

The background of the slide is a close-up, slightly blurred image of the United States flag. The stars and stripes are visible, with the blue field of stars in the upper left and the red and white stripes in the lower right.

**National Credit Union  
Administration  
Annual Performance  
Budget 2006**

# NCUA Annual Performance Budget 2006

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## NCUA Annual Performance Budget 2006

### Message from the NCUA Board

We are pleased to present the National Credit Union Administration's (NCUA) Annual Performance Budget 2006. It is our first Annual Performance Budget under NCUA Strategic Plan 2006-2011. NCUA Annual Performance Budget 2006 sets into place our road map for the year and focuses our efforts on those areas of risk identified during our annual performance budgeting process.

2005 was another good year for the credit union system with loans increasing 10.6% to \$458.2 billion, shares increasing 3.8% \$577.4 billion, assets increasing 4.9% to \$678.7 billion and membership increasing to 84.8 million members. 2006 will hold many opportunities for the credit union system to enhance its delivery of products and services to members. In so doing, the credit union system will be pressured to continually adapt their processes, products and service to keep pace with member needs and compete in the dynamic financial services environment.

The need for the credit union system to continually adapt and evolve presents NCUA and credit unions with many challenges. However, we are confident that together we'll meet these challenges through the collective and cooperative efforts of the entire credit union community. To provide the necessary oversight, we will focus our efforts on mitigating those potential emerging risks, facilitating access to members and especially those of modest means, ensuring regulatory compliance and maintaining a flexible regulatory environment while ensuring credit union system safety and soundness.

Throughout the coming year we will focus on the accomplishment of our safety and soundness mission. We shall also continue to focus on becoming more responsive to the changes in the credit union system and being more business oriented and attuned to the evolutionary changes taking place across the nation. In this way, we can ensure that the credit union system not only survives but thrives in providing prudent financial services to all eligible members.



JoAnn Johnson  
Chairman



Rodney E. Hood  
Vice Chairman



Gigi Hyland  
Board Member

# NCUA Annual Performance Budget 2006

## Introduction

NCUA is the independent federal agency that charters and supervises federal credit unions, and, through the National Credit Union Share Insurance Fund (NCUSIF), insures a majority of member deposits held in the nation's credit unions. NCUA insures member deposits in all federally chartered credit unions and approximately 90 percent of the state chartered credit unions. As such, we work in cooperation with the state supervisory authorities (SSA) to maintain the safety and soundness of those credit unions insured by the NCUSIF but primarily subject to the regulatory authority of the states. Our regulatory and oversight responsibilities are entirely funded by federally insured credit unions; receiving no federal tax dollars in the execution of our chartering, supervision and enforcement mission.

## Strategic Overview

The NCUA mission and vision drive its operations and serve as the foundation of its existence.

### Mission

Facilitate the availability of credit union services to all eligible consumers, especially those of modest means, through a regulatory environment that fosters a safe and sound credit union system.

### Vision

A dynamic, self-sustaining, cooperative credit union system that offers financial services to all eligible consumers.

The NCUA workforce is directly responsible for the achievement of the mission, vision and strategic goals and as such the workforce is the agency's greatest asset. To ensure the quality of this workforce and mission accomplishment, NCUA uses equal employment opportunities to attract, develop and retain the most qualified personnel. As a result, the NCUA workforce and thus NCUA operations are value driven. These internal values guide NCUA's workforce by providing a constant set of operating principles, even as the operating environment changes.

### Values

**Integrity** – Maintaining open and honest communication and delivering promises as intended.

**Respect** – Treating each other, credit unions and other industry representatives as we wish to be treated.

**Accountability** – Holding ourselves accountable for quality and timely delivery of our commitments.

**Team Oriented** – Working cooperatively and collaboratively toward a shared vision.

The NCUA strategic goals serve as tangible outcomes indicating mission and vision accomplishment.

### Strategic Goals

**Goal 1:** A safe, sound and healthy credit union system.

**Goal 2:** Access to financial services offered by federally insured credit unions for all eligible consumers throughout the United States.

**Goal 3:** A prudent, flexible and efficient regulatory environment for all federally insured credit unions.

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### Performance Planning and Budgeting Documents

NCUA utilizes a planning and budgeting process that incorporates three key planning instruments used to document its efforts. The following is an overview of the three performance planning documents and how they interrelate:

1. **Strategic Plans** are long-term, identify available resources and provide broad general guidance (mission, vision and goals) which serve to focus the agency on the purpose for which it was created.
2. **Annual Performance Budgets** are developed every year to establish near-term agency-wide performance goals and strategies. These may change annually and are designed to compliment the overall agency goals outlined in the strategic plan. Annual performance budgets serve to focus the agency on the emerging environmental issues and risks that could potentially impact mission accomplishment. They permit the fine-tuning of strategies and resource allocation.
3. **Regional and Office Annual Operating Plans** serve as line level action plans. The individual offices and regions lay out the tactical steps and resources necessary to ensure completion of their part of the overall agency mission. The agency-wide annual performance goals and strategies are thus achieved through the collective efforts of each office and region.

### Performance Outcome Measurement

For each of the three performance planning and budgeting documents, specific outcomes are established to measure the agency's effectiveness at meeting its overall planning objectives. Specific measures or indicators of success are identified for each outcome to validate and document achievement, but more importantly to serve as a basis for analysis to guide improvement of agency operations.

- At the **Strategic Plan** level, the outcome measures determine if broad categories of risks are effectively identified and mitigated over the long-term.
- At the **Annual Performance Budget** level, the outcome measures determine if the identified current and emerging focus areas are effectively identified and mitigated.
- At the **Region and Office Annual Operating Plan** level, the outcome measures determine if the specific tactical steps necessary for annual goal accomplishment are achieved.

The measures at each level are initially established after considering historical performance as well as any internal or external factors impacting the performance level as outlined in the Planning Factors section of this document. They are updated over time using the analysis of the performance data challenging and stretching NCUA to continually improve its operational effectiveness and efficiency.

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### Means and Strategies

Means are those elements that are used to execute the tactical steps at the Region and Office Operating Plan level. NCUA utilizes five means in the performance of its mission:

- Human capital
- Operating capital
- Information technology
- Organizational structure and
- Flexible examination and supervision programs.

NCUA also depends on and works cooperatively with State Supervisory Authority (SSA) staff in achieving the goals in relation to the federally insured state-chartered credit unions.

Strategies determine how the means are to be utilized and directly impact the agency's overall efficiency and effectiveness. NCUA utilizes the following strategies:

- Monitoring and adjusting examination and oversight procedures
- Identifying emerging risks and future risk areas
- Sharing information
- Managing the Central Liquidity Facility fund
- Providing financial and technical assistance
- Monitoring and adjusting all aspects of operations and
- Overseeing member protections

Additional detail NCUA long-term means and strategies is available in NCUA Strategic Plan 2006-2011.

Human capital and information technology, two of the NCUA means, have been specifically identified as being critical to an agency's mission accomplishment and more detailed discussion of their employment is required by regulation. Appendices A– Human Capital Management and B– Information Technology Management are provided to outline and thus emphasize the critical nature of their functions.

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### Strategic Goal Resource Allocation

In the Annual Performance Budget, resources are allocated proportional to existing and emerging risks based on their potential impact on goal achievement. It begins with a bottom up zero based budget development process and ends with the development and issuance of the NCUA Planning Guidance Letter which contains the business objectives or priorities established by the Executive Director and the Strategic Management Council. Based on this process, Strategic Goal 1 is allocated the most resources (both full-time equivalents and dollars) followed by Strategic goals 2 and 3 respectively.

During the development of NCUA Strategic Plan 2006-2011, NCUA simplified the plan from five strategic goals to three. As a result, the methodology used to allocate resources to our strategic goals was changed<sup>1</sup>. The resource allocation in the chart below reflects the new methodology beginning with 2005.

<b>Strategic Goal 1</b> <i>A safe, sound and healthy credit union system.</i> Resource Allocation						
	2001	2002	2003	2004	Est. 2005	Est. 2006
Budgeted FTE	847.67	744.22	747.88	712.46	831.98	833.28
Actual FTE	814.58	709.13	686.66	656.35	804.59	N/A
Budgeted Dollars	\$115,931,302	\$109,923,710	\$112,510,524	\$110,887,609	\$128,130,015	\$131,330,131
Actual Dollars	\$109,234,609	\$99,125,843	\$99,525,336	\$97,487,328	\$121,481,311*	N/A

<b>Strategic Goal 2</b> <i>Access to financial services offered by federally insured credit unions for all eligible consumers throughout the United States.</i> Resource Allocation						
	2001	2002	2003	2004	Est. 2005	Est. 2006
Budgeted FTE	142.08	169.59	143.56	174.35	90.21	86.34
Actual FTE	137.71	161.52	162.02	167.46	80.28	N/A
Budgeted Dollars	\$19,330,303	\$25,031,968	\$21,596,085	\$27,136,472	\$13,319,653	\$13,608,184
Actual Dollars	\$18,369,539	\$22,577,487	\$23,483,483	\$24,872,064	\$12,628,492*	N/A

<b>Strategic Goal 3</b> <i>A prudent, flexible and efficient regulatory environment for all federally insured credit unions.</i> Resource Allocation						
	2001	2002	2003	2004	Est. 2005	Est. 2006
Budgeted FTE	39.01	81.38	79.59	76.48	37.26	36.80
Actual FTE	37.88	87.65	77.97	75.21	35.21	N/A
Budgeted Dollars	\$5,306,975	\$12,011,783	\$11,973,103	\$11,903,511	\$5,738,138	\$5,800,210
Actual Dollars	\$5,052,449	\$12,250,912	\$11,301,731	\$11,170,984	\$5,440,384*	N/A

\* - Annualized

<sup>1</sup> The methodology uses available field staff hours reported by time code to allocate FTE to each strategic goal. Field staff is primarily involved in safety and soundness, thus the higher percentage allocation to Strategic Goal 1. For support offices without available time codes, FTE are allocated to the three goals proportionately with the field staff allocation. The exceptions to the proportionate allocation are: Regional Division of Insurance staff and the Office of Small Credit Union Initiatives – Goal 2 and the Office of General Counsel – Goal 3. The work performed by these offices is more directly related to a particular goal.

## NCUA Annual Performance Budget 2006

### NCUA Internal Measures of Performance

NCUA Strategic and Annual Performance Goals primarily focus the agency on the external credit union system. However, for NCUA to continually improve and enhance its ability to serve as a good steward of the credit union funds with which it is entrusted, it must look internally as well. During the development of NCUA Strategic Plan 2006-2011 and Annual Performance Budget 2006, a few key internal processes were identified as impacting NCUA ability to effectively achieve our goals in the coming years. These include:

- Attaining the power of vendor review authority to more effectively monitor the risks associated with third party vendors;
- Sharing of information through “knowledge management” to improve the identification and management of risks; and
- Identifying leading indicators through enhanced model development, early warning systems and economic functions.

These are examples of ways we believe we can improve our effectiveness. The adoption of these areas alone will not ensure goal attainment, but likely will impact the efficiency of NCUA operations. As NCUA strives to improve its operation, it must measure its progress to ensure its resources are being utilized wisely. NCUA efficiency measures are indicated below:

NCUA Efficiency Indicators					
Indicator 1 – Overall Agency Efficiency	Percentage of total NCUA operating expenses to total federally insured credit union assets				
Desired Level	Reduce from prior year				
Historical Performance					
2001	2002	2003	2004	2005	Est. 2006
0.026%	0.024%	0.022%	0.021%	0.020%	0.019%
Indicator 2 – Regulatory and Supervision Efficiency	NCUA full time equivalent (FTE) hours per million federally insured credit union assets examined				
Desired Level	Reduce from prior year				
Historical Performance					
2001	2002	2003	2004	2005	Est. 2006
1.18	1.19	0.96	0.89	0.88	0.87
Indicator 3 – Field Unit Efficiency	Total shares of federally insured credit unions rated an overall CAMEL 1 or 2 per total number NCUA FTE (in millions)				
Desired Level	Increase from prior year				
Historical Performance					
2001	2002	2003	2004	2005	Est. 2006
403.7	467.3	529.9	564.0	584.4	590

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### Planning Factors

NCUA begins each planning cycle with strategic level discussions and analyses regarding various factors which could potentially impact mission and goal achievement. Key planning factors are identified and are used to develop the goals, the supporting means and strategies and the measures of success at all levels of the operation.

NCUA senior level managers developed NCUA Annual Performance Budget 2006 goals using Board guidance. They reviewed and identified several factors which may impact the environment in which credit unions and NCUA will operate in 2006. The NCUA risk focused examination and supervision programs are essential to effectively and efficiently controlling the associated risks. The following lists each annual performance goal and provides an overview of the planning factor(s) which led to the development of the goal.

### Annual Performance Goal 1.1 – Institutional risks are effectively managed (*Reputation, Strategic, Transaction and Compliance Risks*)

**System Trends** – System trends directly impact NCUA goal and mission accomplishment through their associated risks. Current trends that could potentially impact goal accomplishment include:

- System consolidation
- Increasing complexity of products and services

Success will be measured through the percentage of credit unions with low or moderate strategic and/or reputation risk ratings as well as the CAMEL “Management” rating. Both provide indicators of a credit union’s ability to manage change. To ensure problems are resolved in a timely manner, the level and duration of problem credit unions will also be measured.

**Technological Outlook** - Information technology (IT) has moved from being simply a business enabler to being a business driver to increase efficiency and effectiveness. However, its use provides risks as well.

- System cost-benefits
- Privacy and protection of member information
- System security

Success will be measured through the percentage of credit unions with low or moderate reputation and/or transaction risk ratings which provides an indicator of a credit union’s ability to monitor and control the risk associated with IT activities.

**Compliance Impact** – The evolving regulatory environment dictates increased emphasis on compliance actions due to the potential for substantial reputation and possible financial risk. Significant regulatory actions included:

- Bank Secrecy Act and USA PATRIOT Act
- Home Mortgage Disclosure Act (HMDA)

Success will be measured through the percentage of credit unions with low or moderate compliance risk ratings which provides a direct indicator of risks present in the compliance area.

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### Annual Performance Goal 1.2 – Balance sheets are optimally structured (Liquidity and Interest Rate Risks)

**Economic Outlook** – The current economic environment will present challenges for the credit union system and NCUA as a result of potential earnings and liquidity squeeze. Events directly impacting the economic outlook are as follows:

- The recent flattening of the yield curve
- The consecutive Federal Reserve interest rate increases
- The resulting potential to chase yield

Success will be measured through the percentage of credit unions with low or moderate liquidity and/or interest rate risk ratings as well as strong component CAMEL ratings in “Liquidity/Asset Liability Management” and “Earnings.”

### Annual Performance Goal 1.3 – Credit risks are identified and resolved in a timely manner

**Credit Trends** – Increased lending competition and a low rate environment in recent years has resulted in a growing supply of non-traditional and exotic loan products and an unprecedented access to credit to those who previously would not have been granted access. The current rising interest rate market will challenge credit unions’ ability to effectively measure, monitor and control the associated risks. Some programs that will bear watching include:

- Indirect loans and sub-prime loans
- Loan participations
- Interest-only and other exotic loan products

Success will be measured through the percentage of credit unions with low or moderate credit risk ratings as well as the percentage of credit unions with strong component CAMEL ratings in “Asset Quality.” Both provide indicators of a credit union’s ability to manage the risk associated with non-traditional lending activities.

### Annual Performance Goal 2.1 – Optimal financial access opportunities for people of lesser means

### Annual Performance Goal 2.2 – Community investment through improved savings rates, home ownership and small business opportunities

**Social and Demographic Outlook** – The current and potential market pools of the financial services industry is evolving due to the significant demographic changes taking place across the nation. These changes offer both challenge and opportunity for the credit union system as the changes point the way toward sources of potential growth and increased delivery of products and services. Some of these changes include:

- Aging adults
- Increasing numbers of minorities
- Shifting populations
- Shifting of wealth

Success will be measured through growth in membership, assets, shares and loans.

Success will also be measured through growth in savings rates, home ownership and small business opportunities.

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### Annual Performance Goal 3.1 – Credit union growth and development through regulatory measures

***Political and Legislative Outlook*** - Recent approved and proposed legislation trend toward providing more flexibility for credit unions allowing them to effectively and efficiently compete. Pending regulation or regulatory relief actions that could impact the credit union system includes:

- H.R. 1375 -Financial Services Regulatory Relief Act of 2003
- CURIA - Credit Union Regulatory Improvement Act
- Prompt Corrective Action (PCA) and RegFlex reform

Success will be measured through growth in the number of credit unions offering various products and services which provides an indicator of increased competitiveness in the financial services industry.

## NCUA Annual Performance Budget 2006

### 2006 Performance Goals

#### **Strategic Goal 1**

A safe, sound and healthy credit union system.

##### Overview:

As the environment in which credit unions operate changes, the associated risks also change. To ensure a safe, sound and healthy credit union system, credit unions must effectively monitor and control risks. While financial risks such as interest rate and credit risks remain a priority, institutional risks such as compliance and reputation risks are becoming increasingly important.

##### Key Strategies:

- Improve credit union compliance with the Bank Secrecy Act/USA Patriot Act and the Home Mortgage Disclosure Act (HMDA);
- Improve credit union information technology management systems and controls;
- Enhance credit union due diligence;
- Improve the management of market risks (credit, interest rate and liquidity) resulting from all lending and investment activities; and
- Tailor examiner training and guidance to address areas of risk.

Strategic Indicator 1.1	Percentage of adequately and well-capitalized FICUs to all FICUs				
Desired Level 1.1	Maintain above 98 percent				
Historical Performance					
2001	2002	2003	2004	2005	Est. 2006
98.48%	98.82%	98.75%	98.97%	99.11%	99%

Strategic Indicator 1.2	Percentage of FICU assets with a CAMEL rating of 1 or 2				
Desired Level 1.2	Maintain above 90 percent				
Historical Performance					
2001	2002	2003	2004	2005	Est. 2006
94.58%	94.66%	94.28%	92.22%	93.78%	93%

Strategic Indicator 1.3	The corporate credit union system's capital ratio				
Desired Level 1.3	Improve from prior year				
Historical Performance					
2001	2002	2003	2004	2005	Est. 2006
6.66%	6.66%	6.46%	7.01%	7.25%	7.35%

Strategic Indicator 1.4	Percentage of corporate credit unions with a CRIS Risk Management rating of 1 and 2				
Desired Level 1.4	Maintain above 75 percent				
Historical Performance					
2001	2002	2003	2004	2005	Est. 2006
86%	88%	85%	77%	78%	78%

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<b>Annual Performance Goal 1.1</b> <b>Institutional risks are effectively managed.</b>
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Annual Indicator 1.1.1	The percentage of all FICU assets with a CAMEL "Management" rating of 1 or 2				
Desired Level 1.1.1	Maintain above 88 percent				
Historical Performance					
2001	2002	2003	2004	2005	Est. 2006
93.52%	93.61%	92.82%	91.02%	91.01%	90%

Annual Indicator 1.1.2	The percentage of FICU assets with low or moderate risk ratings in the four institutional risk areas					
Desired Level 1.1.2	Maintain an average for the four risk areas of at least 90 percent					
Historical Performance						
Risk	2001	2002	2003	2004	2005	Est. 2006
Reputation	N/A	N/A	98.27%	98.85%	97.19%	97%
Strategic	N/A	N/A	94.58%	92.59%	94.23%	92%
Transaction	N/A	N/A	97.65%	97.97%	97.08%	97%
Compliance	N/A	N/A	98.33%	97.53%	87.69%	88%
<i>Average</i>	<i>N/A</i>	<i>N/A</i>	<i>97.21%</i>	<i>96.74%</i>	<i>94.05%</i>	<i>93.50%</i>

Annual Indicator 1.1.3	The percentage of FICUs that remain a CAMEL 4 or 5 for more than 12 months				
Desired Level 1.1.3	Maintain below 2 percent				
Historical Performance					
2001	2002	2003	2004	2005	Est. 2006
N/A	N/A	0.82%	1.02%	1.20%	1.20%

<b>Annual Performance Goal 1.2</b> <b>Balance sheets are optimally structured.</b>
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Annual Indicator 1.2.1	The percentage of FICU assets with low or moderate interest rate risk ratings				
Desired Level 1.2.1	Maintain above 90 percent				
Historical Performance					
2001	2002	2003	2004	2005	Est. 2006
N/A	N/A	92.00%	92.90%	95.30%	93%

Annual Indicator 1.2.2	The percentage of FICU assets with low or moderate liquidity risk ratings				
Desired Level 1.2.2	Maintain above 95 percent				
Historical Performance					
2001	2002	2003	2004	2005	Est. 2006
N/A	N/A	97.84%	97.59%	96.15%	96%

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Annual Indicator 1.2.3	The percentage FICU assets with a CAMEL “Liquidity/Asset Liability Management” rating of 1 or 2				
Desired Level 1.2.3	Maintain above 90 percent				
Historical Performance					
2001	2002	2003	2004	2005	Est. 2006
90.65%	93.52%	93.43%	91.07%	93.79%	91%

Annual Indicator 1.2.4	The percentage of FICU assets with a CAMEL “Earnings” rating of 1 or 2				
Desired Level 1.2.4	Maintain above 75 percent				
Historical Performance					
2001	2002	2003	2004	2005	Est. 2006
81.38%	82.61%	93.61%	79.96%	79.82%	79%

### Annual Performance Goal 1.3 Credit risks are identified and resolved in a timely manner.

Annual Indicator 1.3.1	The percentage of FICU assets with low or moderate credit risk ratings				
Desired Level 1.3.1	Maintain above 90 percent				
Historical Performance					
2001	2002	2003	2004	2005	Est. 2006
N/A	N/A	93.63%	93.53%	92.86%	93%

Annual Indicator 1.3.2	The percentage of FICU assets with a CAMEL “Asset Quality” rating of 1 or 2				
Desired Level 1.3.2	Maintain above 90 percent				
Historical Performance					
2001	2002	2003	2004	2005	Est. 2006
94.42%	93.45%	92.18%	91.66%	90.91%	90%

### Strategic Goal 2 Access to financial services offered by federally insured credit unions for all eligible consumers throughout the United States.

#### Overview:

As the demographic makeup of the U.S. population continues to change, it becomes increasingly important for credit unions to reach out to a new and different generation of members in order to provide financial access to all. Credit unions with their “not for profit”, pro consumer emphasis are uniquely positioned to provide financial services to people in the greatest need of these services. Increasing financial access has the added benefit of ensuring the continued vitality of the credit union system.

#### Key Strategies:

- Promote credit unions’ historical pro-consumer emphasis;
- Facilitate financial literacy and credit union outreach initiatives;
- Identify successful credit union business practices and provide examples during presentations and conferences; and
- Evaluate credit union strategic planning processes for strategies addressing demographic changes.

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Strategic Indicator 2.1		Percentage increase in total FICU membership, assets, shares and loans				
Desired Level 2.1		Increase by at least the average rate of growth for the prior two years				
Historical Performance						
All FICUs	2001	2002	2003	2004	2005	Est. 2006
Membership	2.28%	2.02%	1.85%	1.38%	1.49%	1.44%
Assets	14.5%	11.1%	9.51%	6.04%	4.90%	5.47%
Loans	7.01%	6.28%	9.75%	10.1%	10.62%	10.32%
Shares	15.26%	10.77%	9.11%	5.26%	3.83%	4.55%

**Annual Performance Goal 2.1**  
Optimal financial access opportunities for people of lesser means.

Annual Indicator 2.1.1		Growth of low-income designated credit unions' membership, assets, shares and loans compared to all FICUs				
Desired Level 2.1.1		Membership growth of at least 4 times the rate of all FICUs and asset, share and loan growth of at least 1.25 times the rate of all FICUs				
Historical Performance						
	2001	2002	2003	2004	2005	Est. 2006
Low Income Membership	23.9%	14.3%	10.1%	17.8%	7.57%	4 times
<i>All Membership</i>	<i>2.28%</i>	<i>2.02%</i>	<i>1.85%</i>	<i>1.38%</i>	<i>1.49%</i>	
Low Income Assets	36.0%	19.6%	18.3%	22.2%	11.66%	1.25 times
<i>All Assets</i>	<i>14.5%</i>	<i>11.1%</i>	<i>9.51%</i>	<i>6.04%</i>	<i>4.90%</i>	
Low Income Loans	27.2%	17.5%	17.4%	26.6%	15.05%	1.25 times
<i>All Loans</i>	<i>7.01%</i>	<i>6.28%</i>	<i>9.75%</i>	<i>10.1%</i>	<i>10.62%</i>	
Low Income Shares	37.1%	19.2%	18.2%	21.7%	10.75%	1.25 times
<i>All Shares</i>	<i>15.3%</i>	<i>10.8%</i>	<i>9.11%</i>	<i>5.26%</i>	<i>3.83%</i>	

**Annual Performance Goal 2.2**  
Community investment through improved savings rates, home ownership and small business opportunities.

Annual Indicator 2.2.1		Percentage increase in the number of share, first mortgage and member business loan accounts				
Desired Level 2.2.1		Improve from prior year				
Historical Performance						
FCU Average	2001	2002	2003	2004	2005	Est. 2006
Share balance	1.03%	2.23%	4.30%	2.28%	4.71%	3.00%
1 <sup>st</sup> Mortgage balance	2.45%	7.76%	11.51%	3.16%	5.85%	5.00%
Business Loan balance	Not Available	8.97%	22.34%	22.42%	30.46%	20.0%

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<b>Strategic Goal 3</b> A prudent, flexible and efficient regulatory environment for all federally insured credit unions.
<b>Overview:</b>
As the financial services operating environment becomes increasingly competitive, NCUA's regulatory role becomes increasingly important. Facilitation of a flexible regulatory environment assists and enables the credit union system's growth and development.
<b>Key Strategies:</b>
<ul style="list-style-type: none"> <li>• RegFlex and Prompt Corrective Action (PCA) reform; and</li> <li>• Review one-third of NCUA Rules and Regulations annually for necessary changes.</li> </ul>

Strategic Indicator 3.1	Percentage of the credit union system's market share of federally insured assets <sup>2</sup> and consumer credit <sup>3</sup>					
Desired Level 3.1	Improve or maintain from prior year					
Historical Performance						
All FICUs	2001	2002	2003	2004	2005	Est. 2006
Percent insured assets	5.99%	6.20%	6.30%	6.02%	5.95%	6.00%
Percent consumer credit	10.13%	10.01%	10.06%	10.06%	10.25%	10.26%

<b>Annual Performance Goal 3.1</b> Credit union growth and development through regulatory measures.
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Annual Indicator 3.1.1	Percentage of FICUs involved in various products and services					
Desired Level 3.1.1	Improve from prior year					
Historical Performance						
All FICUs	2001	2002	2003	2004	2005	Est. 2006
Real Estate Loans	64.05%	65.17%	66.23%	67.58%	68.72%	69.00%
Member Business Lending	15.37%	16.40%	17.43%	18.66%	21.20%	22.00%
Transactional Websites	21.09%	28.59%	35.57%	40.75%	47.21%	50.00%

<sup>2</sup> Market share is based on the percentage of federally insured assets held by credit unions in relation to all federally insured assets – both NCUA and FDIC insured assets.

<sup>3</sup> Consumer credit is based on the percentage of revolving and non-revolving credit held by credit unions in relation to all revolving and non-revolving credit outstanding. Consumer credit includes credit held by the following - commercial banks, finance companies, credit unions, federal government, savings institutions, and pools of securitized assets. This information is released monthly by the Federal Reserve.

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### Program Evaluations

NCUA uses program evaluations performed both within and outside the agency to improve and enhance our operations and planning processes. NCUA Strategic Plan 2006-2011 contains a listing and description of recurring internal and external evaluations performed.

In 2004, the Office of Management and Budget (OMB) completed a Program Assessment Rating Tool Evaluation (PART) of the Community Development Revolving Loan Fund. The PART review identified the following recommendations:

- Develop long-term performance measures to evaluate how credit unions serving low-income members are contributing to increasing income, ownership and employment opportunities.
- Revise current annual performance measures, linking the performance of credit unions that serve low-income members to the performance of all credit unions.

Both recommendations were incorporated into Strategic Goal 2 and its supporting goals and measures.

During 2005, OMB conducted a PART of NCUA's Regulatory Program. NCUA received a rating of "Effective" – the highest possible rating. The final report of this assessment is expected to be released in 2006.

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## Appendix A- Human Capital Management

NCUA's Human Capital Management Plan, as required by the President's Management Agenda and the Office of Personnel Management, is updated each year to address our human capital needs. The Human Capital Management Plan supports agency annual performance goals by providing the means necessary for goal achievement. The following is an overview of key human capital goals and strategies for 2006.

### Human Capital Management Mission and Vision

#### Mission

Recruit, develop and retain highly skilled, high-performance leaders and employees who work together to achieve NCUA's mission critical goals.

#### Vision

NCUA – A model employer for the 21<sup>st</sup> century where human capital objectives are innate to our daily operations.

### Human Capital Management Strategic Goals and Strategies

**Strategic Goal 1:** Align human capital policies with strategic goals.

#### Strategies

- Maintain explicit and well-communicated links between human resource strategies and the agency's strategic objectives.
- Maintain an optimal human capital structure to support NCUA's mission.
- Maintain an active focus on NCUA succession-planning needs.
- Ensure employee understanding and involvement in the strategic planning process.

**Strategic Goal 2:** Recruit, develop and retain employees with strategic competencies.

#### Strategies

- Recruit high-quality new hires.
- Achieve required competency levels in mission critical occupations.
- Meet projected recruitment and retention rates for staff with strategic competencies.

**Strategic Goal 3:** Inspire and guide achievement of strategic goals in a high-quality work environment.

#### Strategies

- Recruit, develop and retain high-performing leaders, who motivate and inspire commitment in the workforce.
- Ensure leaders promote high standards of honesty and integrity by serving as models to the entire workforce.

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**Strategic Goal 4:** Develop and maintain a high-performance organizational culture.

### **Strategies**

- Develop, reward and retain high performers while dealing effectively and efficiently with poor performers.
- Engage and focus employees on the high standards and optimum results expected.
- Foster a climate that values diversity.

**Strategic Goal 5:** Create and promote a culture of continuous learning.

### **Strategies**

- Develop and use knowledge management systems and/or strategies.
- Invest strategically in training and development opportunities for all employees.
- Promote learning and growth throughout the agency.

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## Appendix B – Information Technology Management

NCUA's Information Technology Plan, as required by the President's Management Agenda and the Office of Personnel Management, provides the means and strategies by which we use information technology to support goal achievement. These concepts, ideas, and elements address NCUA's use of information technology, as opposed to addressing credit union use of information technology. The following is an overview of key information technology goals and strategies for 2006.

### Information Technology Management Mission and Vision

#### Mission

Provide agency staff and external customers with quality information technology products and services that foster effective and efficient operations and support the mission of NCUA.

#### Vision

To be a leader in government and serve as a model to the credit union industry in the delivery of timely, accurate and complete information technology resources, products and services.

### Information Technology Management Strategic Goals and Strategies

#### Strategic Goals

**Goal 1:** Maintain a reliable, scalable and secure infrastructure and architecture.

**Goal 2:** Develop cost effective and efficient information technology systems to achieve program support and program business objectives.

**Goal 3:** Provide technologies to enhance current and future business processes.

#### Strategies

- Targeting personnel skills (NCUA & Contract).
- Targeting skills training.
- Obtaining and maintaining optimal hardware and software systems.
- Obtaining and maintaining optimal hardware and software applications.
- Maintaining effective, efficient and secure Intranet and Internet operations.

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## Enterprise Architecture Analysis

As required by the Clinger-Cohen Act, NCUA maintains an “Enterprise Architecture” which defines the current and future information technology environment. The difference between the current and future (target) environment is used as the basis for the development of our strategic and annual performance goals.

### Current Environment

<b>Work Processes and Information Sets Used:</b>	
Core programs such as examinations, liquidations and loan funds	Financial and management data, personnel resource execution data and regional and national trend information.
Financial management program	Accounting, budgeting, travel, expense and other financial data.
Human capital management program	Personnel management and life cycle information.
<b>Custom Applications, Software and Web-based Environments:</b>	
The core custom applications maintain chartering, examination and financial data stored in the central office database.	
Software included on all client computers: Microsoft Windows 2000, Microsoft Office XP, Microsoft Outlook, and Microsoft Internet Explorer. Agency servers are configured with either Microsoft Windows NT Server or Microsoft Windows 2000 Server operating system. An enterprise resource planning software package is used to manage the agency’s core financial processes.	
NCUA serves various customers with the following Web-based environments:	
<ul style="list-style-type: none"> <li>• Intranet – NCUA employees and state regulators</li> <li>• Extranet – credit unions with Verisign Certificates</li> <li>• Internet (<a href="http://www.ncua.gov">www.ncua.gov</a>) – all interest parties</li> </ul>	
<b>Hardware:</b>	
A single end-user computing platform for all users: the Compaq Evo N800c notebook computer. Servers are all Compaq Proliants which are periodically upgraded or replaced.	
<b>Communications:</b>	
Five Local Area Networks, all connected through the agency Wide Area Network. Connections to communication systems outside NCUA are protected through a Firewall.	

### Future/Targeted Environment

<b>Work Processes and Information Sets Used:</b>	
Focus will be on providing tools to increase efficiency and effectiveness in the collection processes through a migration toward more Web-based collection means and information distribution.	
<b>Custom Applications, Software and Web-based Environments:</b>	
Develop a Risk Modeling System to enhance the examiner’s capability to assess credit union risk profiles. Develop off-site monitoring tools for enhanced data management and supervision.	
<b>Hardware:</b>	
Replace end-user computers every three years to stay current with changes in hardware and software technology.	
<b>Communications:</b>	
Improve performance and availability of the network through enhanced Internet connectivity and establishing direct communication connections to a remote disaster recovery site.	

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### Glossary

**Adequately Capitalized** – Credit union net worth to assets ratio between 6.00 percent and 6.99 percent.

**CAMEL** – NCUA’s internal rating system used to determine examination time in credit unions. CAMEL stands for Capital, Asset Quality, Management, Earnings, and Liquidity/Asset Liability Management.

**Compliance Risk** – the current and prospective risk to earnings or capital arising from violations of, or nonconformance with, laws, rules, regulations, prescribed practices, internal policies and procedures, or ethical standards.

**Corporate Capital Ratio** – a corporate credit union’s capital (sum of retained earnings, paid-in capital and membership capital) divided by its moving daily average net assets.

**Corporate CRIS Risk Management Rating** – NCUA’s internal rating system used to determine risk levels present in corporate credit unions.

**Corporate Credit Union** – an organization chartered under Federal or state law as a credit union with the primary function of serving other credit unions via shares from and loans to other credit unions.

**Credit Risk** – the current and prospective risk to earnings and capital arising from an obligator’s failure to meet the terms of any contract with the credit union or otherwise fail to perform as agreed.

**Interest Rate Risk** – the risk that changes in market rates will adversely affect a credit union’s capital and earnings.

**Liquidity Risk** – the current and prospective risk to earnings or capital arising from a credit union’s inability to meet its obligations when they come due, without incurring material costs or unacceptable losses.

**Low Income Designation** – a designation provided to credit unions serving a geographic area where a majority of residents fall at or below an annual income standard.

**Prompt Corrective Action** – A framework of mandatory and discretionary supervisory actions, applicable according to a credit union’s net worth ratio, designed primarily to restore and improve the net worth of federally-insured credit unions.

**RegFlex** – NCUA’s Regulatory Flexibility Program (RegFlex) exempts credit unions meeting specific net worth and CAMEL rating criteria from all or part of identified NCUA regulations. The program also grants eligible credit unions with additional powers.

**Reputation Risk** – the current and prospective risk to earnings or capital arising from negative public opinion or perception.

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**Strategic Risk** – the current and prospective risk to earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.

**Transaction Risk** – the risk to earnings or capital arising from fraud or error resulting in an inability to deliver products or services, maintain a competitive position and manage information.

**Well Capitalized** – Credit union net worth to assets ratio of 7.00 percent or greater.