and make the transition to a higher interest rate environment more difficult. As the adjacent figure indicates, over the business cycle, investments in total have increased, rising from under 20 percent of assets in 2006Q3 to nearly 28 percent today. During this same period, the share of investments with greater than three years’ maturity has increased dramatically, rising from 3 percent to 12 percent. Over the past year, total investments

have remained around 28 percent of assets. However, over the year, investments with a maturity of less than three years have fallen almost 11 percent – about \$20 billion – while investments with a maturity of more than three years have risen by 33 percent (a rise of a little more than \$30 billion). Moreover, even within these long-term investments, credit unions have been accumulating long-duration securities.

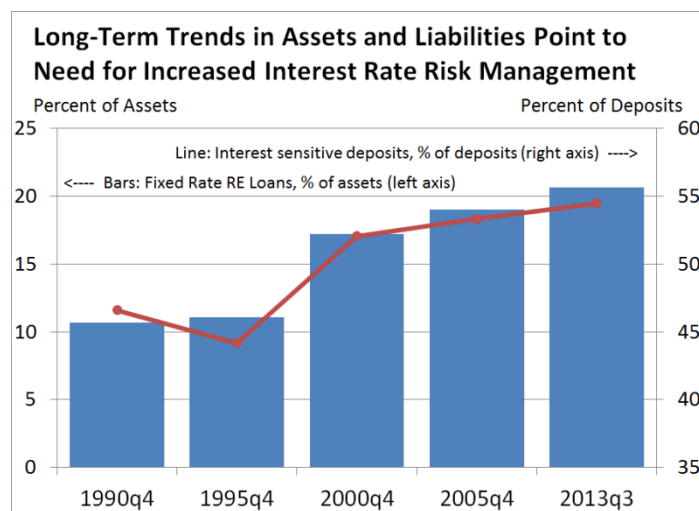
An early indication of the rate sensitivity of credit union investment portfolios can be observed in the impact of rising rates in 2013. The modest rise in interest rates in 2013Q2 and Q3 had a dramatic impact on unrealized gains and losses in credit union investment portfolios. Between 2013Q1 and 2013Q3, an unrealized gain of nearly \$2.5 billion turned into an unrealized loss of \$1.8 billion. If long-term rates rise as forecasted, unrealized losses are likely to grow even more during the next few years.



Implications of a Rising Rate Environment

While there is much uncertainty surrounding how and when the economy will transition to a more typical rate environment, it is clear the transition will be difficult for credit unions that have significant portfolios of fixed-rate assets and rate-sensitive deposits. Both of these have experienced substantial growth in recent years.

When short-term interest rates increase, credit unions generally raise deposit rates to match or exceed market rates; this is more pronounced in interest rate-sensitive accounts. In the current cycle, shares may be particularly rate-sensitive because of the dramatic share growth that has occurred over the past several years (an increase of 51 percent since the end of 2006). This growth has been concentrated in rate-sensitive categories of deposits and has been, in part, driven by flight to quality by members. This suggests that members may be more rate-sensitive and demand higher rates on deposits as the economy enters a period of rising rates.



At the same time, credit unions continue to increase the net long-term share of assets. While fixed-rate real estate has stabilized as a share of assets over the past few years, the extension of investment maturities has increased dramatically (see previous section).

In a rising rate environment, credit unions with rate-sensitive deposits and fixed-rate assets may come under multiple stresses as fixed-rate assets lose value, deposit rates rise, liquidity decreases and earnings are compressed by lower net interest margins.

A rising rate environment will result in higher mortgage rates, curbing demand for mortgage loans, in particular for refinancing. According to 2012 data collected for the Home Mortgage Disclosure Act, 75 percent (by dollar volume) of credit union mortgage lending in the year was refinancing loans. Call report data (which do not distinguish refinances from other real estate loan types) suggest that refinancing demand at credit unions has already started to decline; fixed-rate (including long-term balloon and hybrid loans), first lien real estate loan originations fell 20 percent during 2013Q3 and are down 16 percent relative to 2012Q3. The Mortgage Bankers Association's Applications Survey Activity Index shows refinance activity was down about 60 percent in 2013Q3 relative to the previous year. Credit unions that rely on mortgage refinancing may see income from refinancing drop as interest rates rise and demand for refinances declines.

Emerging Risk Areas for Credit Unions:

Cyber-security: As online and mobile transactions become increasingly integrated into consumers' interaction with financial institutions, the risk of hacking and fraud will become substantially higher. Credit unions will need to enhance the security of their systems to protect themselves and their members. A particular concern is that a credit union service organization is attacked, which could potentially compromise a large number of credit unions at once.

Lending trends: Increasing concentrations in new lending areas, including member business loans and private student loans, emphasize the need for long-term risk diversification and effective risk management tools and practices, along with expertise to properly manage increasing concentrations of risk.

Membership trends: Demographic and field of membership changes are likely to continue to result in declining membership at many credit unions (more than half of credit unions had negative membership growth in the year ending in 2013Q3). All credit unions need to consider whether their product mix is consistent with their members' needs and demographic profile.

Fiscal austerity: The Budget Control Act of 2011 enacted across-the-board spending cuts totaling more than \$1 trillion through 2021. While these have been partially offset by the recent budget deal, long-term trends suggest slow growth for the government sector as federal agencies downsize their workforces and buy fewer goods and services. Credit unions with fields of membership concentrated in federal employees or contractors may need to adapt to slower growth in their field of membership and potentially diminished income among current membership.

Consolidation trends: Technological and demographic changes, along with consumer preferences, are likely to continue to drive consolidation trends.

Alternative loan/depository institutions: New financial products that mimic deposit accounts are emerging. As these institutions and products gain popularity, credit unions may have to be more active in marketing and rethink their business models.