

# Final Annual Performance Plan 2002





## From the NCUA Board of Directors



*We are very pleased to present NCUA's Final Annual Performance Plan 2002.*

*The year 2001 was strong for credit unions with their overall health continuing at an all-time high. The primary beneficiaries of safe and sound credit unions are their over 78 million members who are, according to the numbers, quite satisfied with both the strength and services offered by their member-owned credit unions. In brief, as of September 30, 2001, total assets grew 12.81%, loans grew 6.46%, savings grew 13.5%, regular reserves grew 8.9%, and net income increased 5.8%.*

*In the year 2002, credit unions face marketplace challenges of potentially lower earnings at a time when their members are demanding more services. However, we believe that credit unions' strong financial condition has positioned them well to withstand any potential economic downturn without cutting services. Still, credit unions must be ever vigilant. The biggest challenge for credit unions and NCUA is to be financially solid, but still responsively innovative in this rapidly changing marketplace.*



*Because it is difficult to separate safety and soundness from competitiveness, it will be NCUA's job as regulator and insurer to help credit unions compete in the future by creating a regulatory environment that will empower credit unions to better meet their members' needs with enhanced service based upon sound business principles. As members demand more services, credit unions must be empowered to safely and soundly expand their delivery systems in order to maintain their financial strength.*

*In our Final Annual Performance Plan 2002, we take a hard look at the lessons learned in past years and apply them in a concrete manner designed to continuously improve and enhance our efficiency and effectiveness as the guardian of safety, soundness, and public trust for the Nation's cooperative credit union industry.*

*We will continue our focus on regulatory flexibility, enhancing credit unions' ability to grow and establishing an environment that empowers credit unions without lowering standards. We will also focus on removing barriers for credit unions that choose to extend affordable financial services into designated underserved areas. All credit unions will be encouraged to take advantage of these streamlined processes, including faith-based and community-based credit unions.*

*As we look to the future, we must never forget and always appreciate the past. It began with the vision of Filene, Raiffasen, Bergergren, and others, as well as the Congress through its passage of the Federal Credit Union Act of 1934, which formed the foundation upon which we find ourselves today. It was a vision of collective cooperation of members for the betterment of all. Our challenge now is to assess our past results, determine our future course and decide how we continue to move forward effectively.*



*The following document represents a significant step in ensuring NCUA and the cooperative credit union community not only survives, but also continues to thrive throughout the 21<sup>st</sup> Century.*

**Dennis Dollar**

Chairman  
NCUA Board

**Yolanda Townsend Wheat**

Member  
NCUA Board

**Geoff Bacino**

Member  
NCUA Board



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## **Organization, Vision, Mission, and Values**

### **NCUA**

*The National Credit Union Administration (NCUA) is an independent federal agency that charters and supervises the nation's federal credit unions. NCUA insures the majority of member deposits held in federal and state chartered credit unions. NCUA is funded by those credit unions and receives no federal tax dollars in the execution of its primary mission.*

### **Vision**

*Working with the cooperative credit union movement to provide service to all segments of American society and to enable credit unions and their members to thrive in the twenty-first century.*

### **Mission**

*Our charge is to foster the safety and soundness of federally insured credit unions and to better enable the credit union community to extend availability of financial services for productive and provident purposes to all Americans, particularly those of modest means.*

*We strive to empower credit unions to make the necessary business decisions to serve the diverse needs of their members and potential members.*

*We do this by establishing a regulatory environment that encourages innovation, flexibility, and continued focus on attracting new members and improving financial service to existing members.*

### **Values**

***Accountability*** – NCUA, through sound systematic strategic planning efforts, strives to ensure that its policies and procedures provide effective, yet facilitative controls that preserve the overall integrity of our credit union movement.

***Excellence*** – NCUA continuously strives for improvement and innovation to propel the organization into a sustained long-term quest for the betterment of the credit union movement. We strive to create the best possible environment for credit union operations within the bounds of safety and soundness by implementing flexible and facilitative policies and procedures.

***Flexibility*** – NCUA embraces change as a catalyst for enhancement. We must, however, never lower standards, but instead set the proper environment for effective credit union operations through our policies and procedures with the central focus on safety and soundness.



***Integrity*** – This is the underlying value in everything NCUA does as an agency and as individuals. Integrity governs NCUA’s internal actions, how we interact with credit union staff and volunteers, and with our State Supervisory Authority (SSA) partners. NCUA defines integrity as communicating openly and honestly, delivering what we promise, and doing the right thing, not merely doing things right. Integrity has a great deal to do with the concepts of honor and duty, which as public servants are mindsets the American public has the right to expect from us.

***Service*** – NCUA exists to assure safe and sound service to and for credit union members through their individual credit unions. We are market driven, but always balanced by our regulatory responsibility of safety and soundness.

***Teamwork*** – Teamwork inspires, motivates, and guides us toward our strategic planning goals. It was from a group identity – commitment, team spirit, and a willingness to work together for the betterment of all members -- that credit unions were created and it is that which sustains us today.

***Vision*** – The credit union movement in the United States started with the vision of Filene, Raiffasen, Bergergren, and others. It is this vision that helps define the reasons for our existence and the “ideals” for which NCUA strives to achieve. It is our collective cooperative vision that sustains and carries the cooperative credit industry through the 21<sup>st</sup> century to ensure safe and secure financial access for all.





## Introduction

The 21<sup>st</sup> century offers many unique challenges to the cooperative credit union movement. It marks the start of a new millennium, a new Administration, and a new NCUA Board. The numerous bankers associations continue their campaigns of aggressively competing with credit unions. The economy continues its cyclical permutations and began the year 2001 in a slowdown. The events of September 11, 2001 have extended the duration and impact of this slowdown. Credit union assets and membership continue to grow while consolidation continues to reduce the number of credit unions. The World War II population is reaching their 80's; baby-boomers are reaching their 50's and generation X'ers are entering their 30's.

The Internet and an increased demand for convenience are beginning to replace institutional loyalties as the concentration of wealth slowly migrates toward younger generations. Population growth continues to be driven by non-white, non-English speaking immigrants and minorities possessing an increasing share of economic influence. These minority groups are forecasted to comprise 50% of the US population by the year 2020. Women also continue to gain economic clout, making

90% of the decisions on primary financial institutions, comprising 43% of Americans with assets over \$500,000, making up 50% of the work force, and controlling \$3.3 trillion dollars in consumer spending.<sup>1</sup>

The broadband, digital, wireless, Internet revolution continues to rapidly change the financial services industry landscape, along with the entrance of many non-traditional providers as an outgrowth of the Gramm-Leach-Bliley Act. All of these events and trends signal change and challenge for the cooperative credit union movement in the 21<sup>st</sup> century, particularly as credit unions reach out to current and potential members to remain competitive. Future consumers will come from those who can hardly remember life without the Internet or the increased presence of immigrants and minorities.

After a very strong year 2000, the year 2001 has been mixed for credit unions and others in the financial services industry. The events of September 11<sup>th</sup> have added to economic uncertainty by decreasing consumer confidence in the economy. The years 2002 and beyond hold many challenges for the credit union

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<sup>1</sup>Summarized from Tom Peters, "Reinventing Work," Alfred A. Knopf, Inc, New York, 1999



movement. NCUA staff has been challenged by the NCUA Board to continue the transition to a more forward-looking agency in order to better accomplish NCUA's mission of safety and soundness. This broader view of safety and soundness considers three roles for NCUA -- regulator, insurer, and advocate -- in relation to the credit union movement. In fulfilling these roles, NCUA focused on five key areas, which were then translated into specific strategic goals as outlined in the NCUA Strategic Plan 2000-2005.

These five areas include:

- Financial health,
- Technology,
- Regulatory environment,
- Credit union growth and development, and
- Organizational effectiveness.

Financial health directly relates to the examination of key financial trends and organizational management capabilities as primary indicators of a credit union's success.

Technology is addressed from two perspectives. The first is an evaluation of a credit union's safe integration of technology into its operations as it strives to remain competitive. The second is an evaluation of how effectively NCUA integrates

the use of technology into its operations to increase efficiency and effectiveness.

The regulatory environment in which credit unions operate directly relates to how effectively NCUA can accomplish its role as regulator and insurer without impeding credit union growth and innovation.

The fourth area, credit union growth and development, addresses NCUA's ability to be an advocate for the cooperative credit union movement and provide assistance to the credit union community. Additionally, as necessary, it focuses on NCUA's ability to facilitate the growth and development of credit unions, and their membership, to support the overall financial health of the credit union movement.

The final goal relates to NCUA's internal operations. The focus here is to measure how well NCUA's organizational effectiveness can obtain the appropriate mix of people and resources to accomplish its mission as effectively and efficiently as possible.

NCUA takes a results oriented approach toward its mission in the on-going transition toward a more stable, progressive, and professional organization. Integrated into the Final Annual Performance Plan are the requirements for the Annual Information Technology Plan.



Additionally, the initiatives from the President's Management Agenda are also included.

This consolidation takes advantage of the flexibility provided by the Reports Consolidation Act of 2000, and takes another step toward maximizing the effectiveness and efficiencies of NCUA's business processes.

NCUA's Vision, Mission, and Values continue to guide its activities. The body of the plan is organized by Strategic Goals. A big picture outlook is taken with each Strategic Goal in

considering the desired long-term "Outcome Goal" and the resource utilization level needed to achieve it. From this process a results based assessment is made to determine NCUA's direction for 2002.



## **Executive Summary**

### **And**

## **Strategic Plan 2000 – 2005 Changes**

NCUA continues its transition to a more forward-looking organization with a continuing focus on safety and soundness. NCUA continues its efforts to provide regulatory flexibility for the credit union movement to keep it competitive in a dynamic and rapidly changing financial services marketplace. This transition is clearly reflected in the evolution of the agency's Final Annual Performance Plan and supporting strategies. These strategies are in turn driven by the performance of the credit union movement as measured against NCUA's goals and measures.

NCUA continues to refine the evolution of strategic goal #5 by focusing on NCUA's internal organizational effectiveness and efficiency in support of our overall mission of safety and soundness.

NCUA has taken steps to ensure there is good understanding that all five strategic goals are essential elements for evaluating credit union safety and soundness. While this has always been the case, stakeholder input indicated it was

necessary for this broader view of safety and soundness to be more clearly delineated.

NCUA has taken steps to eliminate those goals and/or measures that could not be accurately measured. It has also taken steps to focus attention only on those goals and measures that are truly significant, while working diligently to eliminate any duplication. Also, an increased use of charts and graphs should facilitate more understanding and user friendliness of the material.

Most significant, NCUA has taken steps to integrate the five government-wide initiatives of *The President's Management Agenda* into its Final Annual Performance Plan. These initiatives address:

- Management of human capital
- Competitive sourcing
- Improved financial performance
- Expanded electronic government
- Budget and performance integration

Other Presidential initiatives such as faith-based and community support are also included. All of these initiatives are focused on improving the



performance and responsiveness of NCUA to the community it serves. Many of these initiatives began receiving attention in 2000,

when the agency started the transition toward a more forward-looking, risk-focused regulator.



## **External Factors Assessment For Year 2002**

### **Overview**

The extent to which results are achieved is influenced by a number of external factors including social, technological, economical, ecological, and political developments. NCUA's objective is to develop strategies that consider the effect of these factors on agency results. External factors that could have a significant impact in 2002 include the state of the economy, the relative health and stability of financial markets, and the monetary policy actions of the Federal Reserve, all in conjunction with the economic priorities of the Administration.

Leading economic indicators such as job growth, consumer confidence, and industrial activity after September 11<sup>th</sup> indicate the economy may remain sluggish in 2002. Economic growth coupled with Federal Reserve interest rate cuts could potentially help cash-strapped consumers by lowering the cost of credit card and other consumer debt. Weak consumer confidence may undermine such stimulus and prevent an economic recovery in the near-term. However, the long-term outlook has good prospects for continued technological advances and

productivity growth, which are positive for the economy.<sup>2</sup>

### **Sociological Assessment**

Consumers from a variety of demographic groups have numerous choices when deciding where to obtain financial services. Many consumers are choosing to maintain relationships with multiple financial service organizations. A significant segment of credit union membership remains very loyal to credit unions. Some are loyal because of their strong belief in the credit union mission, while others seek competitive pricing. Ultimately, credit union members will determine if credit unions remain viable, as their financial institution of choice in this globally competitive, financial marketplace.

As noted above, the demographic landscape is changing rapidly. According to the Bureau of Labor Statistics, in 15 years there will be 15% fewer Americans aged 35 to 45 as baby-boomers and generation-X'ers continue to join the ranks of the over 50 club. As a result, the 45-65 age group will grow as a proportion of the labor force faster than any other. The Bureau of Labor Statistics also estimates the number of

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<sup>2</sup> Federal Reserve Board Chairman Alan Greenspan, "The Condition of the Financial Markets," Testimony before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, September 20, 2001.



Asian Americans and Hispanics in the labor force will grow by 40% and 37% respectively, between 1998 and 2008. The black labor force is expected to grow by 20%, twice as fast as the 10% growth rate estimated for whites. Credit unions will have to capitalize on their strengths – e.g., loyal membership base and distinct identity - by offering products that adequately meet a variety of member needs and expectations. This will be necessary to retain current members while attracting new membership into the movement.

*The objective of NCUA's Strategic Goal #4 is to ensure credit unions are planning for the impact from changing demographics and their cultural influences, while positioning themselves to address changing member expectations. The Annual Performance Plan 2002 carries forward a 2000/2001 strategy related to business planning. NCUA will continue to encourage credit unions to envision and address member expectations through effective business planning.*

### **Technology Assessment**

With the rapid increase and adoption of technological innovations, changing business

models and increased customer demands, credit unions and the financial industry face a myriad of challenges in delivering a wide range of expected financial services to customers. Decreasing cost and increasing member demand are resulting in rapid growth of on-line services offered by credit unions. Some credit unions are now starting to provide wireless banking services, biometrics for personal identification, and account aggregation services for members. These types of services, and many others yet to be implemented, are likely to expand exponentially in the near future. The privacy, speed, convenience, and cost structure of electronically delivered financial services are reshaping the way financial institutions do business.

To remain competitive, credit unions must effectively use technology in providing financial services and products to their members. However, with technology innovation expected to continue at a rapid pace, credit unions must also balance the potential increased risk to their operations that new technology may impose. Credit unions must ensure these new technologies are implemented with appropriate internal and external controls, and which satisfy the consumers' primary concerns of privacy and security. The security of credit union records and systems, along with the privacy of their



members' information, must remain a top priority. Credit unions will need to obtain the necessary resources to protect the security of their systems while adopting new technologies. Further enhancements in technology will place increasing demands on staff expertise, as well as affecting compensation and training budgets. Computer hardware and software requirements will further strain credit union budgets.

Maintaining the integrity of credit union electronic-based systems and data, including e-commerce, online services, core processing systems, and other systems used to store and deliver information is vitally important. While secure electronic information and the systems that host and transport data have always been a concern, emphasis must increase as credit unions offer more information using methods that introduce new levels of risk (e.g., Internet and wireless access).

Credit unions will need to improve Information Technology (IT) planning to ensure they identify member (resource) needs, while achieving efficiencies with technology to provide sufficient returns to their members, subject to the security and privacy protection of member data.

*NCUA Strategic goal #2 focuses on the ability of credit unions "to safely integrate financial services and emerging technology in order to meet the changing expectations of their members." As reflected in the Final Annual Performance Plan, this includes a number of new initiatives designed to address the rapidly changing environment from a safety and soundness perspective.*

### **Economic Assessment**

The economic outlook for credit unions is continually in flux because of the rise and fall of key economic indicators, the actions of the Federal Reserve, and the actions of Congress and the President, such as the recent tax cut. Consumer and business confidence has eroded, exacerbated by higher energy costs and rising unemployment which have helped drain consumer purchasing power and diminish business profit margins. Additionally, the events of September 11<sup>th</sup> have had a significant impact on consumer confidence, and as a consequence, retail sales, as well as business spending on capital equipment and new inventory, have weakened appreciably.

Additionally, manufacturing production has been cut back sharply, with new technologies appearing to have accelerated the response of





production cut backs. In response to slower economic activity and low inflation, there has been a historically rapid and forceful response on monetary policy to reduce market interest rates by the Federal Reserve Board. The longer-term advances in technology, and accompanying gains in productivity have exhibited few signs of abating. These gains, along with lower interest rates, should support growth of the economy in the long-term. The lower interest rate environment should ultimately provide a boost to investment and consumer spending, and thereby boosting consumer confidence once life post-September 11<sup>th</sup> returns to normal levels.

There is considerable uncertainty regarding the relative strength of the economy in 2002. At some point the impact of the Federal Reserve Board's aggressive easing of interest rates should aid the economy, albeit with a typically long lag that's associated with monetary policy. Modest growth rates of 1-2 % for the economy are very plausible. The unemployment rate could likely rise into the 5% range or greater. Interest rates may begin to rise coincident with the improvement in economic activity. The 2001 tax cut has slowed Treasury debt retirement, which is placing some upward pressure on rates. Yields are more likely to rise on shorter maturities as the Federal Reserve

Board halts, or even potentially reverses, its monetary easing in the latter part of 2002.

Broadening of credit union authorities along with intense competition will continue to induce credit union consolidations and require more sophisticated risk assessment. The increasing role of credit unions as mortgage lenders, along with continued housing demand, will cause more credit unions to engage in loan participations. This includes the packaging and selling of loans to reduce interest rate exposure and preserve liquidity. Those that do not utilize prudent asset/liability techniques will experience increased interest rate and liquidity risk. Understanding the potential risks of these uncertain cash flows will be important for credit unions.

Lately there has been a softening of energy prices, as increased supplies mitigate higher prices experienced during 2001. Wage pressures will continue to be muted by uncertainties in labor markets. These factors, along with higher worker productivity, excess capacity, intense competition (both in the United States and abroad), a relatively strong dollar, should inhibit inflationary pressures in the economy in 2002.

*NCUA's Strategic Goal #1 promotes an industry of financially healthy, well-managed federally insured credit unions*



*able to withstand economic volatility. The Future Examination Program Committee serves as the driver for many of the changes designed to produce a more effective risk-focused examination program.*

### **Ecological Assessment**

It is likely the Presidential Administration will continue to be faced with difficult choices in 2002 to balance increased energy demands and environmental quality efforts. The consumer uses energy primarily in four forms: transportation fuels, heating oil, natural gas, and electricity, all of which are economically interrelated to some degree. Prices for these commodities continue to be volatile.

*The volatile demand-driven energy market and other environmental concerns may impact NCUA's Strategic Goals #1 and #4, which focus on credit union financial health and development.*

### **Political Assessment**

Credit unions are faced with sweeping changes from the widespread use of electronic documents. The Electronic Signatures in Global and National Commerce Act, effective October 1, 2000, legalized personalized electronic codes called e-signatures. E-signatures now carry the

same legal weight on Internet documents that pen-and-ink signatures carry on paper documents. This allows consumers to open an IRA, mutual fund, or brokerage account entirely online. In addition, people can now perform an array of commercial transactions, for example, obtaining a mortgage or buying insurance right from their computers without leaving home or mailing documents to companies. These and other technology driven enhancements raise issues and concerns that may need to be addressed through legislative means.

The need for legislation to curtail bankruptcy abuse has been consistently demonstrated over the last several years. A key element of bankruptcy reform for credit unions is the right of a credit union member to reaffirm his or her debts on a voluntary basis. This is important to credit unions, which are owned by their members. Whenever the debt obligations of a single member are abandoned or discharged through bankruptcy, other members of the credit union must shoulder the costs of the discharged debt. Bankruptcy reform benefits credit union members by preserving their access to lower-cost financial services.

*NCUA's Strategic Goal #2, as previously stated, focuses on the safe integration of technology, and anticipates some legislative and/or*



*regulatory assistance may be required.  
Strategic Goals #3 and #4 focus on the  
legislative and regulatory issues*

*germane to credit union  
competitiveness, as well as their growth  
and development.*



**Strategic Goal #1 Performance Summary**

<i>Promote a system of financially healthy, well-managed federally insured credit unions able to withstand economic volatility.</i>						
<b>Performance Goal Summary</b>						
Period	12/00	9/01	12/00	9/01	12/00	9/01
Goal 1.1(a)	Met	OK	Goal 1.2	Met	OK	Goal 1.3(a)
1.1(b)	New	OK				Met
						OK
<b>Resources Utilization Summary</b>						
<b>Year</b>	<b>97</b>	<b>98</b>	<b>99</b>	<b>00</b>	<b>01</b> (Est.)	<b>02</b> (Goal)
<b>FTEs</b>	724.86	650.90	665.84	697.36	703.08	<b>665.14</b>
<b>Dollars</b>	\$74,788,401	\$73,657,231	\$79,927,400	\$89,008,270	\$67,139,355	<b>\$98,174,971</b>
<b>% Total Dollars</b>	76.93%	73.23%	69.89%	69.78%	70.36%	<b>66.80%</b>

Note: OK indicates the Performance Goal is on track to meet the annual target.

While the number of credit unions has been decreasing in recent years, the complexity of their operations and balance sheets, as well as total assets, have increased significantly. This has resulted in the need to shift NCUA’s examination and supervision process to a more forward-looking, risk-based process. However, the apparent need for this transition has been, to some degree, masked from the strong performance of the credit union movement in recent years. As a result, the transition stands out as one of NCUA’s most significant challenges in the coming years.

**Goal 1 Management Challenge 2002:**  
 The migration to a risk-focus examination and risk-based scheduling process will require a paradigm shift at all levels of management with a transition in focus on those areas that present the greatest risk to credit union safety and soundness.

Addressing the Challenge:

- NCUA will institute a renewed emphasis on effective, open, constructive two-way communication, both vertically and horizontally, across all levels of the agency, from the NCUA Board Members to the newest employees.



- NCUA will ensure all employee training emphasizes the transition to risk-focused operations, with everyone aware of and embracing the corresponding philosophical change.
- NCUA will ensure its transition to a more risk-focused process is effectively communicated to all members of the cooperative credit union movement.

### **OUTCOME GOAL 1.1 Performance Analysis**

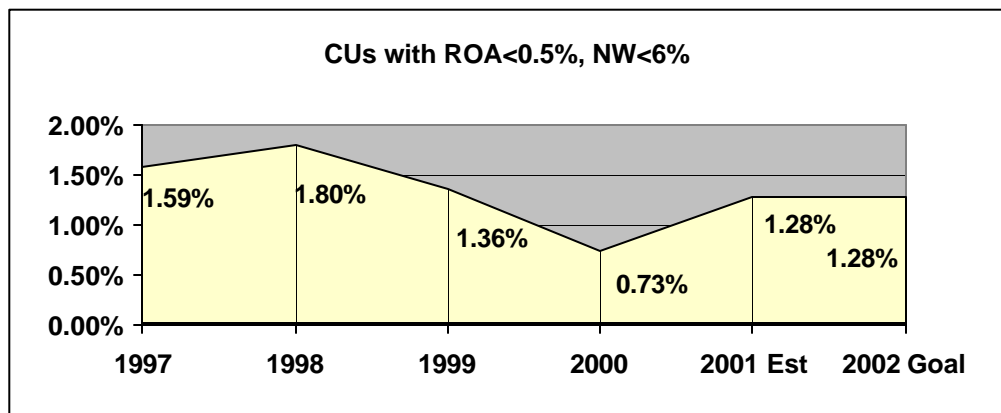
**Goal 1.1:** *Ensure federally insured credit unions are financially healthy.*

The concept behind Goal 1.1 is to facilitate the improvement of the capital positions of federally insured credit unions to a reasonable, appropriate level. To that end, we have developed two measures to gage NCUA’s success: the first tracks credit unions subject to PCA requirements; the second, tracks capital growth in the corporate network.

**Goal 1.1(a):** Facilitate a reduction in the percentage of federally insured credit unions with ROA of less than 0.5% and net worth of less than 6%.

**Measure:** % credit unions in category.

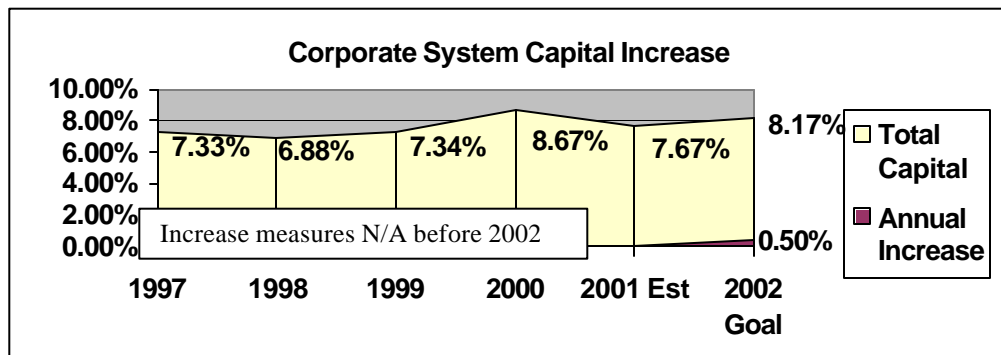
**Target:** 1.28%



**Goal 1.1(b):** Facilitate an increase in the total capital in the corporate credit union system.

**Measure:** % increase in total dollars available.

**Target:** 0.50%





### **Performance Analysis**

Credit unions have made steady progress in improving their return on assets (ROA) as evidenced by the downward trend in numbers of credit unions subject to congressionally mandated prompt corrective action (PCA) requirements. Thus far in 2001, this favorable downward trend continues. However, the full impact of September 11<sup>th</sup> still remains to be assessed. Accordingly, the measure for performance goal 1.1(a) remains the same.

It is NCUA's responsibility as a regulator and insurer to ensure credit unions are exercising sound business practices as they strive to remain competitive and meet members' desires in an increasingly dynamic marketplace.

NCUA is also charged with maintaining public trust in the credit union system, as this can have an effect equal or greater than the industry's financial health would warrant, as seen by recent events. Therefore, it is incumbent upon NCUA to ensure its examination and supervision processes are effective, efficient and keep pace with the rapidly changing financial services environment.

### **Strategies 2002**

- The regional offices will begin to implement NCUA's risk-focused examination program.

- The Office of Examination and Insurance (E&I) will develop a credit union risk profile as a tool for examiners.
- The Office of Training and Development (OTD) will, in partnership with E&I, continue phase II of the subject matter examiner (SME) training program.
- E&I, Regions and Office of the Chief Information Officer (OCIO) will begin development efforts for an enhanced automated analysis capability to support the risk-focused examination process and leverage information systems and technology to better manage available data.
- OCIO will develop means to enhance examiner data access, data access speed, and data management tools for increased productivity.
- E&I, in partnership with OCIO, will begin development efforts for an enhanced information gathering and offsite monitoring capability.

### **Crosscutting Strategies 2002**

- NCUA will work with credit union associations to effect synergy through combined efforts and resources.



### **OUTCOME GOAL 1.2 Performance Analysis**

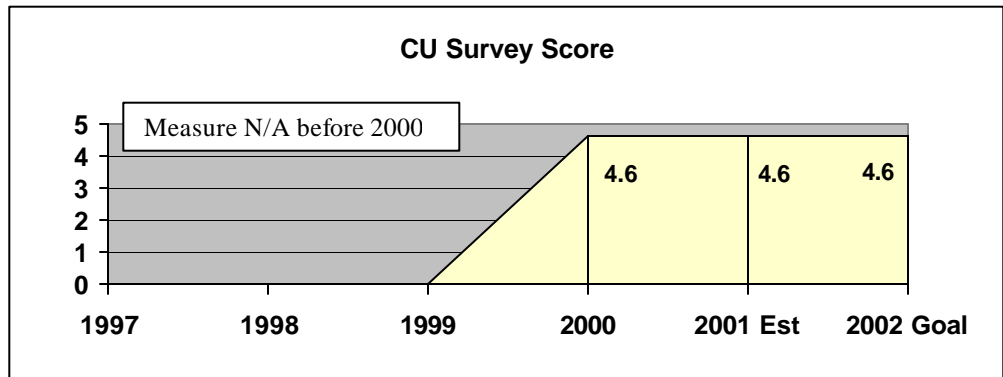
**Goal 1.2:** *Ensure credit union management is aware of and is planning effectively to meet current and potential future financial challenges.*

The concept behind this goal is to facilitate the health of credit unions through effective planning, and move them out of a “watch” status. We have two measures for this goal: the first which measures credit unions’ impression of NCUA’s ability to impart useful information, and the second tracks NCUA’s ability to effectively point out issues to be addressed to low-rated credit unions.

**Goal 1.2(a):** Maintain an above average score on credit union survey.

**Measure:** Examiner’s ability to provide information on trends and issues.

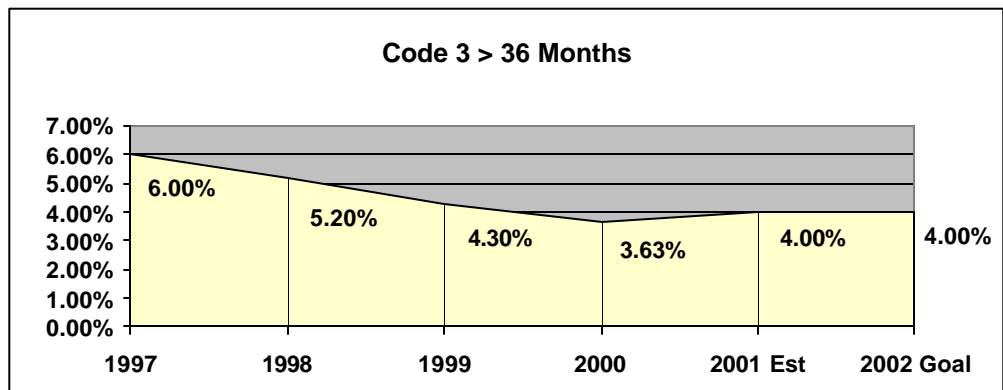
**Target:** 4.6 out of 5 on questions #4 & #8



**Goal 1.2(b):** Reduce the percentage of those federally insured credit unions that remain CAMEL code 3 for more than 36 months.

**Measure:** % of Credit Unions in category.

**Target:** 4%



#### **Performance Analysis**

The current survey data indicates the strong performance of the examiners continues. The average score was 4.6 out of 5, as of June 30, 2001.

The financial health of a credit union is dependent upon several factors. However, the operative factor is the ability of credit union management to envision, plan, and execute business plans that provide members with the desired financial services at competitive rates.



The number of credit unions remaining at a CAMEL Code 3 rating beyond 36 months is an indirect indicator of their success; it is indirect due to the overriding impact of the economy. As an added note, the need for proper due diligence, and evaluation of the evidence of the economic impact, cannot be over-emphasized given the events of September 11<sup>th</sup>.

- E&I and OTD will implement a means to ensure appropriate examiner training annually, as well as and individual efforts, keep them abreast of emerging financial trends and developments that may impact the credit union industry.
- E&I will continue to provide information to the credit union community on emerging issues and the importance of due diligence to changing economic conditions by credit union management in maintaining overall safety and soundness.

### **Strategies 2002**

- The Office of Credit Union Development (OCUD) will continue to provide best practice business planning and information to credit unions where appropriate, with the majority of the focus on smaller, community development and faith-based credit unions.

## **OUTCOME GOAL 1.3 Performance Analysis**

**Goal 1.3:** *Maintain the healthy performance of the National Credit Union Share Insurance Fund (NCUSIF).*

The concept of this goal is to ensure a strong insurance fund, which is an indirect barometer of the health of the credit union movement. The measure used – net losses to the NCUSIF– is graphically displayed below.

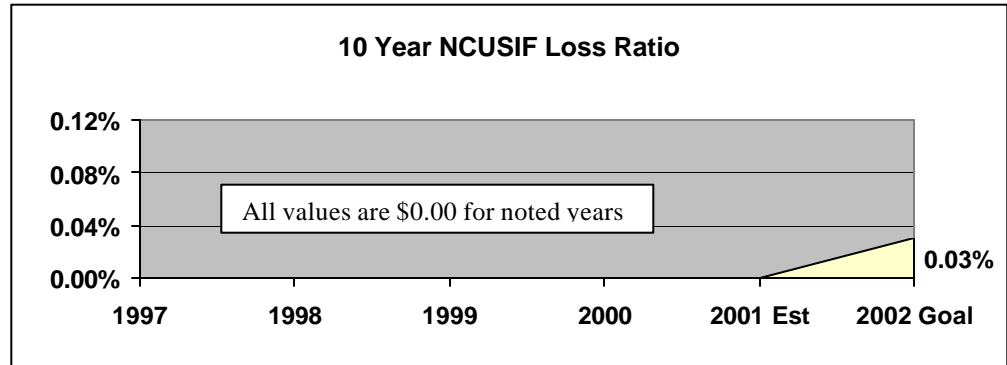




**Goal 1.3(a):** Maintain the insurance loss ratio ten-year average below \$0.30 per \$1,000.

**Measure:** Insurance Fund loss ratio.

**Target:** \$0.30 per \$1,000



**Performance Analysis**

Recent performance in this area could suggest a zero insurance loss as NCUA’s goal for 2001. However, the goal is to limit the loss amount to an acceptable degree. Rather than zero loss, NCUA strives to reduce excessive insurance risk relative to the National Credit Union Share Insurance Fund (NCUSIF) and its prevailing equity level as evidenced by the \$0.30 per \$1,000.00 insurance loss ratio goal and measure. The strong performance of credit union management and NCUA’s regulatory and supervision efforts have kept the trend intact. As of June 30, 2001, there have been no net losses to the NCUSIF.

The NCUSIF is backed by the full faith and credit of the U.S. Government. It is cooperatively funded by the individual credit unions by keeping a minimum of 1.3% of their total assets in the fund. Losses against the fund resulting from poor business practices, fraud, or

other risks directly affect the credit unions’ liquidity and therefore its ability to provide desired member services.

Therefore, NCUA’s strategies for 2002 are focused on preventing undue risk to the NCUSIF without limiting credit unions’ ability to provide desired member services.

**Strategies 2002**

- E&I will ensure NCUA’s supervision and examination programs will provide timely, efficient and creditable feedback to credit union management and minimize undue loss to the NCUSIF.
- E&I and Regions will manage NCUA’s supervision and examination programs such that the percentage of federally insured credit unions that remain CAMEL code 4 or 5 (for 12 months) will be no more than 1.1% and for 24 months no more than 0.45%.



- NCUA will perform insurance reviews of 12.0 to 15.0 percent of the federally insured state chartered credit unions in each state.
  - NCUA Regions will coordinate with state supervisory authorities to ensure joint examinations and risk reviews evaluate all of the risk-based forward-looking issues concerning safety and soundness for federally insured state chartered credit unions (FISCU's).
- Crosscutting Strategies 2002**
- E&I and the Regions will implement a means or process to ensure joint examinations, risk reviews, and vendor reviews conducted with other agencies to evaluate risk-based forward-looking issues concerning safety and soundness of federally chartered credit unions.

**Strategic Goal #2 Performance Summary**

<i>Ensure credit unions are prepared to safely integrate financial services and emerging technology in order to meet the changing expectations of their members.</i>						
<b><u>Performance Goal Summary</u></b>						
Period	12/00	09/01				
Goal 2.1(a)	Met	OK				
<b><u>Resource Utilization Summary</u></b>						
<b>Year</b>	<b>97</b>	<b>98</b>	<b>99</b>	<b>00</b>	<b>01 (Est.)</b>	<b>02 (Goal)</b>
FTE's (actual)	29.52	32.57	30.52	35.32	30.29	<b>38.30</b>
Dollars (actual)	\$3,218,431	\$4,279,140	\$3,612,356	\$5,053,257	\$3,225,021	<b>\$5,728,532</b>
% of Total Dollars	3.31%	4.25%	3.16%	3.96%	3.38%	<b>3.90%</b>

The Information Technology industry is an ever-changing one. This constant change forces credit unions to change as well, in order to remain competitive in the financial services industry. This alone would encourage NCUA to continually update its capabilities as well. However, with the connection to a world-



wide-web, credit unions are finding themselves ever-increasingly vulnerable to electronic crimes. Therefore, NCUA must also focus attention on the security of credit union systems. By ensuring credit unions have secure systems; NCUA helps to prevent the loss of member's financial information – either through theft or accident.

**Goal #2 Management Challenge 2002:**

The migration of credit unions to more sophisticated means of service delivery will require NCUA to increase its emphasis upon IT system controls, both externally and internally, to address security and privacy concerns of the general public while maintaining industry safety and soundness. The impending expiration of its authority to examine third parties will have significant impact upon how this challenge is addressed.

Addressing the challenge:

- NCUA will continue to train targeted examiners on IT evaluation procedures.
- NCUA will continue to emphasize IT security and controls during examinations.
- NCUA will continue to work with the Federal financial Institutions Examination Council (FFIEC) and other joint groups to develop synergism among all participating agencies' efforts.
- NCUA will address contingency and succession planning

**OUTCOME GOAL 2.1 Performance Analysis**

**Goal 2.1:** *Ensure credit unions have access to information about emerging financial service technology and use this information to integrate innovative technology planning, contracting, deployment, and support within the credit union framework.*

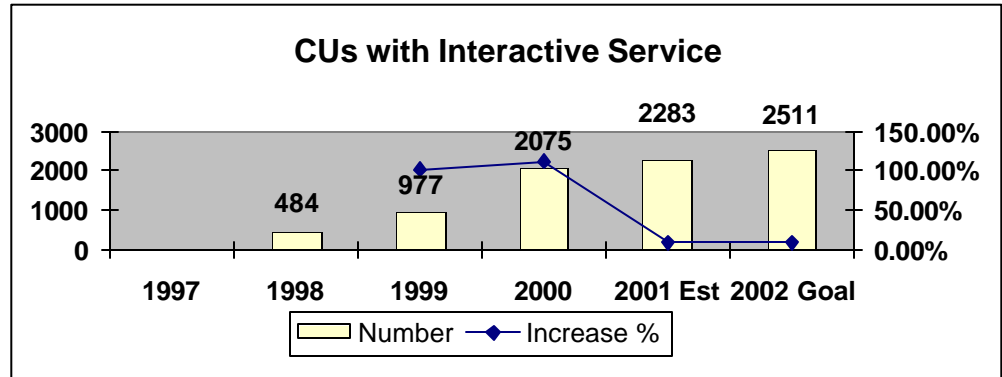
The concept behind goal 2.1 is to facilitate credit unions' advancement into the technology age. The goal is measured through the direct increase in credit unions offering electronic services to members.



**Goal 2.1(a):** Increase the number of credit unions offering interactive services.

**Measure:** Number of credit unions with service.

**Target:** 10% annual increase



**Performance Analysis**

- The 2001 target for Performance Goal 2.1(a) was reduced from 25% to 10%. The goal reduction relates to market penetration rather than a cut back in agency efforts. As more credit unions offer interactive services, there will be fewer opportunities to “bring credit unions on board.”

Many credit unions, with their focus on member service, have been quick to provide the convenience of interactive services. NCUA’s challenge is to facilitate and encourage those credit unions that find it more difficult to integrate technology into their financial service package because of financial limitations or lack of technical expertise.

technology through information sharing systems, technology focused conferences, working with forward-looking credit unions, and educational programs, etc.

- E&I, Regions and OTD will encourage the use of technology plans by credit unions.
- Regions will review security plans and systems used by credit unions to safeguard member information.

**Crosscutting Strategies 2002**

- Regions and OTD will encourage training through outside regulatory agencies, and the sharing of information concerning attempted theft of member information.

**Strategies 2002**

- E&I and OTD will continue to enhance staff and examiners’ understanding and use of



**Strategic Goal #3 Performance Summary**

<i>Create a regulatory environment that will facilitate credit union innovation to meet member financial service expectations.</i>								
<b>Performance Goal Summary</b>								
Period	12/00	09/01	12/00			09/01		
Goal 3.1(a)	Not Met	OK	Goal 3.2(a)	Met	OK	Goal 3.3	Met	OK
			3.2(b)	Met	OK			
<b>Resources Utilization Summary</b>								
<b>Year</b>	<b>97</b>	<b>98</b>	<b>99</b>	<b>00</b>	<b>01 (Est.)</b>	<b>02 (Goal)</b>		
<b>FTE's (actual)</b>	28.06	28.61	31.61	34.04	32.92	<b>71.22</b>		
<b>Dollars (actual)</b>	\$2,894,839	\$3,237,259	\$3,794,983	\$4,344,719	\$3,143,990	<b>\$10,512,171</b>		
<b>% of Total Dollars</b>	2.98%	3.22%	3.32%	3.41%	3.29%	<b>7.15%</b>		

NCUA is charged with regulating federally chartered credit unions. NCUA also has the job of providing insurance coverage to member deposits (within certain restrictions). At times, these two jobs may appear to stand in conflict with credit union progress. NCUA has regulations in place to ensure credit unions operate in a safe and sound manner to protect the insurance fund. However, the regulations may restrict credit unions from expanding services that may be considered necessary to stay competitive. NCUA must weigh these situations, while finding ways to enforce or waive regulations, to allow expansion without unduly increasing risk or lowering the standards.

**Goal #3 Management Challenge 2002:**

Encourage and enhance credit union growth and innovation, regardless of Federal, State, large or small charter specification or asset size, while maintaining and promoting public trust and confidence in the cooperative credit union movement through flexible regulatory controls.

Addressing the Challenge:

- NCUA will continue to enhance its communication with credit unions, leagues, associations, etc.
- NCUA will continue to enhance and improve examination effectiveness and efficiency while providing the flexibility for competitive business practices.
- NCUA will continue the annual systematic regulation review process.



- NCUA will expand its efforts to seek credit union concerns and issues through focus groups, league meetings, etc.

**OUTCOME GOAL 3.1 Performance Analysis**

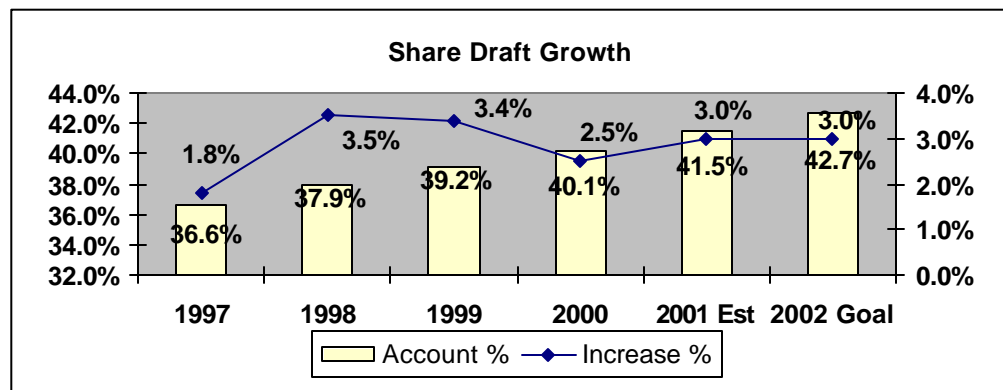
**Goal 3.1:** *Assist credit unions in understanding the impact of changing demographics and in positioning themselves to address changing member expectations.*

The concept behind this goal is to measure how well NCUA’s regulatory policies and practices facilitate credit unions’ understanding of the impact of societal changes on their operations. NCUA uses an indirect measure; that is, the percentage of members that use their credit union as their primary financial institution to gage the combined success of NCUA and the credit unions.

**Goal 3.1(a):** Increase the percentage of members using draft accounts.

**Measure:** Draft accounts against total members.

**Target:** 3% annual increase



**Performance Analysis**

Draft account usage has been strong and continues into 2001. As a result, NCUA will continue to enhance credit union understanding of the impact of increasing competition and demographic changes through conferences and meetings, economic analysis, supervision and examination activities, NCUA publications, etc.

NCUA regions are actively assisting credit unions in their efforts to serve the low-income and underserved. For example, one region has developed a low-income designation instruction, a worksheet, and a database for examiners’ use, as well as a list of underserved areas with an accompanying map.

Another region has implemented an Empowerment Program providing technical



training to groups of small credit unions and placing low-income designation information on the Web where it is easily assessable to all credit unions.

Additionally, credit unions are actively taking the lead with innovative programs. These include: credit counseling and assistance; credit re-builder programs; financial education and services to high school students; and Individual Development Account Programs that match funds in a member's account when used for educational or other specific purchases, such as a home purchase.

NCUA will continue to focus on enhancing effective communication and cooperation with credit unions. This is essential to ensuring a mutual understanding of our changing environment and its impact on the credit union

movement. This strategy will include communicating the need for credit union business plans technology utilization as effective tools in preparing to meet the challenges of the 21<sup>st</sup> century.

### **Strategies 2002**

- NCUA will encourage credit unions to prepare and maintain up-to-date business plans that focus on current and future member expectations as a management tool.
- NCUA will continue providing timely, pertinent information on emerging developing credit union issues using NCUA's Web Page, press releases, letters to credit unions, newsletters, regulatory alerts, etc., as resources for credit union business planning. Note: E&I, OIS, OCUD and OCCU and several regions have been actively pursuing this strategy during 2001.



**OUTCOME GOAL 3.2 Performance Analysis**

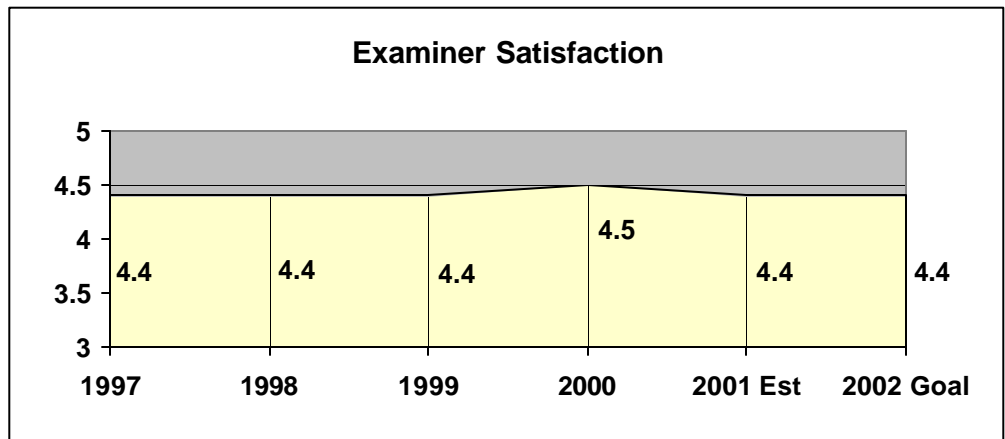
**Goal 3.2:** *Enable credit unions and their members to succeed by ensuring NCUA’s examination focus and regulations do not impose unreasonable impediments to growth and innovation.*

The concept behind this goal is to determine how well NCUA balances its regulatory responsibilities and policies to provide a facilitative environment for credit unions to grow, develop, and prosper. NCUA uses two measures, both based on survey information, to assess agency performance from a credit union perspective.

**Goal 3.2(a):** Maintain a cooperative working relationship facilitating credit union growth without lowering safety and soundness standards.

**Measure:** Overall response to NCUA Examination Survey.

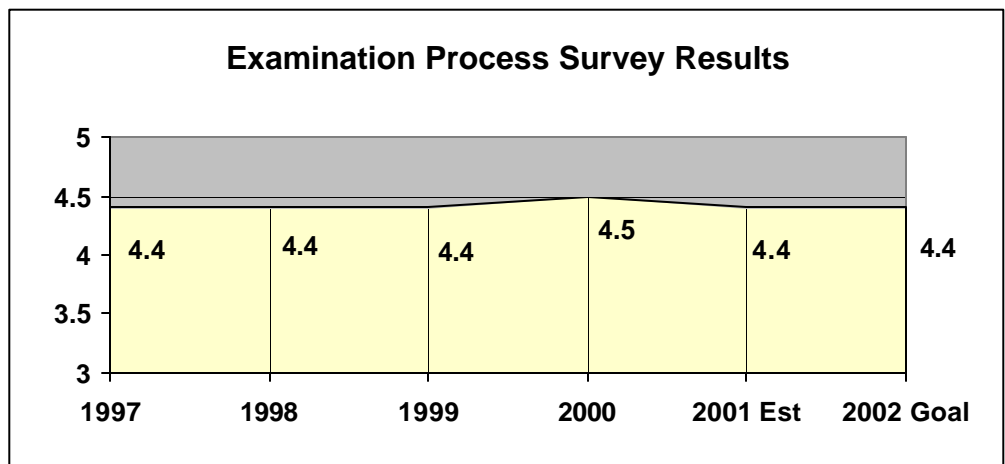
**Target:** 4.4 average overall response rating



**Goal 3.2(b):** Maintain a risk-focused approach to the examination process.

**Measure:** Questions number 3 and 4 on the NCUA Examination Survey (examiners focus on significant issues).

**Target:** 4.4 average response rating







### **Performance Analysis**

The measures for 2001 remain the same. This is in recognition of NCUA's role as a regulatory authority. Regulatory authorities must maintain certain standards, which therefore naturally limits the bar on this goal.

NCUA's approach toward this goal in 2001 is focused on the following objectives:

- Reduce regulatory redundancy.
- Ensure examination and supervision policies reflect a forward-looking risk-focused view of safety and soundness.
- Ensure NCUA staff, at all levels, communicate effectively in word and deed and use a regulatory approach that supports credit unions in their efforts to be financially safe, sound, and highly member focused.

NCUA's approach in 2002 to regulation, examination, and supervision recognizes the need for credit unions to take reasonable risks, especially in light of changing technology and demographics. This will be accomplished, in part, by enhanced communication between NCUA, credit unions, leagues, and associations. NCUA will also continue to take steps to be

current on emerging issues and new services and practices.

Further, NCUA will continue to analyze the need for new or revised regulations, keeping in mind the cost to comply, the impact on innovation to meet member expectations, as well as the more traditional financial safety and soundness concerns. *(Some initiatives include Reg-Flex, risk focused examination, risk-based examination scheduling, transition from transaction examination to supervision/consultant and use of market forces, which Federal Reserve Board Chairman Alan Greenspan has called the most effective form of regulation.)*

### **Strategies 2002**

- NCUA will focus on emerging credit union issues, services and practices, relative to the impact on membership needs and safety and soundness.
- NCUA will continue the implementation of forward-looking risk-focused examination and risk-based examination scheduling programs.
- NCUA will continue to enhance its interaction with credit unions through staff attendance of meetings with credit unions,



leagues, trade associations, programs such as town meetings, *Conversations with America*, work shops, community activities, conferences, meetings, etc.

and emerging issues and revise regulations, as appropriate, to encourage dialogue on regulatory issues with a broader spectrum of the credit union movement.

- OCIO will continue to fully integrate disability requirements (section 508) into NCUA’s public and inter-agency communications.
- E&I, OCCU and Office of General Counsel (OGC) and OIS will continue to review NCUA’s rules and regulations, keeping in mind the current competitive environment

**OUTCOME GOAL 3.3 Performance Analysis**

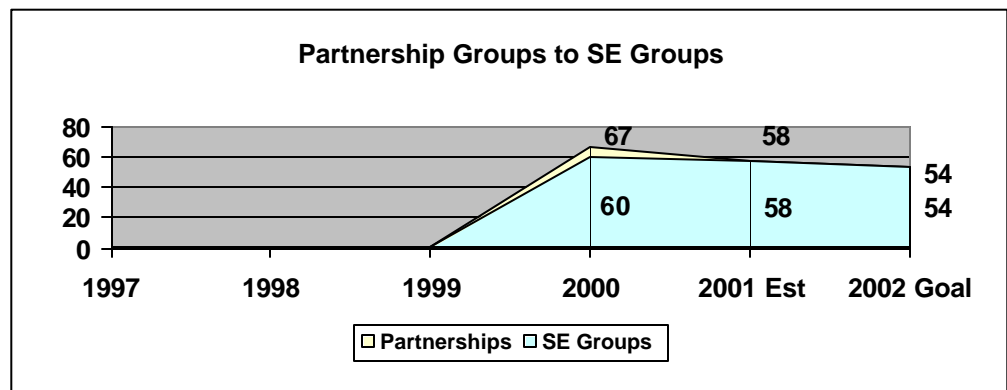
**Goal 3.3:** *Facilitate credit union partnerships with each other and other financial service providers, trade associations, etc., in order to achieve economies of scale and better meet member service expectations.*

This goal’s concept focuses on facilitating the continuation of the cooperative spirit between and among credit unions and other members of the credit union community. This cooperation enhances safety and soundness through economies of scale, while improving capabilities to meet member service expectations. Success is measured through the measurement of the number of partnerships facilitated.

**Goal 3.3:** Arrange new partnerships among credit unions.

**Measure:** Partnerships noted in examination reports.

**Target:** Average one new partnership per SE group





### **Performance Analysis**

As numbers of credit unions diminish and the merger trend continues, it may become increasingly difficult to achieve this goal. As a result, it was not changed for 2001. To ensure success, additional strategies for encouraging credit unions to form alliances with other organizations, such as credit union service organizations, technology vendors, and non-traditional financial service providers, will be developed as well.

In 2002, credit unions will increasingly be competing for position in a market that includes large conglomerates with substantial resources. Credit unions should consider leveraging their cooperative efforts to work together to achieve economies of scale. Credit unions might also partner with other financial service providers to package products and services to help them retain and attract new members.

### **Strategies 2002**

- NCUA Regions will continue to encourage credit unions to partner with each other, to

share knowledge and expertise; to form alliances, such as with credit union service organizations (CUSOs), to achieve economies of scale; and to partner with other organizations such as technology vendors and non-traditional financial service providers.

- NCUA will continue to enhance its ability to openly communicate with credit unions through the implementation of video conferencing and/or web casting of Board meetings.

### **Crosscutting Strategy 2002**

- NCUA will continue to collaborate with other financial regulators on ways and means to promote and facilitate partnerships.



**Strategic Goal #4 Performance Summary**

<i>Enable credit unions to leverage their unique place in the American financial services sector to make service available to all Americans who are not currently being served, particularly those of modest means.</i>						
<b>Performance Goal Summary</b>						
Period	12/00	09/01		12/00	09/01	
Goal 4.1(a) 4.1(b)	Not Met N/A	OK	Goal 4.2(a)	Met	OK	
<b>Resources Utilization Summary</b>						
<b>Year</b>	<b>97</b>	<b>98</b>	<b>99</b>	<b>00</b>	<b>01 (Est.)</b>	<b>02 (Est.)</b>
<b>FTE's (actual)</b>	90.84	102.46	116.25	118.16	119.54	<b>115.73</b>
<b>Dollars (actual)</b>	\$9,372,275	\$11,594,538	\$13,955,037	\$15,081,098	\$11,415,395	<b>\$17,082,197</b>
<b>% Total Dollars</b>	9.64%	11.53%	12.20%	11.82%	11.96%	<b>11.62%</b>

NCUA is the insurer and regulator of most credit unions. As a result, NCUA views credit union safety and soundness as a primary concern. This view includes a focus on allowing credit unions to expand, both in size and services, to remain competitive. NCUA believes such a focus will improve the industry as a whole. NCUA’s challenge is to encourage growth without lowering the bar for sound financial practices.

**Goal #4 Management Challenge 2002:**  
 As credit unions face an ever-increasing competitive environment, it presents NCUA with a unique challenge. NCUA must balance credit unions’ need to expand to remain competitive with NCUA’s need to ensure credit union management provides proper due diligence to asset-liability management under rapidly changing economic and demographic conditions. This need for proper due diligence has become ever more critical as the nation recovers from the events of September 11<sup>th</sup>.

Addressing the Challenge:

- Continue to assist credit unions in identifying and expanding into underserved areas.



- Continue to develop a pilot credit union chartering program to determine its efficiency and effectiveness in obtaining new members for the credit union community. Implement agency-wide, if appropriate.
- Encourage all credit unions, including CDCUs and faith-based institutions, to leverage their cultural and social ties to reach out and provide needed financial services to their surrounding communities.

**OUTCOME GOAL 4.1 Performance Analysis**

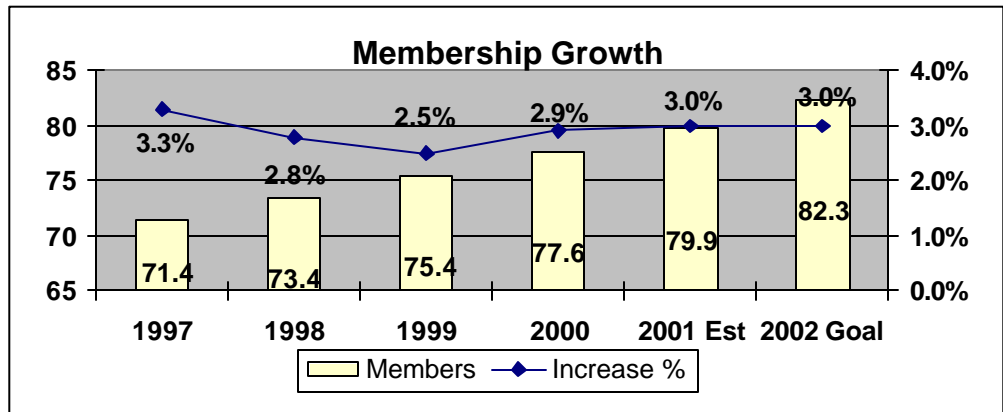
**Goal 4.1:** Increase the number of federally insured credit union members annually.

This goal’s concept is to measure NCUA’s effectiveness in facilitating credit union growth and development for the purpose of enhanced safety and soundness of the credit union movement. The growth in credit union memberships can be directly tracked and serves as an effective measure of success. A leading indicator of credit union membership growth is the number of community charter conversions approved, which is also tracked.

**Goal 4.1(a):** Facilitate an increase in credit union membership.

**Measure:** Reported annual increase in membership numbers.

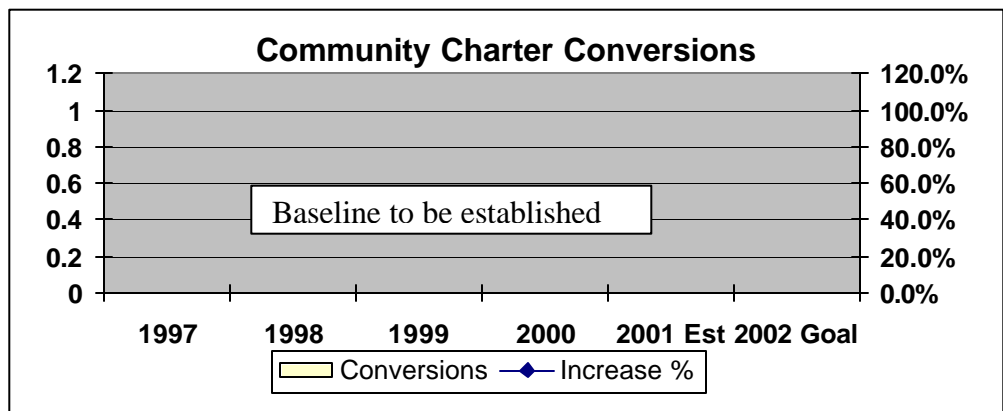
**Target:** 3 % annually



**Goal 4.1(b):** Facilitate an increase in community charters.

**Measure:** Number of community charters approved annually.

**Target:** TBD





### **Performance Analysis**

The NCUA strategies performed well in 2000. As a result, the goal percentage remained the same for 2001. However, the goal in total number of new members to be added actually increases by 100,000 over 2000's goal.

NCUA is uniquely responsible for establishing a regulatory and examination environment that encourages innovative programs and credit union growth. To that end, NCUA is aggressively pursuing increased cooperation among and with credit unions, leagues, and associations in promoting the synergy between traditional credit union values and the need for growth.

### **Strategies 2002**

- NCUA Regions and Office of Credit Union Development (OCUD) will continue to focus on credit union development encouraging new credit union charters and expansion of existing charters such as

CDCUs, and faith-based credit unions and providing assistance through programs such as SCUP, the CLF, etc.

- NCUA Regions will implement and review the results of the pilot-chartering program to determine whether such a program should be implemented NCUA-wide.
- NCUA regions and staff continue to facilitate credit union membership growth through the encouragement of community charters.

### **Crosscutting Strategies 2002**

- NCUA, as an agency, will coordinate with SSAs, leagues, credit unions, and State and National trade organizations, and other interested organizations to educate the public about the benefits of credit union membership to assist in ensuring prudent, well-managed credit union membership growth.

## **OUTCOME GOAL 4.2 Performance Analysis**

**Goal 4.2:** *Increase the percentage of the potential underserved membership population served annually.*

The focus of this goal is to clearly demonstrate that credit unions are taking up the mantle to fully serve the underserved, especially those of modest means. The measure tracks the population of underserved areas added to credit union field of memberships as an indirect measure of providing reasonable financial access to the underserved. The percentage is based on the total underserved population as identified by US Census Data.



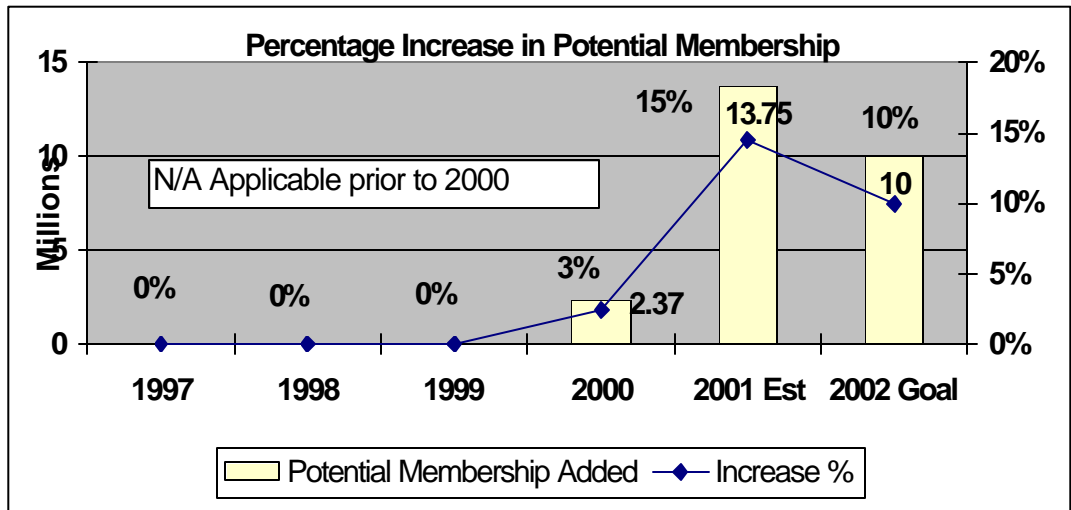
**Goal 4.2:**

Facilitate an increase in the potential membership of underserved.

**Measure :**

Percentage annual increase in potential underserved membership.

**Target: 10 %** annually.



**Performance Analysis**

The goals and strategies related to increasing service to low-income and underserved areas were successful and, thus, were continued into 2001. Credit union consolidation and the impact of the economy may bring a leveling off of the rate of increase in these areas.

The underserved represent almost a third of the entire US population and thus provide fertile ground for credit union growth. While the measure of potential membership is an indirect measure of credit union use by the underserved, it does clearly indicated credit union efforts to provide reasonable access to financial services to those of modest means.

**Strategies 2002**

- NCUA Regions and OCUD will facilitate and encourage chartering of new credit

unions and the expansion of existing credit union service to low-income and underserved areas.

- NCUA Regions and OCUD will continue to facilitate meetings between credit unions and community representatives through regional Small Credit Union Program (SCUP) conferences and meetings with other government agencies and private sector foundations.
- NCUA Regions will encourage eligible credit unions to apply for Low Income Credit Union (LICU) designation.
- NCUA Regions will continue to assist credit union officials in preparing field of membership expansion requests, community needs assessments and business plans to facilitate an increase in the number of credit



union members from low-income and underserved areas.

**Crosscutting Strategies 2002**

- NCUA, with assistance from State and National trade organizations, will facilitate and encourage chartering of new credit unions and expansion of existing credit

union service to low-income and underserved areas.

- NCUA Regions and OCUD will work with other agencies that support the underserved, such as the Department of Housing and Urban Development and the Small Business Administration, to enhance financial services access to the underserved.





**Strategic Goal #5 Performance Summary**

<i>Enhance NCUA’s organizational ability to act proactively in assisting the credit union community meet the challenges of the twenty-first century.</i>								
<b>Performance Goal Summary</b>								
Period	12/00	09/01		12/00	09/01		12/00	09/01
Goal 5.1(a)	Not Met	Not Met	Goal 5.2	N/A	N/A	Goal 5.3(a) 5.3(b)	Met Met	Met Met
<b>Resources Utilization Summary</b>								
<b>Year</b>	<b>97</b>	<b>98</b>	<b>99</b>	<b>00</b>	<b>01</b> (Est.)	<b>02</b> (Goal)		
<b>FTE’s (actual)</b>	67.26	69.08	108.96	110.25	109.91	<b>104.81</b>		
<b>Dollars (actual)</b>	\$6,939,230	\$7,817,713	\$13,079,304	\$14,071,940	\$10,495,371	<b>\$15,469,590</b>		
<b>% Total Dollars</b>	7.14%	7.77%	11.44%	11.03%	11.00%	<b>10.53%</b>		

During past years, NCUA recognized the need for a change in the way it addresses its operations, from one that focuses on financial transactions to one that focuses on management preparedness for current and future requirements. As a result, NCUA has begun to shift its focus much more toward the financial risk of credit union operations. NCUA’s challenge is to continue this change as credit unions grow in asset size and balance sheet complexity.

**Goal #5 Management Challenges 2002:**

The migration of government agencies towards the structural efficiencies listed in the President’s Management Agenda (FY 2002) will require NCUA to:

- Maintain a balanced approach to safety and soundness while shifting to a risk-based focus.
- Increase organizational efficiency.
- Develop a means for making necessary changes while remaining within the limits of its annual budgets.



Addressing the Challenges:

- Establish a means to continually review and effectively manage the agency workforce in size, diversity, programs, etc. (*OMB Management Initiative*)
- Continue the use of the National Quality of Life Committee as an initiative to involve all staff to enhance the workplace environment where it contributes to organizational effectiveness and efficiency. This includes the further development of the use of cross-functional committees of examiners, technicians, analysts, etc. to be developers of new programs and procedures to gain improvements in systems and process.
- Establish a means to effectively manage NCUA's human capital through targeted skills recruitment, increased retention, quality training, etc. (*President's Management Agenda Initiative/GAO High Risk Item*)
- Review the organization with the objective of de-layering management and flattening the structure. (*President's Management Agenda Initiative*)
- Continually review and update the agency-wide security plan to include timeline, budgeting, staffing, training required, etc. This process should include enhancing the ease of use of security features and updates and education and training of employees on security and its importance. (*GAO High Risk Item*)
- Improve and enhance NCUA's capability to accomplish capital budgeting and planning for required information technology systems and upgrades to include timeline, budget, staffing, life cycle analysis, etc.
- Continue to enhance agency communication systems within the central office and with and between regional offices.

**OUTCOME GOAL 5.1 Performance Analysis**

**Goal 5.1:** *Ensure NCUA has the ability to identify management and human capital issues and trends and implements timely solutions before the issues become critical.*

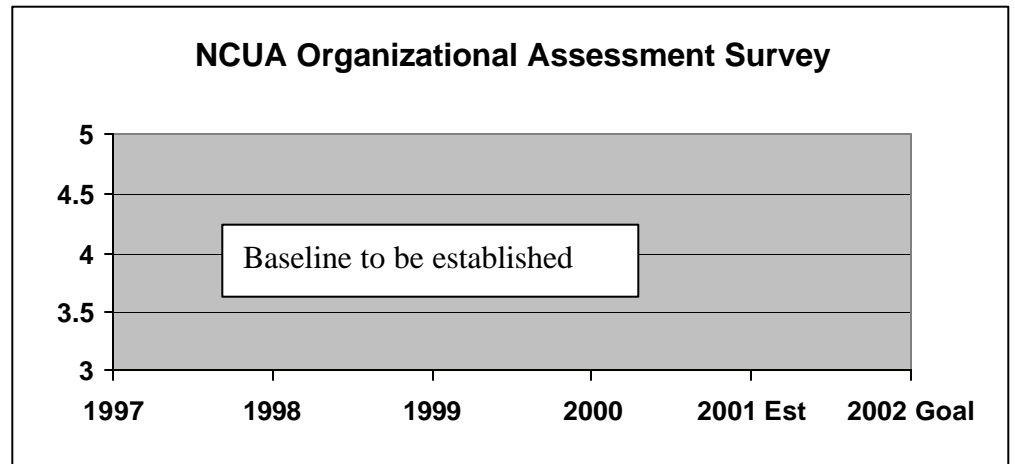
The focus of this goal is to clearly demonstrate that NCUA continually assesses the impact of the credit union movement and the external environment upon its operations and takes the necessary action to ensure the effective and efficient completion of its mission. Success is tracked through two outcome measures (enhanced communication and improved efficiency) and two output measures (completion of workforce and training plans).



**Goal 5.1(a):** Maintain constant improvement in the results of the NCUA Board and Staff Organizational Assessment Survey

**Measure:** (Re: Satisfaction with quality and timeliness of cross-agency communication).

**Target:** Baseline to be established



**Goal 5.1(b):** Integrate human capital planning into agency's strategic mission and goals.

**Measure:** Development of a 5-year workforce management plan.

**Target:** Plan completion November 2002.

**Goal 5.1(c):** Transition workforce to requisite competencies and skills to fully implement the risk-focused examination and supervision program.

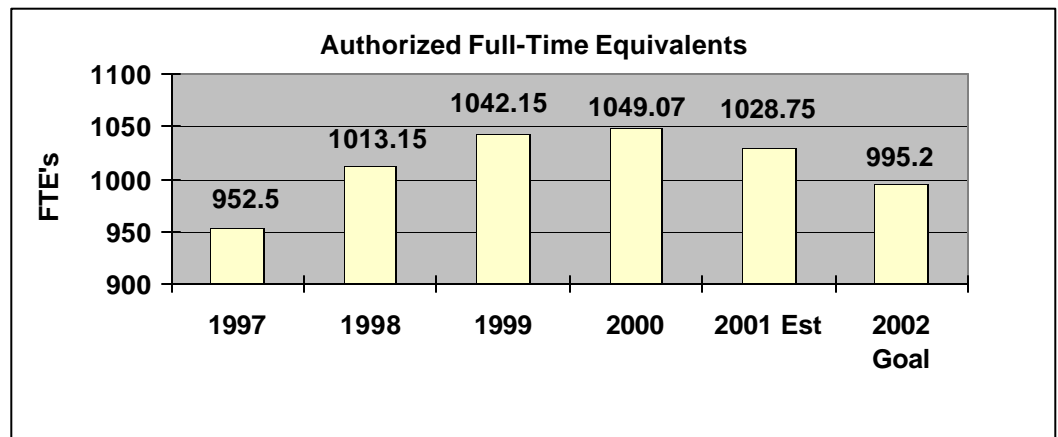
**Measure:** Development of examiner training program and transition plan

**Target:** November 2002

**Goal 5.1(d):** Continue transition toward more citizen-based /streamlined results oriented organization.

**Measure:** Increased efficiency through effective staff management.

**Target:** 4% staff reduction by December 2003 using 2001 as baseline.





### **Performance Analysis**

As NCUA looks inward to assess its capabilities, efforts must focus on four areas. First, it will have to continue taking a critical look at its current staffing and competency needs for forecasting and evaluating trends. It is imperative NCUA be able to quickly identify and bring forward critical information regarding emerging risks and trends to senior management. This forward-looking approach will improve NCUA's responsiveness to safety and soundness issues of the credit union movement it serves.

Second, the agency will have to establish a process to communicate this essential information to all personnel.

Third, NCUA will have to fully assess the impact of the risk-based examination scheduling and risk-focused examination programs on

required support operations and ensure these critical programs are set up for success.

Fourth, NCUA will have to continue to better integrate its budget and performance information. In doing so, NCUA must also consider ways to use information technology as an enabler to better utilize personnel, budget, and program data to improve overall agency efficiency and effectiveness.

### **Strategies 2002**

- NCUA will develop a more effective means to identify and propose solutions to emerging risks and trends.
- NCUA will develop a more effective means to deploy and communicate the agency performance goals and measures throughout and to integrate them into daily operations.

### **OUTCOME GOAL 5.2 Performance Analysis**

**Goal 5.2:** *Ensure NCUA migrates to a single integrated, reliable, scalable, high-speed, and secure information technology architecture system, which is fully supportive of NCUA strategic goals.*

The focus of this goal is to clearly demonstrate that NCUA is migrating toward completion of an optimized expanded electronic government agency. We track success through the completion of our Enterprise Architecture Infrastructure Blueprint, customer satisfaction, and reliability and security of the systems.



**Goal 5.2(a):** Ensure NCUA has the appropriate Information Technology tools to accomplish its mission effectively and efficiently.

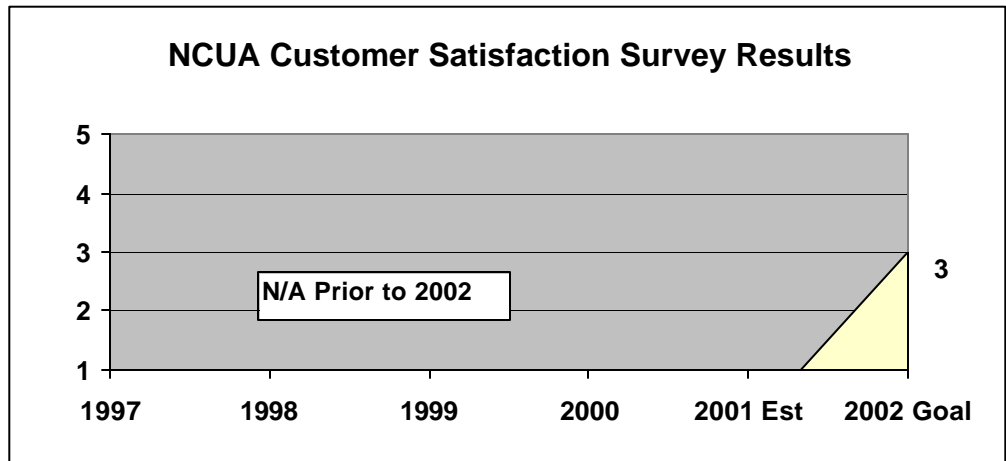
**Measure:** Development and institutionalization of an Enterprise Architecture Infrastructure Blueprint.

**Target:** January 2003

**Goal 5.2(b):** Maintain current and efficient information technology tools for examiners and staff.

**Measure:** Satisfaction with information technology tools and their capabilities.

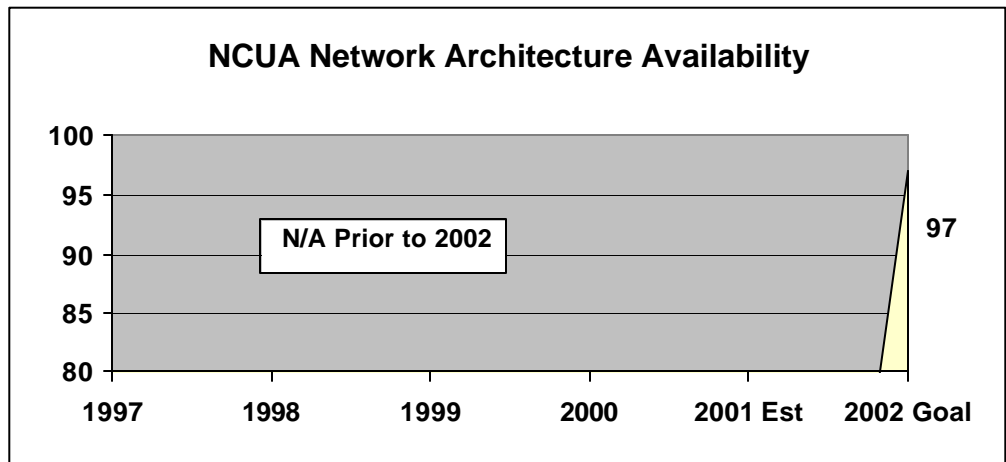
**Target:** A survey response of 3.0 or better on a 5-point scale.



**Goal 5.2(c):** Ensure the reliability of NCUA's network architecture.

**Measure:** Percentage of network availability.

**Target:** 97% or better

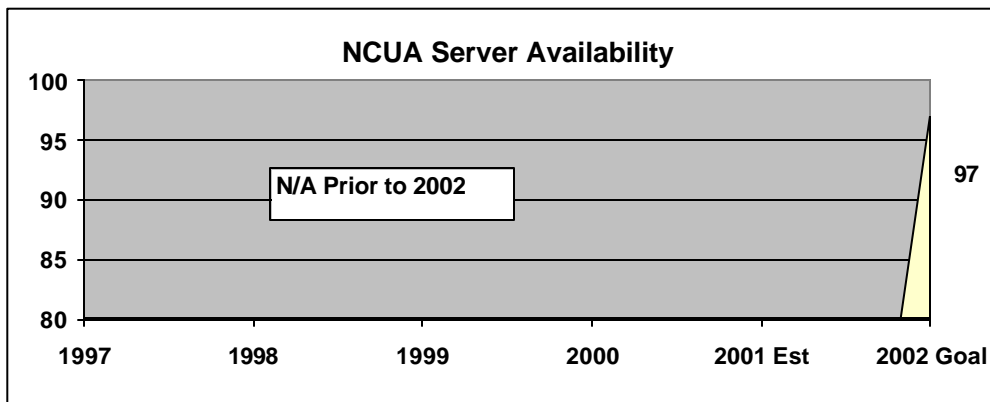




**Goal 5.2(d):** Ensure the reliability of NCUA’s server capability.

**Measure :** Percentage of server availability.

**Target: 97%** or better.



**Goal 5.2(e):** Ensure the security of NCUA’s information technology system.

**Measure :** Results of an independent security audit.

**Target:** No material weaknesses.

**Performance Analysis**

The focus of Outcome Goal 5.2 will be on Information Technology and NCUA’s ability to effectively leverage its capabilities to serve as an enabler of improved efficiency and effectiveness of administrative and operations functions. The IT emphasis will be on developing a robust, scalable Enterprise Architecture (blue print for the future) and setting in place the necessary infrastructure to effectively and efficiently support operational and administrative requirements today, tomorrow and in the future.

collect data for performance goals and measures.

- NCUA will develop a means to leverage technology to better manage data collection, storage, analysis, and access for enhanced organizational efficiency and effectiveness in the determination of credit union financial health and risk profile.
- NCUA will conduct a customer satisfaction survey of NCUA IT users.
- NCUA will contract for at least one independent IT security review during 2002.
- NCUA will develop and implement an effective means to maintain, upgrade, and replace network components and servers as required.

**Strategies 2002**

- NCUA will implement a means to leverage technology to systematically and efficiently



- NCUA will investigate and consider implementing an effective means to provide video teleconferencing, webcasting, net meeting, and e-learning capabilities.
- NCUA will investigate and consider implementing a means to improve and enhance the agency's telephone exchange system.
- NCUA will continue to ensure the agency is in full compliance with the Government Information Security Reform Act (GISRA).
- NCUA will ensure its Enterprise Architecture Infrastructure is on track to support the eventual requirements for broadband and/or wireless and web-based operational capabilities for staff, examiners and credit union interaction.

**OUTCOME GOAL 5.3 Performance Analysis**

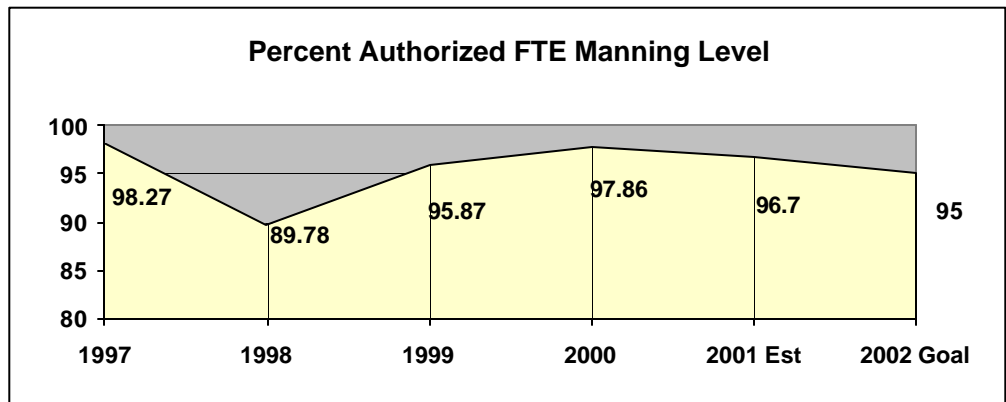
**Goal 5.3:** *Ensure NCUA has the organization in place to support a renewed emphasis on credit union growth and development.*

The focus of this goal is to clearly demonstrate that NCUA's organizational structure and operational procedures do not impede credit union growth but do maintain overall safety and soundness. We track success through our ability to maintain staff levels and provide appropriate training.

**Goal 5.3(a):** Maintain the personnel at the optimal level.

**Measure:** Authorized level of FTE's.

**Target:** 95% or better.

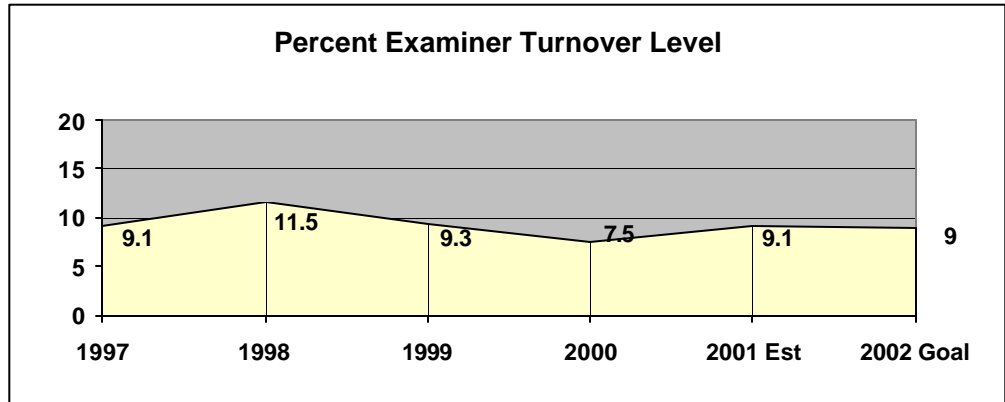




**Goal 5.3(b):** Maintain the turnover rate at an acceptable level.

**Measure :** Percentage Examiner turnover rate.

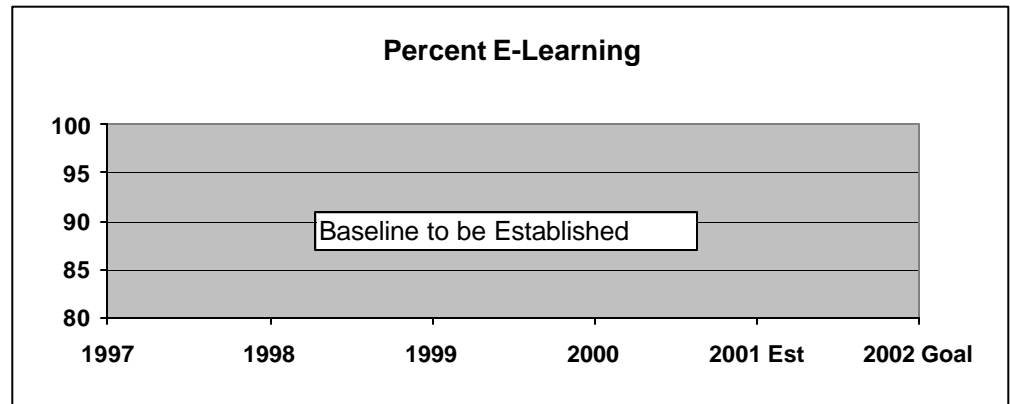
**Target:** 9% or lower.



**Goal 5.3(c):** Maintain Subject Matter Examiner and other competencies through an optimal mix of classroom and e-learning training.

**Measure :** Annual percentage increase in e-learning training.

**Target:** Base line to be established.



**Performance Analysis**

NCUA is aggressively continuing its forward-looking transition and is taking a hard look internally during 2001. First, under NCUA Board direction, NCUA conducted a two-part Accountability in Management (AIM) study designed to review management and organizational structure for opportunities to streamline and improve operations with the clear objectives of strengthening accountability, budgetary responsibility, and agency-wide

efficiency. Part 1 looked at Central Office operations and structure. Part 2 looked at Regional operations and structure.

Additionally, the NCUA Workforce Management Team is developing a 5-year plan designed to effectively recruit, train, and retain the right personnel at the right time to accomplish the mission.





Further, NCUA is updating its Strategic Plan for 2003-2008. NCUA is actively seeking the input of external stakeholders in the development of this important product that will provide the roadmap for the future.

The year 2002 will bring NCUA exciting opportunities. The impact of the economy, regardless of its state of robustness, will bring challenges to which NCUA must respond in its role as regulator and insurer. The use of technology in service delivery, the trends of aggregation, consolidation, mergers and many others will potentially impact NCUA's operations and structure to one degree or another.

NCUA is responding to the changes in the credit union movement through its risk-based examination scheduling, risk-focused examination and other initiatives that look forward in anticipation of preparing the movement for the future. It is these changes and the resulting cultural changes that must take place within its entire staff and operations that will occupy NCUA's efforts for 2002 and beyond.

### **Strategies 2002**

- NCUA will ensure its organizational structure and/or procedural effectiveness

enhances and does not impede credit union membership opportunities for growth and technological competitiveness.

- NCUA will develop a means or a training process to adequately address identified skill competency gaps to begin implementation of the risk-focused examination and supervision program.
- NCUA will continue the emphasis of the recruitment task force in ensuring the agency remains fully staffed with skilled, properly aligned personnel and minimum of turnover.
- E&I and OTD will work together to identify core requirements and develop training opportunities, either internally or externally, for subject matter examiners.

### **Crosscutting Strategies 2002**

- NCUA will continue to work as an active member of professional organizations such as the National Academy of Public Administration (NAPA) and the Human Resources Management Council (HRMC) in order to increase NCUA's effectiveness in developing human resource programs.



### **Strategic Program Evaluation**

During the year 2002, the OIG will review NCUA strategic goal 1 (Promote a system of financially healthy, well-managed federally insured credit unions able to withstand economic

volatility). Strategic Goal 1 was selected because the goal represents an estimated 68% & 66% of NCUA budget and staff resources for 2001 & 2002 respectively. The review emphasis will be verification and validation.



## **APPENDIX A**

### **NCUA 5-Year Workforce Plan**

The Office of Management and Budget Bulletin No. 01-07 requires agencies to develop a 5-year Workforce Plan for inclusion in its Annual Performance Plan 2003. NCUA is aggressively addressing this request. NCUA's Workforce Plan will be contained in an appendix to its Annual Performance Plan 2003.

The demographics of the NCUA workforce reflect a much younger workforce than is typical of most federal agencies, with NCUA's median age in the 40 to 44-age range, and median years of service in the 10 to 14 year range. For this reason, NCUA does not expect a wave of retirements proportionate to what other agencies will experience in the next 10 years. NCUA's largest wave of retirements within the next 10 years will be at the supervisory and executive level. Nearly 65% of supervisory examiner workforce and nearly 50% of the executive level will be eligible to retire between 2005 and 2010. At the staff, or non-supervisory level, the peak in retirement eligibility is not anticipated before 2020.

To assure a continuing source of highly qualified candidates for executive, managerial and supervisory positions to fill anticipated

vacancies, NCUA has expanded its management and executive development efforts with a new in-house program targeted at NCUA employees currently at the CU-13 through CU-16 levels.

At the staff level, retention remains constant at a high 94 % level, due to innovative recruitment and retention programs. State of the art recruitment programs for the primary occupation, credit union examiners, who represent more than 60% of the NCUA workforce and serve as the primary recruitment source for positions above CU-12, will enable NCUA to maintain a steady influx of candidates with minimal disruptions as workforce losses occur due to retirements, and other causes.

NCUA's 5-Year Workforce Plan will address the following areas:

- Seasonal, Temporary and Intermittent Workforce
- Evaluation of Workforce Skills
- Skills currently vital to the accomplishment of the agency's goals and objectives
- Changes expected in the work of the agency
- Impact of changes on agency's human resources



- Recruitment, Training, and Retention Strategies to Ensure High Quality, Diverse Workforce
- Organizational Delaying, Increased Delegations of Authority, Delaying to Streamline Programmatic Decision Making
- Planned or potential process improvements
- Barriers to Achieving Workforce Restructuring



**APPENDIX B**

**Information Technology Resource Management**

(Enterprise Architecture Infrastructure)

**Component Mission Statement**

Provide our customers with a secure, reliable, seamless IT architecture with user-friendly quality products and services and timely, accurate data and information, which fosters effectiveness and efficiency in NCUA’s mission accomplishment.

**Component Vision Statement**

Provide single, integrated, scalable, secure, and high-speed information technology architecture system, which is fully supportive of NCUA strategic goals.

**IT Strategic Intent (2003-2008)**

Goals:

Strategies:

**Capital Expenditure Plan 2002**

<u>Item</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Total</u>
Leasing costs				
Operations costs				
Annual Maintenance				
Software upgrades				
Disposition costs				
Opportunity Costs				
FTE’s				
Etc, etc.				



Comments: This plan is a product of the National Credit Union Administration. The National Credit Union Administration is the federal agency that charters and supervises the nation's federal credit unions. NCUA insures the majority of member deposits held in credit unions. NCUA is funded by credit unions and receives no federal tax dollars. Comments and/or recommendations may be sent via e-mail to the Office of the Director, Strategic Planning, [strategicplanning@ncua.gov](mailto:strategicplanning@ncua.gov).

NCUA

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