

Memorandum

SENT BY EMAIL

DATE: February 24, 2026

TO: The Honorable Kyle S. Hauptman, Chairman

FROM: Acting Inspector General Marta Erceg *Marta Erceg*
Office of the Inspector General

SUBJECT: Top Management and Performance Challenges Facing the National Credit Union Administration for 2026

The Inspector General is required by the Reports Consolidation Act of 2000, 31 U.S.C. § 3516, to provide an annual statement on the top management and performance challenges facing the agency and to briefly assess the agency's progress to address them. We identified the top challenges facing the National Credit Union Administration (NCUA) for 2026 based on our past and ongoing work, our knowledge of the NCUA's programs and operations, and information from the U.S. Government Accountability Office and NCUA management and staff. In determining whether to identify an issue as a challenge, we consider its significance in relation to the NCUA's mission, its susceptibility to fraud, waste, or abuse, and the NCUA's progress in addressing the challenge.

We identified five top challenges facing the NCUA as follows:

1. Balance Sheet Management
2. Redefining Regulatory and Supervisory Approaches
3. Cybersecurity – Protecting Systems and Data
4. Implementation of Artificial Intelligence
5. Agency Realignment

We believe our identification of top challenges will be beneficial and constructive for policy makers, including the NCUA and Congressional oversight bodies. We further hope that it is informative for the credit union industry regarding the NCUA's programs and operations and the challenges it faces.

Information on the challenge areas and related Office of Inspector General work products are found in the attachment. If you have any questions, please contact me or Annie Golden, Acting Deputy Inspector General.

Distribution

cc: Executive Director Larry Fazio
Acting Deputy Executive Director Kelly Lay
General Counsel Frank Kressman
Director, Office of External Affairs and Communications Sierra Robinson

Attachment

INTRODUCTION

Below is a brief overview of the NCUA's organizational structure, its mission, and vision, as well as details on each of the top management challenges the OIG identified for 2026.

Organizational Structure

The NCUA is an independent federal agency that insures deposits at all federal and most state-chartered credit unions and regulates federally chartered credit unions. A presidentially appointed three-member Board oversees the NCUA's operations by setting policy, approving budgets, and adopting rules.

Mission and Vision

The NCUA's mission is to protect the system of cooperative credit and its member-owners through effective chartering, supervision, regulation, and insurance. By doing so, the NCUA strengthens communities and protect consumers by ensuring equitable financial inclusion through a robust, safe, sound, and evolving credit union system. The NCUA protects the safety and soundness of the credit union system by identifying, monitoring and reducing risks to the National Credit Union Share Insurance Fund. Backed by the full faith and credit of the United States, the Share Insurance Fund provides up to \$250,000 of federal share insurance to millions of account holders in all federal credit unions and most state-chartered credit unions.

AGENCY CHALLENGES

Balance Sheet Management

The economic environment is a key determinant of credit union performance. The Federal Reserve's most recent Federal Open Market Committee statement indicated that inflation remains somewhat elevated and that uncertainty about the economic outlook remains elevated.

Consistent with this economic environment, the NCUA identified balance sheet management as one of its supervisory priorities for 2026. It noted that elevated funding costs, asset quality challenges, and structural liquidity constraints affect earnings and balance sheet resilience. It identified sensitivity to market risk, especially interest rate risk, and liquidity risk as key supervisory priorities. As credit unions continue to adjust to a higher-rate environment following an extended period of balance sheet expansion and repricing, those risks remain critical to monitor.

Credit unions must continue to be prudent and proactive in managing interest rate risk and the related risks to capital, asset quality, earnings, and liquidity. This is particularly the case

for those credit unions whose assets are concentrated in fixed-rate long-term mortgages that originated when interest rates were at record lows. Since April 2022, the NCUA has been using the revised CAMELS rating system that includes the S component (Sensitivity to Market Risk), which we believe has continued to help the agency focus on these risks to ensure they remain within safe and sound policy limits.

The NCUA also identified lending as a supervisory focus because loan performance has declined within federally insured credit union portfolios. We agree with the agency's focus on credit union lending and related risk-management practices, including reviewing the sufficiency of credit administration, portfolio monitoring, and assessing third-party risk management practices as appropriate.

The NCUA Central Liquidity Facility (CLF) improves general financial stability by providing credit unions with a source of loans to meet their liquidity needs and thereby encourage savings, support consumer and mortgage lending, and provide basic financial resources to all segments of the economy. Although the OIG's 2025 OIG audit on the NCUA CLF determined that the CLF was being utilized as evidenced by growth in CLF membership, the NCUA should continue to monitor activities to ensure resiliency as economic factors continue to change and may result in reduced liquidity and or system stress. This protection safeguards credit unions in times when liquidity needs threaten to disrupt credit unions' ability to provide basic financial resources to their members.

Redefining Regulatory and Supervisory Approaches

The NCUA's mission is to protect the safety and soundness of the credit union system by identifying, monitoring and reducing risks to the National Credit Union Share Insurance Fund. Key to that mission is the agency's risk-focused examination and supervision program to improve efficiency, prioritize material risks, and reduce unnecessary regulatory or administrative burden. The NCUA has proposed changing or removing regulations that are obsolete, duplicative of statutory requirements, intended to serve as guidance, not requirements, or overly burdensome, to align with Executive Order 14192, Unleashing Prosperity through Deregulation.

As far as new regulations, the NCUA will issue a new regulation to implement the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act, which requires financial regulators to issue implementing regulations for financial institutions' participation in the stablecoin market. The OIG's 2026 Work Plan identifies audits addressing these new developments, such as the NCUA's strategies related to crypto-asset risk.

In 2024, the OIG conducted an audit that determined that the NCUA was effective in establishing examination hours and had safeguards in place while appropriately managing

examination burden on credit unions. With the recent changes to examination scheduling and the reduction in NCUA examiners, the agency should monitor risk exposures to determine if a credit union's condition warrants more frequent examinations or supervision contacts.

As the NCUA seeks to increase the efficiency of examinations and reduce the burden on credit unions, and as credit unions pursue new technologies, the NCUA should ensure that examinations are at the right level to safeguard credit unions and determine how credit unions may engage in financial and technological innovation while ensuring that member deposits and the Share Insurance Fund are protected.

Cybersecurity – Protecting Systems and Data

Cybersecurity risks continue to remain a significant, persistent, and ever-changing threat to the financial sector. Credit unions' growing reliance on increasingly complex technology-related operating environments exposes the credit union system to escalating cyberattacks. Cyberattacks can affect the safety and soundness of credit unions and lead to their failure, thus causing losses to the NCUA's Share Insurance Fund. The prevalence of malware, ransomware, distributed denial of service attacks, and other forms of cyberattacks have caused challenges at credit unions of all sizes. Credit unions must continually evolve and adapt to counter these threats effectively, particularly because cyberattacks are likely to continue, and even accelerate, in the years ahead.

For 2026, the NCUA should continue to prioritize this area as a key examination focus and continue to assess whether credit unions have implemented robust information security programs to safeguard both members and the credit unions themselves. The NCUA should remain focused on advancing consistency, transparency, and accountability within its information technology and cybersecurity examination program. NCUA's supervisory priority of operational risk management related to payment systems identifies the growing number of cybersecurity breaches targeting payment systems.

The NCUA provided the Automated Cybersecurity Evaluation Toolbox (ACET) to credit unions to conduct a maturity assessment that measures their cybersecurity preparedness and identifies opportunities for improvement. In addition to encouraging credit unions to use ACET, the NCUA should continue to encourage credit unions to access the NCUA's cybersecurity resources webpage for cybersecurity information and resources.

The NCUA itself also should manage cybersecurity threats that could affect its ability to operate. The OIG's 2026 Annual Work Plan includes two audits to address cybersecurity-related issues. One will assess the agency's ransomware readiness and the other will determine whether the NCUA's information security examination program adequately assessed credit unions' information security and cybersecurity programs.

Implementation of Artificial Intelligence

The NCUA and other government agencies face the challenge of benefiting from the use of artificial intelligence (AI) while also addressing its risks. To reduce costs and improve efficiencies, a growing number of financial firms are using AI for tasks such as fraud prevention, customer service, and credit underwriting. However, the use of AI also introduces potential risks such as safety and soundness and consumer compliance risk. The Financial Stability Oversight Council, of which the NCUA Chairman is a member, recommends monitoring the rapid developments in AI, including generative AI, to ensure that oversight structures keep up with or stay ahead of emerging risks to the financial system while facilitating efficiency and innovation. To support this effort, the Council recommends financial institutions, market participants, and regulatory and supervisory authorities further build expertise and capacity to monitor AI innovation and usage and identify emerging risks. On January 22, 2025, NCUA Chairman Hauptman announced among his priorities promoting the appropriate use of AI as a tool for NCUA employees to enhance productivity and noting that regulators who use AI technologies are more apt to understand why regulated entities use them.

The NCUA is uniquely positioned to support or hinder innovative financial technologies in the credit union sector through fostering an environment that enables access to financial services and responsible innovation, which could include the use of AI by credit unions. To do so, the NCUA should continue to identify emerging trends, support the safe adoption of new technologies, and reduce unnecessary burdensome barriers to chartering, expansion, and service delivery while protecting the Share Insurance Fund and members.

In its September 2025 Artificial Intelligence Compliance Plan, the NCUA indicated it would focus on identifying AI tools of greatest utility to help the agency effectively and efficiently achieve its mission. NCUA must continue its efforts to manage the use of AI as required by the AI in Government Act of 2020 and Office of Management and Budget (OMB) Memorandum M-25-21, Accelerating Federal Use of AI through Innovation, Governance, and Public Trust. The NCUA should consider whether there are issues limiting the use of AI, such as an insufficient number of employees with specialized AI skills, concerns about risk management and data privacy, limited transparency from vendors on how they use AI, the cost of new technology, and the reliability of AI tools.

Prior to this, Executive Order 13960, Promoting the Use of Trustworthy Artificial Intelligence in the Federal Government (December 2020), recognized the broad applicability of AI to be used by agencies to improve operations, processes, and procedures, meet strategic goals, reduce costs, enhance oversight of the use of taxpayer funds, increase safety, train workforces, and support decision making. Agencies are encouraged to use AI appropriately to foster and maintain public trust and confidence. In July 2025, America's AI Action Plan was issued, which identified a need to accelerate AI innovation.

In February 2026, the NCUA issued an instruction with its AI policy that governs the use of AI and ensures AI technologies are used to improve the agency's regulatory activities, service delivery, and decision-making while maintaining public trust and upholding privacy, accessibility, and security standards.

The 2026 OIG Work Plan includes an audit on AI implementation.

Agency Realignment

The NCUA must maintain strong internal capabilities and performance to effectively carry out its statutory responsibilities. To do this, the NCUA should optimize enterprise systems and technology, align organizational structures with core responsibilities, and strengthen workforce capabilities to improve accountability, execution, and results.

Through the voluntary separation program, the agency reduced the number of employees by approximately 23 percent. The NCUA is redefining operations by simplifying policies, refining processes, aligning staff with strategic priorities, and modernizing tools and technologies to enable operational effectiveness and resources to meet statutory responsibilities. With the reduced workforce, the agency should continue to manage its exposure to risk and prioritize strengthening capabilities to continue to meet its mission.

The OIG's 2026 Work Plan identified proposed and mandated audits that evaluate the agency's abilities to support its mission effectively and manage its internal operations. Currently, the OIG is auditing the NCUA's enterprise risk management risk profiles, which address the NCUA's approach to analyzing risk to achieve its strategic objectives and options for addressing significant risks at the enterprise-level.

During this time of change, agency should focus on its operations to support the NCUA mission to enable access to financial services by facilitating safe, sound, and resilient credit unions.