

NCUA Combined
Annual Performance Report 2003
And
Initial Annual
Performance Plan 2005



JoAnn Johnson
Chairman

A handwritten signature in black ink that reads "JoAnn Johnson".



Deborah Matz
Board Member

A handwritten signature in black ink that reads "Deborah Matz".

Message from the NCUA Board

We are pleased to present the National Credit Union Administration's Combined Annual Performance Report 2003 and Initial Annual Performance Plan 2005. Under NCUA Strategic Plan 2000-2005, we began a transition to a more risk-focused approach. The shift was and is designed to foster a regulatory agency that is proactively responsive to an ever increasing, rapidly changing economic environment. This transition continues as we begin our planning efforts for 2005.

NCUA Combined Annual Performance Report 2003 and Initial Annual Performance Plan 2005 serves as an annual report to our stakeholders as well as a roadmap for our future actions. NCUA Annual Performance Report 2003 provides an account of how NCUA achieved its stated goals and objectives for the year 2003, and reports how cost effective NCUA was in achieving them. In meeting the requirements of the Government Performance Result Act and sound business practice, it is designed to serve as a starting point or basis from which to make performance related decisions.

NCUA Initial Annual Performance Plan 2005 builds on the performance lessons learned during 2003 and our performance to date in 2004. It lays out the groundwork for NCUA program and program support operations during 2005 and as envisioned in NCUA Strategic Plan 2003-2008.

As we prepare for the future, NCUA must carefully balance the primary mission requirement of ensuring safety and soundness of federally insured credit unions with the need to provide greater empowerment opportunities for well-managed financially strong credit unions. Effective regulation, not excessive regulation, is our guiding principle. The principle of optimizing a balance between safety and soundness and market competitiveness is a core philosophy evident throughout NCUA's Combined Report 2003 and Initial Performance Plan 2005. Accordingly, mission accomplishment will continue to place reliance on our regulatory and supervision roles. At the same time, we will work to better align opportunities for individual credit unions based on their financial health and ability to prudently take on new and/or additional risk. We will emphasize sound stewardship of the credit union funds with which we are entrusted by striving to enhance agency operational efficiency and effectiveness.

Finally, we will continue to stress the improvement of financial access for citizens and residents from all walks of life, including financial education as a means of enhancing credit union growth and development. In doing so, we will proactively engage the credit union industry through such initiatives as *Access Across America* and the *Partnering and Leadership Successes* in an effort to better position federally insured credit unions to provide the financial services necessary for them to compete in today's extremely competitive environment.

The future holds uncertainty as well as many valued opportunities for credit unions. Some of the uncertainty stems from the changing economic environment and some from the changing dynamics of competition in the financial marketplace. We know that credit unions are well capitalized and positioned to handle change and meet the challenges ahead. It is our responsibility to ensure the challenges are addressed safely and soundly for the benefit of all current and future members of the cooperative credit union community. NCUA Combined Annual Performance Report 2003 and Initial Annual Performance Plan 2005 facilitates our path toward that end.

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SECTION I: NCUA Mission, Vision, and Values

NCUA

NCUA is the independent federal agency that charters and supervises federal credit unions, and, through management of the National Credit Union Share Insurance Fund (NCUSIF), insures the majority of member funds held in the nation's credit unions. NCUA also works in cooperation with the state supervisory authorities to maintain the safety and soundness of state chartered credit unions insured by the NCUSIF. NCUA's regulatory responsibilities are entirely funded by federally insured credit unions; it receives no federal tax dollars in the execution of its chartering, supervision and enforcement mission.

Vision

NCUA must ensure the cooperative credit union movement can safely provide financial services to all segments of American society, enabling credit unions and their members to thrive in the 21st century.

Mission

NCUA's charge is to foster the safety and soundness of federally insured credit unions and to better enable the credit union community to extend the availability of financial services for provident and productive purposes to all who seek such service, while recognizing and encouraging credit unions' historical emphasis on extension of financial services to those of modest means.

NCUA's mission is accomplished by managing the NCUSIF in an efficient and prudent manner through an effective supervision program and a regulatory environment that encourages innovation, flexibility and continued focus on attracting new members and improving financial service to existing members.

Values

Integrity – This is the underlying value in everything NCUA does as an agency and as individual staff members. Integrity directly addresses the concepts of honor and duty, which the American public has the right to expect from us as public servants.

Forward-Looking – NCUA continuously plans how to address emerging financial issues that may affect credit unions and acts upon these issues sufficiently in advance to provide timely and cost effective solutions.

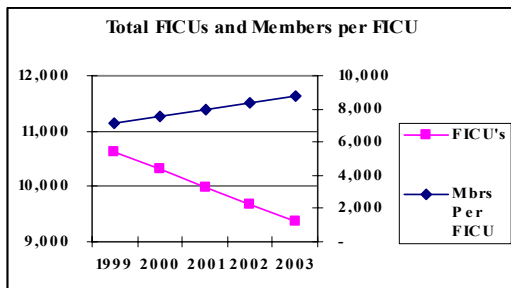
Responsiveness – NCUA strives to provide effective policies and procedures that are designed to address safety and soundness, as well as concerns of credit unions in an ever-changing financial marketplace.

Teamwork – Teamwork inspires, motivates, and guides NCUA toward its 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 identity which sustains NCUA today.

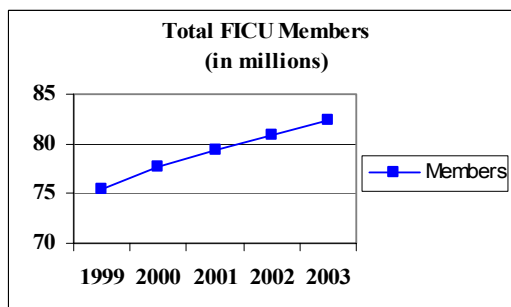
SECTION II: NCUA Annual Performance Report 2003 Industry Overview

This section contains a summary of the trends of federally insured credit unions as of December 31, 2003. Change is measured from December 31, 2002.

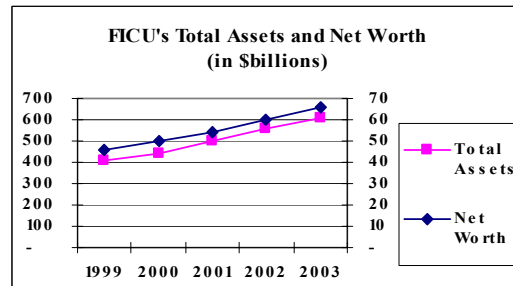
The **number** of institutions declined from 9,730 to 9,369. Of this number, 5,776 (61.6%) are federally chartered and 3,593 (38.4%) are state chartered. The percentage makeup of federally chartered and state chartered institutions experienced virtually no change from 2002. The decline in the number of institutions is largely a result of consolidations and mergers with members still receiving credit union service. As a result, the number of members per institution increased from 8,351 to 8,795.



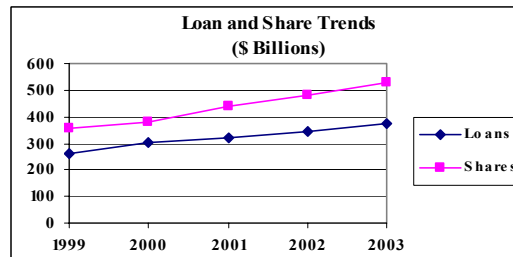
Members of FICUs increased from 80.9 to 82.4 million.



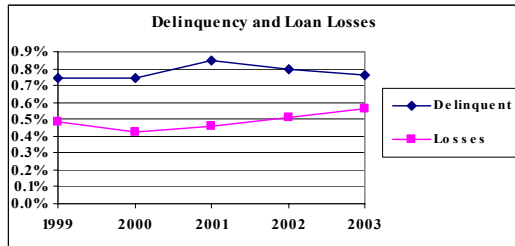
Assets of FICUs increased \$53.0 billion, or 9.52% while **net worth** increased 9.57%, or \$5.7 billion. The net worth to assets ratio increased from 10.71% to 10.72%.



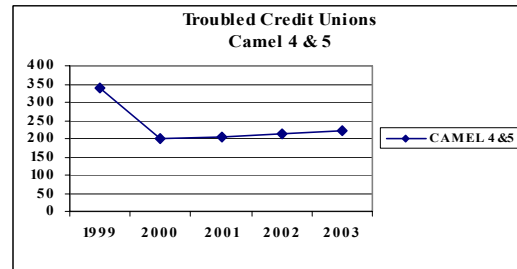
Loans outstanding increased \$33.4 billion or 9.75% while **shares** increased \$44.1 billion or 9.11%. The greater percentage increase in loans caused the loan to share ratio to increase from 70.78% to 71.19%.



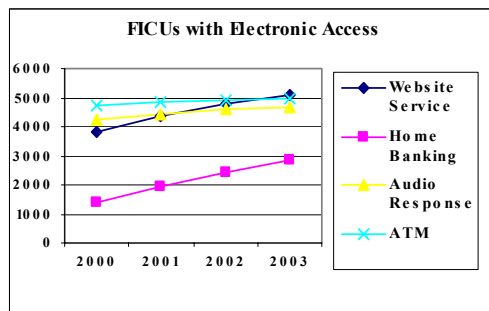
Delinquent loans as a percentage of total loans decreased from 0.79% to 0.77% while **loan losses** as a percentage of average loans increased from 0.51% to 0.56%.



Troubled institutions increased slightly from 211 to 222 institutions. The average net worth ratio of these institutions is 9.52%.



Electronic access capability increased with an increased number of institutions offering website service, home banking, audio response and automatic teller services.



In summary, federally insured credit union trends as of December 31, 2003, are positive. While the number of institutions declined, credit union members, assets and net worth all increased. Institutions experienced healthy loan growth, which surpassed share growth, improving the loan to share ratio. Delinquent loans declined with only a minimal increase in loan losses.

Trend Analysis and Emerging Issues

As a whole, the credit union industry remains strong and healthy. To maintain safe and sound operations and a healthy industry, NCUA and credit unions must continue to consider emerging risks. Key trends as of December 31, 2003, include:

- Shares continued to grow in 2003, but at a pace less than net worth and loan growth. Share growth continues to be focused in non-maturity shares. Credit unions may experience increased competition for shares and deposits if improved equity markets draw back investors and lower-rate shares migrate into higher-rate accounts. ●
- Loan growth outpaced share growth for the first time since 2000, resulting in an increase in the loan to share ratio. Residential real estate loans led all loan types in growth, increasing to a new high of 43 percent of total loans. ●
- The maturity structure of the industry's investment portfolio has shifted towards longer maturity instruments. This is likely the result of the historically low short-term interest rates. In a rising interest rate environment, credit unions with significant and/or increasing real estate loan levels that extend their investment portfolio maturities could have asset/liability management concerns. Credit unions need to ensure their loan and investment

















portfolios are well diversified to avoid excessive credit and/or interest rate risk exposure, and to meet member funding demands. ●






- The net interest margin narrowed to a historical low. Many credit unions were able to partially offset the decline in net interest margins by increasing fee and other income and reducing the growth of operating expenses. Profitability problems are manageable for credit unions that are able to adjust expenses in light of reduced margins and slower share growth. ●
- The net worth of the credit union industry as a whole remains strong. Fewer credit unions should experience a decline in net worth as the rate of share growth declines. ●
- Inherent risks in the credit union market, as well as opportunities, continue to increase due to expanded powers, increased competition and innovation. However, if well-managed, these opportunities enable credit unions to safely and soundly diversify their income streams. ●
- The number of field of membership expansions declined in 2003, but the number of potential members greatly increased. For credit unions that are prepared to handle growth associated with FOM expansions, this increase represents a good means to expand the availability of credit union services and diversify risk. ●

Trend Analysis Key	
Positive trend	●
Neutral trend with potential for positive or negative	●
Negative trend	●

Performance Summary

The following table reflects NCUA's performance results in achieving its strategic goals and in efficiently utilizing resources. Detailed performance results for each Annual Performance Goal follows the Resource Utilization Summary.

Strategic Goals	Performance Summary	Resource Utilization	
	Measures	FTE	Dollars
Strategic Goal 1 A financially healthy credit union system.			
Strategic Goal 2 A technologically safe and secure credit union system.			
Strategic Goal 3 A safe, sound and facilitative regulatory environment.			
Strategic Goal 4 Reasonable access to financial services for Americans of all walks of life.			
Strategic Goal 5 Enhanced organizational efficiency and effectiveness.			
Overall Measure of Effectiveness Efficiency in Insured Shares per FTE ¹			

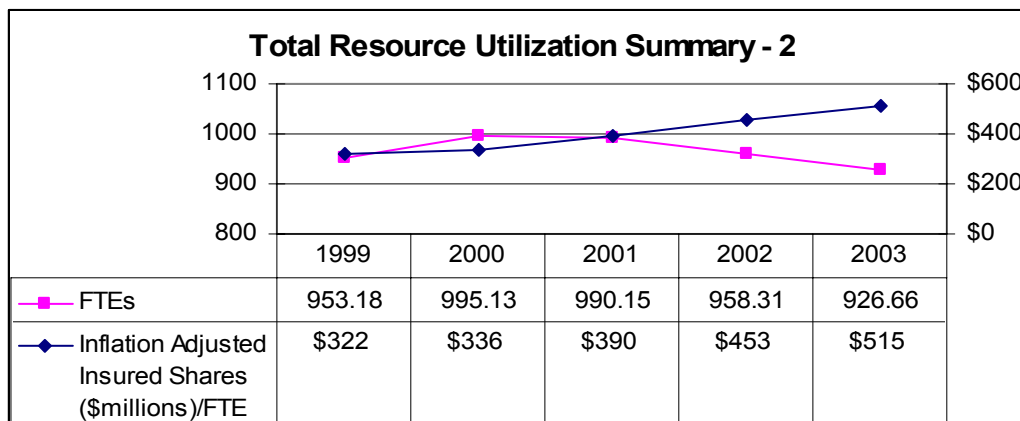
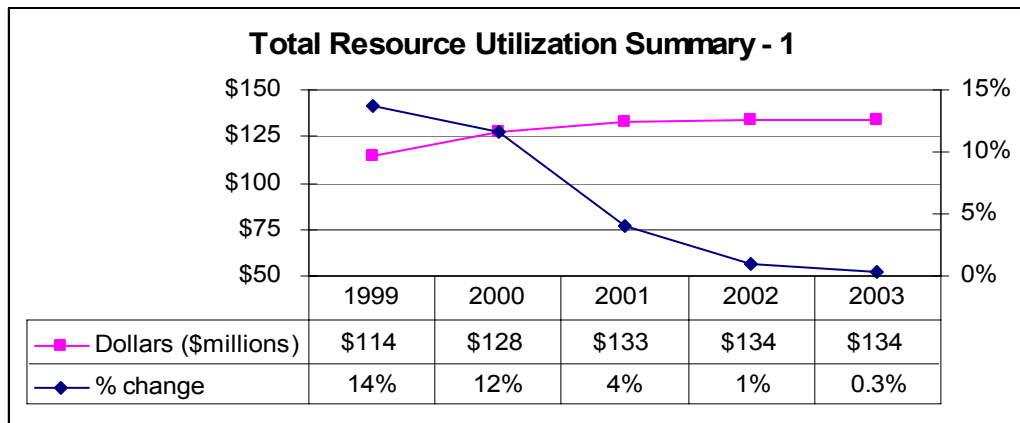
Performance Key	
<ul style="list-style-type: none"> • All measures and targets achieved • Output and Performance goals achieved • Used the same or less dollars than budgeted • Used the same or less full time equivalents than allocated 	
<ul style="list-style-type: none"> • Measure and target ongoing • Output and Performance goals partially achieved (within 10%) or ongoing • Used more dollars than budgeted, but within 3% • Used more full time equivalents than allocated, but within 3% 	
<ul style="list-style-type: none"> • Measure and target not achieved • Output and Performance goals not achieved • Used greater than 3% more dollars than budgeted • Used greater than 3% more full time equivalents than allocated 	
<ul style="list-style-type: none"> • Projected performance results • Color sequence follows the performance key above 	
<ul style="list-style-type: none"> • Not included as a performance measure for the associated year 	

¹ Green – see graph titled *Resource Utilization Summary – 2* on the following page.

Resource Utilization Summary

The following two graphs depict the total resources utilized to accomplish NCUA's mission and goals for the years 1999 - 2003. Total Resource Summary - 1 shows the actual dollars spent and the percentage change in dollars spent for this time period. As shown, the percentage increase in actual dollars spent declined in all five years.

Total Resource Summary - 2 shows the actual full time equivalents (FTEs) employed for the years 1999 - 2003. This second graph also depicts a measure of efficiency in resource utilization. In this graph, efficiency is measured by adjusting total insured shares for inflation², and dividing the result by the number of FTEs. As demonstrated, the amount of insured shares per FTE increased for each of the past five years with a decrease in FTEs over the past four years, indicating increased operational efficiency.



² Insured shares for years 1999 - 2002 are adjusted for inflation equivalent to 2003 dollars.

2003 Annual Performance Goal Results Analysis

NCUA Combined Annual Performance Report 2003 and Initial Annual Performance Plan 2005 include modifications to NCUA's five strategic goals. The wording of the goals has been changed to be more succinct. While the wording of the five goals has been modified, the intent of each strategic goal has not changed from prior years. The adoption of more succinct strategic goals is just one of the steps in our efforts to provide more concise reporting and monitoring tools going forward.

NCUA successfully met 19 and partially achieved 4 of the 26 annual performance goals established in NCUA Annual Performance Plan 2003.

Goals not Achieved

NCUA strives to limit the percentage of federally insured credit unions with long-standing unresolved problems that threaten their safety and soundness. In 2003, NCUA's measure and target to reflect the agency's performance in this area was the percentage of credit unions with a CAMEL code 3 for greater than 36 months. The 2003 target was to reduce this percentage from the prior year-end. While the percentage did increase from 3.21 percent at year-end 2002, to 3.52 percent at year-end 2003, the increase was lower than in the four years prior to 2002, and is in an acceptable range.

NCUA continually evaluates the regulatory environment in an effort to reduce regulatory barriers and share information regarding legislative efforts

with credit unions, leagues and associations. In 2003, NCUA measured its successfulness in this effort by monitoring the percentage increase in credit union members. This goal cannot be directly controlled by NCUA. It can only be indirectly influenced by the regulatory environment NCUA establishes. The target for 2003 was a 3 percent increase. The actual percentage increase in credit union members was 1.9 percent. This increase is consistent with the percentage increase for 2002, and the declining trend from the prior two year-ends. In 2004, the targeted percentage increase in credit union members was reduced to 2 percent. NCUA also added three additional measures to reflect its efforts: the percentage increase in credit union assets, loans, and shares.

NCUA leverages existing and emerging technologies to enhance its program and operational support capabilities and conducts an independent customer service survey to evaluate the quality of its information technology. The goal is to achieve a rating that is at or above the peer group average. In the 2003 survey, NCUA's overall customer satisfaction rating was slightly below the peer group average. NCUA made a significant number of major changes to its computing infrastructure in 2003, which caused the rating to decline from the previous year. NCUA expects these technology changes will be fully absorbed and it will achieve this goal by the next survey.

Goals Partially Achieved

NCUA manages the National Credit Union Share Insurance Fund (NCUSIF) in an effective and prudent manner. Performance in this area is monitored through the NCUSIF's equity ratio. The 2003 target was to maintain the equity ratio at 1.3 percent. The 2003 actual ratio was slightly less at 1.25 percent which is more in line with actual performance since 2001. To better reflect historical performance, the 2005 Initial Annual Performance Plan establishes an equity ratio target range between 1.25 and 1.3 percent.

NCUA continually strives to facilitate credit union efforts to increase accessibility of financial services for Americans of all walks of life. However, only partial progress was made regarding the implementation of a process to identify emerging trends in demographics and financial service offerings and the sharing of this information with examiners, State Supervisory Authorities, and federal credit unions. Competing priorities such as the *Partnering and Leadership Successes* initiative combined with temporary short staffing contributed to the partial completion of this goal. The goal remains a priority and is included in both the 2004 and 2005 Annual Performance Plans.

During 2003, NCUA made significant efforts in the Accountability in Management initiative including the closing of one regional office and the relocation of another. The impact of this initiative is being measured through the reduction of budget dollars to each million in federally insured credit union assets. A 10 percent reduction was established as the goal for 2003. The actual reduction for 2003 was 6.7

percent. While this is slightly below the 10 percent goal, the reduction is in line with the reduction from 2001 to 2002 and is considered acceptable. As a result, the 2005 Initial Annual Performance Plan includes a new measure based on maintaining NCUA actual expenses per \$1,000 in federally insured credit union assets at or below the five year historical average.

In an effort to enhance organizational efficiency and effectiveness, NCUA completed a review of its pay system. While the pay review is complete, specific recommendations are forthcoming.

Performance and Budget Integration

The resources used to achieve NCUA's five strategic goals were under or near-to budget for 2003. However, Strategic Goal 4 requires some further explanation. It was originally budgeted for 126.20 FTE and \$18,984,865 in November 2002. We did not achieve this goal in 2003. A conscious performance related decision was made to increase the emphasis on credit union growth as an aspect of industry safety and soundness through the Access Across America and Partnering and Leadership Successes initiatives. The additional FTE and funds came from other areas of the budget where performance would not be hindered by minor reductions. The increased emphasis was carried through to the 2004 budget.

This year the agency experienced 44.36 (4.57%) in unused FTE. The lower level of FTEs was a result of the closure and realignment of two regions. During this transition, emphasis was appropriately placed on relocating existing employees rather than hiring new employees.

Resource Utilization

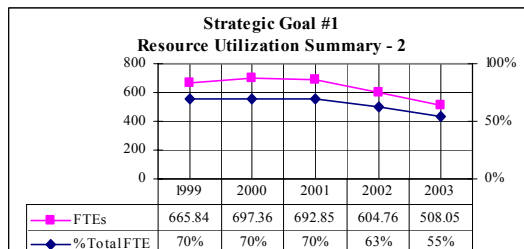
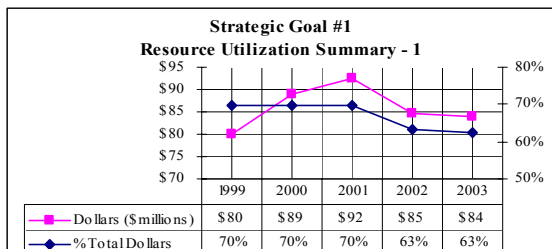
The following chart shows how NCUA resources have been applied to accomplish its five strategic goals since 1999.

Goal		1999	2000	2001	2002	2003	2004 ³
1	Budget	704.69	729.20	706.22	628.66	634.71	602.95
	FTE Actual	665.84	697.36	692.85	604.76	580.05	N/A
1	Budget	\$82,368,695	\$93,276,711	\$96,086,414	\$92,790,450	\$95,485,302	\$93,842,706
	Dollars Actual	\$79,927,400	\$89,008,270	\$92,422,097	\$84,528,781	\$84,072,892	N/A
2	Budget	34.41	39.00	31.81	36.48	31.86	34.15
	FTE Actual	30.52	35.32	30.98	34.81	32.23	N/A
2	Budget	\$4,172,141	\$5,738,137	\$4,928,441	\$5,460,094	\$4,792,946	\$5,315,415
	Dollars Actual	\$3,612,356	\$5,053,257	\$4,707,265	\$4,874,055	\$4,671,581	N/A
3	Budget	35.18	32.69	33.95	72.18	70.65	68.12
	FTE Actual	31.61	34.04	33.69	79.55	69.80	N/A
3	Budget	\$4,112,044	\$4,181,701	\$4,618,820	\$10,653,276	\$10,628,670	\$10,602,367
	Dollars Actual	\$3,794,983	\$4,344,719	\$4,493,986	\$11,119,362	\$10,116,821	N/A
4	Budget	129.34	115.84	123.67	151.58	126.20	155.52
	FTE Actual	116.25	118.16	122.47	145.68	146.14	N/A
4	Budget	\$15,118,454	\$14,818,098	\$16,826,083	\$22,372,974	\$18,984,865	\$24,205,613
	Dollars Actual	\$13,955,037	\$15,081,098	\$16,337,272	\$20,362,714	\$21,182,096	N/A
5	Budget	138.52	132.34	133.10	106.30	107.60	102.55
	FTE Actual	108.96	110.25	110.17	93.50	98.43	N/A
5	Budget	\$16,191,016	\$16,927,899	\$18,108,822	\$15,690,667	\$16,187,929	\$15,961,491
	Dollars Actual	\$13,079,304	\$14,071,940	\$14,695,977	\$13,069,330	\$14,267,161	N/A
Total	Budget	1042.15	1049.07	1028.75	995.20	971.02	963.30
	FTE Actual	953.18	995.13	990.15	958.31	926.66	N/A
Total	Budget	\$121,962,349	\$134,942,546	\$140,568,580	\$146,967,461	\$146,079,712	\$149,927,592
	Dollars Actual	\$114,369,080	\$127,559,283	\$132,656,597	\$133,954,242	\$134,310,552	N/A
% Total Actual Dollar Change		13.70%	11.53%	4.00%	.98%	.27%	N/A

³ The 2004 budget was approved by NCUA Board on November 20, 2003.

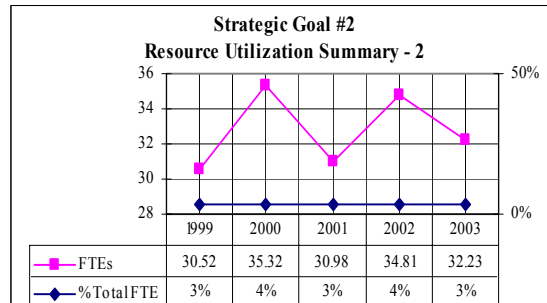
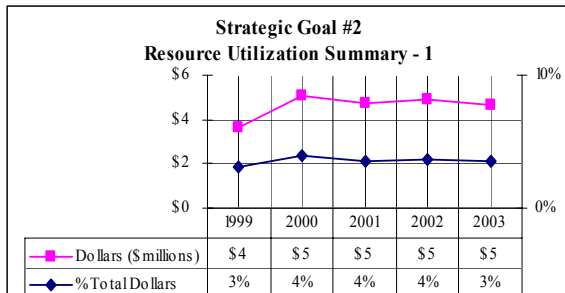
2003 Annual Performance Results

<i>Strategic Goal #1 A financially healthy credit union system</i>						
Outcome Goal 1.1: Create a regulatory environment that promotes effective risk management practices.	1999	2000	2001	2002	2003	Est. 2004
Goal 1.1(a): Review one third of NCUA regulations annually for needed changes. Measure: regulations reviewed Target: 1/3 annually	○	○	○	○	●	◐
Goal 1.1(b): Complete the program review phase of the transition to a risk-focused examination process. Measure: program evaluation Target: complete by year-end	○	○	○	○	●	○
Outcome Goal 1.2: Resolve safety and soundness issues in a timely manner.	1999	2000	2001	2002	2003	Est. 2004
Goal 1.2(a): Effectively monitor and assess the percentage of federally insured credit unions with long-standing unresolved problems that threaten their safety and soundness Measure: CAMEL code 3 > 36 months Target: Reduce from last year-end	●	●	●	●	●	◐
Goal 1.2(b): Effectively monitor and assess the continued viability of federally insured credit unions with a net worth ratio of less than 2 percent. Measure: credit unions with net worth ratio < 2 percent Target: maintain at < three-year moving average	○	○	○	○	●	◐
Outcome Goal 1.3: Promote effective planning to meet current and potential future financial challenges.	1999	2000	2001	2002	2003	Est. 2004
Goal 1.3: Ensure communication processes, including examinations, serve as effective means to provide credit unions with critical and other valuable information. Measure: question 7 on the recently revised NCUA Examination Survey Target: maintain 4.4 average rating	○	○	○	○	●	◐
Outcome Goal 1.4: Promote healthy financial performance through effective and diligent management of the National Credit Union Share Insurance Fund (NCUSIF).	1999	2000	2001	2002	2003	Est. 2004
Goal 1.4: Manage the National Credit Union Share Insurance Fund in an effective and prudent manner to support credit union deposit insurance needs. Measure: NCUSIF's equity position Target: maintain at 1.3 percent	○	○	○	○	●	◐



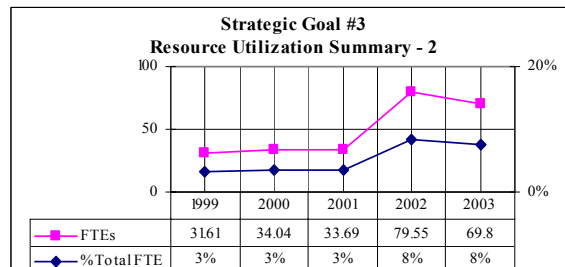
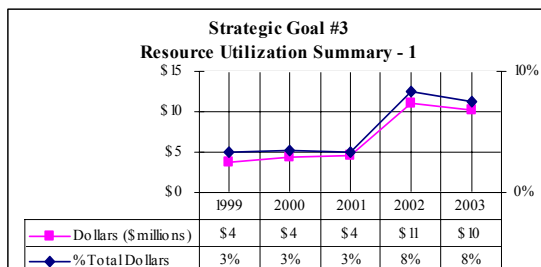
Strategic Goal #2
A technologically safe and secure credit union system

Outcome Goal 2.1: Ensure NCUA staff develops and maintains the necessary level of expertise to effectively identify, measure, monitor, report, and control the risks that existing and emerging financial service technologies pose to credit unions and the NCUSIF.	1999	2000	2001	2002	2003	Est. 2004
Goal 2.1: Enhance the training program for NCUA and State Supervisory Authority Information Systems and Technology Subject Matter Examiners. Measure: appropriate training Target: provide by year-end	○	○	○	○	●	○
Outcome Goal 2.2: Provide a regulatory environment encouraging credit unions to safely integrate and operate existing and emerging financial service technology and effectively manage the related risks.	1999	2000	2001	2002	2003	Est. 2004
Goal 2.2: Enhance the credit union community's use and understanding of technology plans, due diligence expectations and best practices. Measure: pertinent guidance Target: provide by year-end	○	○	○	○	●	◌



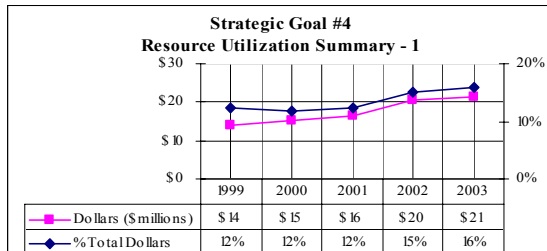
Strategic Goal #3
A safe, sound and facilitative regulatory environment

Outcome Goal 3.1: Ensure NCUA regulations are current, clearly written, flexible, necessary and relevant for an effective regulatory environment.	1999	2000	2001	2002	2003	Est. 2004
Goal 3.1: Review one third of NCUA regulations annually for needed changes. Measure: regulations reviewed Target: 1/3 annually	○	○	○	○	●	◐
Outcome Goal 3.2: Support credit union efforts to provide innovative and competitive financial services in a changing economic environment.	1999	2000	2001	2002	2003	Est. 2004
Goal 3.2(a): Develop and implement a means to ensure the regulatory philosophy set forth by the NCUA Board is effectively communicated throughout all levels of the organization. Measure: develop means Target: complete by year-end	○	○	○	○	●	○
Goal 3.2(b): Review examination and supervision procedures to ensure they are efficient, effective, flexible and facilitative in a competitive environment yet maintain safety and soundness. Measure: Questions number 1 and 3 of the revised NCUA Examination Survey (examiners focus on significant issues) Target: 4.5 average response rating	○	○	○	○	●	◐
Outcome Goal 3.3: Encourage credit unions to meet the economically and sociologically changing financial needs of credit union members.	1999	2000	2001	2002	2003	Est. 2004
Goal 3.3: Create a regulatory environment that allows credit unions to enhance financial services by reducing regulatory barriers and sharing legislative efforts with credit unions, leagues and associations. Measure: credit union members Target: increase by three percent	●	●	●	●	●	◐



Strategic Goal #4
Reasonable access to financial services for Americans of all walks of life

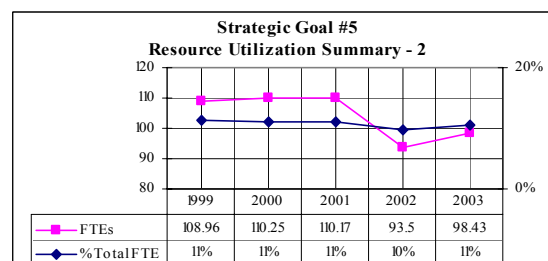
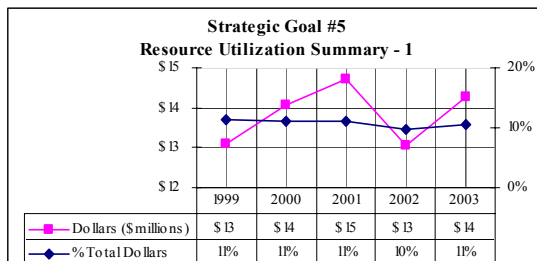
Outcome Goal 4.1: Facilitate credit union efforts to increase credit union membership and accessibility, continue to serve the underserved, and enhance financial services.	1999	2000	2001	2002	2003	Est. 2004
Goal 4.1(a): Expand financial service availability to people from all walks of life through the <i>Access Across America</i> initiative. Measure: % increase in reported potential underserved membership Target: increase by > three-year moving average	○	○	●	●	●	◐
Goal 4.1(b): Implement a process to identify emerging trends in demographics and financial service offerings and share information with examiners, State Supervisory Authorities and federal credit unions. Measure: implementation of process Target: complete by year-end	○	○	○	○	●	◐
Goal 4.1(c): Implement a review process of the successes and difficulties encountered by new charters and identify common themes or reasons for success or failure. Measure: implementation of the review process Target: complete by year-end	○	○	○	○	●	○



Strategic Goal #5
Enhanced organizational efficiency and effectiveness

Outcome 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.	1999	2000	2001	2002	2003	Est. 2004
<p>Goal 5.1(a): Ensure NCUA has the ability to identify management and human capital issues and trends and implements timely solutions before the issues become critical. Measure: Satisfaction of agency managers with human capital data to make optimal decisions Target: mid-range response on Strategic Alignment questions on the Human Capital Survey</p>	○	○	○	○	●	○
<p>Goal 5.1(b): Ensure NCUA workforce is appropriately trained and transitioned in a timely manner to meet requisite competencies and skills to fully support the risk-focused examination and supervision programs. Measure: Satisfaction of agency managers with the competency level of staff Target: mid-range response on Strategic Competencies questions on the Human Capital Survey</p>	○	○	○	○	●	○
Outcome Goal 5.2: Ensure NCUA provides an integrated, reliable, and secure information technology architecture that is fully supportive of NCUA strategic goals.	1999	2000	2001	2002	2003	Est. 2004
<p>Goal 5.2(a): Leverage existing and emerging technologies to enhance NCUA's program and operational support related capabilities. Measure: Quality of NCUA's information technology as measured by an independent customer service survey Target: at or above peer group average</p>	○	○	○	●	●	◐
<p>Goal 5.2(b): Maintain minimal deficiencies during mandated security reviews. Measure: material deficiencies Target: minimal material deficiencies</p>	○	○	●	●	●	◐
<p>Goal 5.2(c): Complete the computer upgrade leasing initiative and distribute them throughout the agency. Measure: distribution of new computers Target: complete by April 1, 2003</p>	○	○	○	○	●	○
<p>Goal 5.2(d): Implement and complete the migration to voice over Internet protocol technology in the central office and all regions. Measure: migration completion Target: complete by December 31, 2003</p>	○	○	○	○	●	○

Outcome Goal 5.3: Ensure NCUA's organizational structure is responsive to the changing credit union community environment and maintains safety and soundness while supporting credit union growth and development.	1999	2000	2001	2002	2003	Est. 2004
Goal 5.3(a): Continue the Accountability in Management process to assess the current environment, organizational structure, and procedures to facilitate enhanced NCUA effectiveness and efficiency. Measure: NCUA dollar budget Target: reduce budget dollar to each million in FICU assets by approximately 10% from \$262 to \$237 Actual: \$245 – 6.7% decrease	○	○	○	○	●	○
Goal 5.3(b): Maintain examination and supervision productive time as a percentage of total examiner time at greater than or equal to 50 percent. Measure: ratio of examination and supervision productive time Target: 50% or better	○	○	○	○	●	◌
Goal 5.3(c): Develop and implement procedures designed to close Region IV. Measure: closure of Region IV office Target: complete by no later than May 2005	○	○	○	○	●	●
Goal 5.3(d): Develop and implement procedures designed to move Region VI to a low-cost locality. Measure: relocation of Region VI office Target: complete by no later than May 2005	○	○	○	○	●	●
Goal 5.3(e): Design and implement an agency pay study. Measure: completion of study Target: complete by December 31, 2003	○	○	○	○	●	○



2003 Actual Performance – Impact on 2004 Annual Performance Plan and Beyond

NCUA Annual Performance Plan 2003 (Plan) provided a roadmap as NCUA continues its successful transition into a more risk-focused approach across the agency. The annual performance goals included in the 2003 Plan appropriately focused on the successful implementation of this new program. With 2003 marking the first full year of the Risk-Focused Examination Program, the risk-focused approach is no longer a concept, but a practice.

The 2004 and 2005 Plans include several new performance goals and measures to better monitor NCUA's performance in the risk-focused environment.

During 2003, the questionnaires and surveys used to gather feedback from examiners and credit unions were revised to coincide with the risk-focused examination program. The revised questionnaires and surveys are effectively utilized in the 2004 and 2005 Plans to measure performance in various areas.

The 2004 and 2005 Plans appropriately place increased emphasis on the subject matter examiner program. The Plans include goals and measures designed to strengthen this developing program element. Training, resources needed, and skill requirements are key areas of measurement.

The 2004 and 2005 Plans include measures aimed at improving the risk identification process. The semi-annual distribution of the National Risk Trends Report and the development of Offsite Surveillance Systems provide two new measures to identify emerging risks.

The performance results from 2003 played an integral part in the development of the 2004 and 2005 Annual Performance Plans. The successes and lessons learned during 2003 are key components of looking to 2004, 2005 and beyond.

SECTION III: NCUA Initial Annual Performance Plan 2005

Environmental Scan

The environmental scan provides information on the economic, social/demographic, technologic, and political/legislative environment. This information, combined with performance results from the NCUA Annual Performance Report 2003 and year-to-date performance 2004, provides the foundation for formulating NCUA Initial Annual Performance Plan 2005.

Economic Outlook⁴

With record low interest in rates in 2002, 2003, and the first half of 2004, the general consensus is rates will rise. The questions are how much, how fast, and when?

Economic forecasts from the National Association of Federal Credit Unions (NAFCU) indicate a 100 basis points increase in the fed funds rate by the end of 2004, twice the current fed funds rate, creating the potential for interest rate risk increases.

Economic forecasts from the Credit Union National Association (CUNA) indicate the Treasury yield curve will remain relatively steep for most of 2004, allowing credit unions to continue to benefit from the favorable interest rate environment. However, the yield curve will begin to flatten as short-term rates begin rising faster than long-term rates, potentially decreasing credit union's net interest margins.

After increases in the unemployment rate in 2001, 2002, and 2003, the rate of unemployment began to decline during the first quarter of 2004. CUNA forecasts a declining

trend in unemployment with 2004 marking a return to job creation after 2.5 years of layoffs.

Gross Domestic Product (GDP) rate of growth provides the most comprehensive measure of U.S. economic activity. After experiencing negative GDP growth in 2001 and somewhat anemic growth in 2002 and early 2003, GDP growth began to rebound during the second half of 2003 and the first quarter of 2004, climbing to 4.4 percent.

Forecasts from CUNA indicate the ongoing fiscal and monetary stimulus, stable consumer spending rates, strengthening capital investment and an improving trade balance should allow for GDP growth in the 4.5 to 5.0 percent range for 2004.

NAFCU forecasts 2004 credit union loan growth in the 9.5 to 10.5 percent range, similar to the 9.75 percent loan growth experienced in 2003. While mortgage loans, which are expected to decline due to rising interest rates, did make up a majority of loan growth during 2003, auto loans were a very close second. Assuming a rapid pace of economic activity continues, labor market improvement, and a moderate increase in interest rates, the expected decline in mortgage lending will be offset by an increase in consumer installment lending, particularly automobiles.

CUNA forecasts share growth slowing from a 9.1 percent growth rate in 2003 to 7 percent in 2004. Stronger economic growth reduces member's concerns over job losses and also their precautionary savings balances. In addition, less volatile and rising stock prices may entice members to return to the equity markets.

⁴ Economic Outlook is based on NAFCU's Flash Reports and CUNA's Economic and Credit Union 2004 Forecast.

Loan growth has fallen short of share growth for each of the past three years. With 2004 projected loan growth exceeding share growth, CUNA forecasts increased net worth levels for credit unions. While net worth levels are projected to increase, both CUNA and NAFCU project slight declines in credit union's return on average assets in 2004. While the steep yield curve will allow credit unions to maintain net interest margins, fewer mortgage originations will reduce fee income.

CUNA forecasts continued low loan delinquency and charge-offs for 2004. The primary reasons are: (1) a majority of loans granted in the last 3 years have been real estate secured with less default risk, (2) the steadily growing economy will reduce bankruptcies, and (3) faster growing loan balances in 2004 will keep the denominators of the two ratios growing faster than the numerators.

Social/Demographic

The U.S. population more than tripled from 76 million people in 1900 to 292 million people in 2003. The growth of 32.7 million people in the 1990s represented the largest numerical increase of any decade in U.S. history. While slightly less, the U.S. Census Bureau projects population growth of 26.8 million people from 2000 to 2010.

Individuals are living longer as illustrated by the increase in the U.S. population's median age which increased from 22.9 years old in 1900 to 35.9 years old in 2002.

The U.S. population is much more racially diverse in 2002 than in 1900 when only 1 out of 8 Americans was a race other than White. In 2002, the ratio is 1 out of 4. Hispanic and Asian U.S. populations have the largest recent growth rates. The U.S. Census Bureau shows this trend continuing with projected growth rates from 2000 to 2010 for the U.S. Hispanic

and Asian populations of 33 and 34 percent, respectively.

In 2005 and beyond, credit unions must tailor their products and services to meet the needs of the changing U.S. demographic composition.

Technological Outlook

As of December 31, 2003, approximately fifty-four percent of all federally insured credit unions (FICUs) reported having a website. These credit unions represent 96 percent of all FICU assets. Additionally, 72 percent of credit union websites are now interactive or transactional. Credit unions continue to implement more sophisticated e-commerce services for their members such as bill payment, account aggregation, statement/disclosure delivery, and access to share draft images. As a result, a majority of FICU assets are potentially at risk for privacy and data security issues illustrating the importance of safeguarding members' identity and assets.

There was increased consolidation of core share and loan system vendors during 2003, though no significant consolidation of the product lines.

In 2004, credit unions will continue to increase the use of the Internet to deliver financial services. The growth rate of credit union websites will likely remain in the single percentage range. Credit unions with informational and interactive websites will continue to shift to sites with transactional capabilities, possibly increasing transaction and reputation risks.

The pace of credit union migration to Windows-based versions of core processing systems will likely increase as vendors announce final sunset dates for maintenance and support for previous generation systems based on DOS (which Microsoft no longer

supports). This will require system upgrades in some cases. Vendor consolidation will likely continue, as will vendor partnering arrangements with third parties to provide additional technology solutions for their client credit unions.

Computer viruses and hacking will continue to threaten the security of credit union systems and member data. Vendors with turnkey products will continue to place system (hardware/software) security responsibility directly on their clients. To understand the risks of the current computing environment and budget for adequate protective measures will frequently require credit unions to invest in technology, personnel, and staff training.

Political/Legislative Outlook

In 2003, legislation was introduced to further reduce the regulatory burden on insured depository institutions and improve productivity (H.R. 1375). The legislation was passed by the House of Representatives on March 18, 2004 by a vote of 392 to 25. Currently, the legislation contains the following provisions:

- allow credit unions to provide check cashing or money transfer services to eligible non-members,
- authorize privately insured credit unions to become members of a Federal Home Loan Bank,
- increase the maturity of Federal credit union loans from 12 to 15 years, or longer if approved by the NCUA Board,
- increase the investment limit in credit union service organizations (CUSOs) from 1 percent to 3 percent,
- expand the investment options for federal credit unions,
- allow credit unions to continue to serve their select employee groups (SEG's) after a credit union converts to a community charter,

- give credit unions parity with banks with respect to investment adviser and broker-dealer registration requirements, and exclude loans to non-profit religious organizations from the member business loan limitation.

The legislation has now been referred to the Committee on Banking, Housing, and Urban Affairs.

The credit union trade associations have been instrumental in influencing legislation that will provide regulatory relief to credit unions. This legislation, known as CURIA (the Credit Union Regulatory Improvement Act, H.R. 3579), is very similar to the larger regulatory relief legislation, but it includes additional provisions to expand member business lending and implement a "risk-based" Prompt Corrective Action system. NCUA has been consulted in the drafting of legislative language.

Many legislative initiatives were left unfinished in 2003, the first session of the 208th Congress. NCUA's Office of Congressional and Governmental Affairs is following developments on deposit insurance reform legislation, bankruptcy reform legislation, and legislation that would expand credit union participation in individual development accounts and allow credit unions to provide investment advice to pension plan participants.

On June 22, 2004, NCUA Chairman Johnson testified before the US Senate Committee on Banking, Housing and Urban Affairs regarding the need for NCUA to receive direct examination authority to examine third party vendors. In addition to providing parity with other financial regulators, it would provide additional oversight for the protection, privacy and security of member information and data. NCUA previously had statutory authority to complete these examinations under a sunset

provision that expired in 2001. If granted, the authority would allow NCUA to examine vendors serving multiple credit unions versus obtaining the information from each credit union individually. In addition to being more efficient and risk-focused, the process provides some measure of regulatory relief to credit unions.

During 2004, NCUA gained additional Congressional appropriations for the Community Development Revolving Loan Fund and the Technical Assistance Grant Program. NCUA is hoping to maintain the increased level of funding for FY2005.

Initial Annual Performance Plan 2005 Introduction

The following table contains the five Strategic Goals for 2005. Each Strategic Goal is supported by an associated Outcome Goal. While the Strategic Goals remain the same as 2003, three Outcome Goals were added in 2004. Each of the new Outcome Goals is highlighted in the table below:

2005 Strategic Goals
<p><i>Strategic Goal 1</i> A financially healthy credit union system.</p>
<p><i>Strategic Goal 2</i> A technologically safe and secure credit union system.</p>
<p><i>Strategic Goal 3</i> A safe, sound and facilitative regulatory environment.</p>
<p><i>Strategic Goal 4</i> Reasonable access to financial services for Americans of all walks of life.</p>
<p>4.2 A regulatory environment allowing credit unions to meet the changing economical and sociological financial needs of members.</p>
<p>4.3 Identify and share innovative initiatives to further credit union service while ensuring the safe and sound condition of the credit union system.</p>
<p><i>Strategic Goal 5</i> Enhanced organizational efficiency and effectiveness.</p>
<p>5.4 The people, tools, and structure in place to minimize the impact of any potential crisis situation.</p>

The following pages contain the complete 2005 Initial Annual Performance Plan, including the Means and Strategies, Outcome Goals, and Annual Performance Goals to support each of the five Strategic Goals. A supporting Resource Utilization Projection illustrating the resources applied to each Strategic Goal is also included.

Resource Utilization Projection

The following chart shows how NCUA resources have been applied to accomplish its five strategic goals since 2000. The 2005 projected FTE and budget dollars are estimates only. The final 2005 budget will be approved by the NCUA Board in November 2004.

Goal		2000	2001	2002	2003	2004 ⁵	Est. 2005 ⁶
1	Budget	729.20	706.22	628.66	634.71	602.95	602.36
	FTE Actual	697.36	692.85	604.76	580.05	N/A	N/A
1	Budget	\$93,276,711	\$96,086,414	\$92,790,450	\$95,485,302	\$93,842,706	\$95,723,000
	Dollars Actual	\$89,008,270	\$92,422,097	\$84,528,781	\$84,072,892	N/A	N/A
2	Budget	39.00	31.81	36.48	31.86	34.15	33.67
	FTE Actual	35.32	30.98	34.81	32.23	N/A	N/A
2	Budget	\$5,738,137	\$4,928,441	\$5,460,094	\$4,792,946	\$5,315,415	\$5,350,000
	Dollars Actual	\$5,053,257	\$4,707,265	\$4,874,055	\$4,671,581	N/A	N/A
3	Budget	32.69	33.95	72.18	70.65	68.12	68.05
	FTE Actual	34.04	33.69	79.55	69.80	N/A	N/A
3	Budget	\$4,181,701	\$4,618,820	\$10,653,276	\$10,628,670	\$10,602,367	\$10,815,000
	Dollars Actual	\$4,344,719	\$4,493,986	\$11,119,362	\$10,116,821	N/A	N/A
4	Budget	115.84	123.67	151.58	126.20 ⁷	155.52	155.37
	FTE Actual	118.16	122.47	145.68	146.14	N/A	N/A
4	Budget	\$14,818,098	\$16,826,083	\$22,372,974	\$18,984,865	\$24,205,613	\$24,691,000
	Dollars Actual	\$15,081,098	\$16,337,272	\$20,362,714	\$21,182,096	N/A	N/A
5	Budget	132.34	133.10	106.30	107.60	102.55	98.83
	FTE Actual	110.25	110.17	93.50	98.43	N/A	N/A
5	Budget	\$16,927,899	\$18,108,822	\$15,690,667	\$16,187,929	\$15,961,491	\$15,705,000
	Dollars Actual	\$14,071,940	\$14,695,977	\$13,069,330	\$14,267,161	N/A	N/A
Total	Budget	1049.07	1028.75	995.20	971.02	963.30	958.28
	FTE Actual	995.13	990.15	958.31	926.66	N/A	N/A
Total	Budget	\$134,942,546	\$140,568,580	\$146,967,461	\$146,079,712	\$149,927,592	\$152,284,000
	Dollars Actual	\$127,559,283	\$132,656,597	\$133,954,242	\$134,310,552	N/A	N/A
% Total Actual Dollar Change		11.53%	4.00%	.98%	.27%	N/A	N/A

⁵ The 2004 budget was approved by NCUA Board on November 20, 2003.

⁶ The 2005 FTE and budget projections are annualized and are for planning purposes only. The 2005 FTE and budget projections will not be approved by the NCUA Board until November 2004.

⁷ Increased to reflect increased emphasis on Access Across America and Partnering and Leadership Successes initiatives.

2005 Annual Performance Goals, Means, and Strategies

Strategic Goal 1:

A system of financially sound, well-managed, federally insured credit unions able to withstand economic volatility

Means and Strategies:

1. Focus the risk-focused examination on the forward-looking analysis of the seven areas of risk relevant to credit union operations and on credit union management's ability to identify, evaluate, monitor, and control risk in their institutions.⁸
2. Conduct quality control reviews and supervisory examiner appraisals of the risk-focused examinations at the regional level to help ensure the integrity and effectiveness of risk-focused examination process.
3. Work cooperatively with the State Supervisory Authorities in their assessment of the financial and operational condition of federally insured state-chartered credit unions and in properly managing their risk to the NCUSIF.
4. Utilize supervision tools currently available and under development to evaluate risk to the NCUSIF at the individual credit union, geographic area, region, and national level and react appropriately to mitigate this risk.
5. Continue to issue Letters to Credit Unions, Regulatory Alerts, Technical Bulletins and other official communications as warranted on a timely basis.
6. Ensure the Central Liquidity Facility continues to operate in an efficient and timely manner in meeting the unforeseen liquidity needs of its members.

<i>Strategic Goal #1 A financially healthy credit union system</i>						
Outcome Goal 1.1: NCUA promotes effective risk management practices.	2000	2001	2002	2003	Est. 2004	Est. 2005
Goal 1.1(a) NCUA's supervisory efforts contribute to the ability of federally insured credit unions to take advantage of regulatory flexibility while safely managing risk.						
Measure: The percentage of federally insured credit unions that meet the requirements of the Regulatory Flexibility program Target: Increase from prior year – 2004 goal 38%	○	○	○	○	●	●
Goal 1.1(b) NCUA's risk-focused supervision process provides credit unions with useful, effective, and efficient means for improving their risk management practices.						
Measure (1): Necessary changes identified through third-party reviews (i.e., OIG, GAO, OMB, etc.) Target: Implement by year-end	○	○	○	○	●	●

⁸ The seven risk areas are; credit, interest rate, liquidity, transaction, compliance, strategic, and reputation.

Measure (2): Question 2 on the NCUA Examination Survey – Question 2 asks whether the examination provided management with sufficient direction for improving risk management at the credit union Target: 4.5 average rating or better	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
Measure (3): Corporate credit unions with a CRIS Risk Management rating of 3 Target: 90 percent or better	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
Goal 1.1(c) Emerging risks and trends are identified and evaluated for resulting regulatory changes, changes to the supervision process, and/or the development of guidance.						
Measure (1): National Risk Trends Report and other communications Target: Distribute to staff semi-annually and as needed	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
Measure (2): Offsite Surveillance Systems Target: Review for opportunities to provide more timely data to identify risks	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
Outcome Goal 1.2: Resolve safety and soundness issues in a timely manner.	2000	2001	2002	2003	Est. 2004	Est. 2005
Goal 1.2(a) The percentage of federally insured credit unions (FICUs) with long-standing unresolved problems that threaten their safety and soundness is limited.						
Measure (1): FICUs with a CAMEL code 3 or greater Target: 25 percent or less	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
Measure (2): FICUs that remain a CAMEL code 4 or 5 for more than 12 months Target: 1 percent or less	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
Measure (3): FICUs with a return on assets less than 0.50 percent and net worth less than 6 percent Target: Acceptable range is 1 percent + or (-) 0.25 percent	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
Measure (4): FICUs with high transaction risk rating Target: 10 percent or less	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Goal 1.2(b) FICUs in danger of insolvency are effectively monitored and assessed for continued viability.						
Measure: FICUs with a net worth ratio of less than 2 percent Target: 0.25 percent or less	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
Goal 1.2(c) FICUs not thriving or growing are effectively monitored and assessed for needed supervision.						
Measure (1): The percentage of FICUs with both negative membership growth and negative loan growth Target: Decrease from prior year – 2004 goal 28 percent	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
Measure (2): The percentage of FICUs with both negative membership growth and negative loan growth that have a 3 percent or more decrease in either category Target: Decrease from prior year – 2004 goal 7.5 percent	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
Outcome Goal 1.3: Promote effective planning to meet current and potential future financial challenges.	2000	2001	2002	2003	Est. 2004	Est. 2005
Goal 1.3(a) NCUA staff, credit unions, and other interested parties are proficient in assessing strategic risk and understanding strategic planning concepts.						

Measure: Percentage of FICUs with high strategic risk rating Target: 15 percent or less						
Goal 1.3(b) NCUA provides credit unions and staff with critical and valuable information to assist with planning and evaluating emergin issues.						
Measure (1): Question 1 on the NCUA Examination Survey – Question 1 asks if the examiner communicated effectively with management and officials throughout the examination Target: 4.5 average rating or better						
Measure (2): Letters to Credit Unions, Regulatory Alerts, and other communications Target: Issue as warranted						
Outcome Goal 1.4: NCUA effectively and diligently manages the National Credit Union Share Insurance Fund (NCUSIF).	2000	2001	2002	2003	Est. 2004	Est. 2005
Goal 1.4(a) NCUA effectively and diligently manages the NCUSIF to support credit union deposit insurance needs.						
Measure (1): NCUSIF Equity Ratio Target: Between 1.25 and 1.3 percent						
Measure (2): NCUA actual expenses per \$1,000 FICU assets Target: At or below the 5 year historical average – 2005 goal 0.26						

Strategic Goal 2:

The safe integration of emerging technologies into credit union financial services

Means and Strategies:

1. Maintain a comprehensive program designed to provide initial and continuing education/training to subject matter examiners, examiners and SSA staff. Program includes establishing a baseline, program testing, evaluation, and reassessment through an examiner survey.
2. Enhance the sharing of Information Systems and Technology best practices among examiners, credit unions and trade associations through group meetings, regional intranet sites, and participation in sessions provided by the trade associations.
3. Monitor the number of CUs engaging in e-commerce activity and the type of activity utilized (informational, transactional, and interactive).
4. Track e-commerce providers to monitor the volume and level of associated risk.

Strategic Goal #2 <i>A technologically safe and secure credit union system</i>						
Outcome Goal 2.1: NCUA's supervision process is designed to identify, measure, monitor, report, and control the risks existing and emerging financial service technologies pose to credit unions and the NCUSIF.	2000	2001	2002	2003	Est. 2004	Est. 2005
Goal 2.1(a) NCUA Information System & Technology (IS&T) subject matter examiner workforce possesses an above average knowledge of procedures and controls in internal and external IS&T environments.						
Measure: The percentage of federally insured credit unions that meet the requirements of the Regulatory Flexibility program Target: Increase from prior year – 2004 goal 38%	○	○	○	○	◐	◐
Goal 1.1(b) NCUA's risk-focused supervision process provides credit unions with useful, effective, and efficient means for improving their risk management practices.						
Measure (1): Appropriate number of IS&T Subject Matter Examiners (SME) with desired competency level Target: Determined by each Region based on the number, size, and services of its credit unions annually	○	○	○	●	◐	◐
Measure (2): Structure training program for IS&T SMEs designed to meet their competency requirements Target: Launch by year-end	○	○	○	○	○	◐
Measure (3): IS&T competency requirements regarding the knowledge, skills and abilities an SME should possess after a specified period of time Target: Review and, if necessary, update annually	○	○	○	●	◐	◐
Measure (4): Regional Information Systems Officer Pilot Program Target: Establish by year-end	○	○	○	○	○	◐
Outcome Goal 2.2: NCUA provides information and resources to help ensure credit unions safely integrate, operate, and effectively manage existing and emerging financial service technologies.	2000	2001	2002	2003	Est. 2004	Est. 2005
Goal 2.2(a) The credit union community's use and understanding of technology planning including disaster recovery and contingency plans, due diligence expectations and best practices is enhanced.						
Measure: Guidance on effective technology management practices Target: Issue as necessary	○	○	○	○	◐	◐

Strategic Goal 3:

A regulatory environment that facilitates credit union innovation to meet member financial service expectations while maintaining safety and soundness

Means and Strategies:

1. Promote the flexible regulatory philosophy through publications and meetings.
2. Review examination and supervision procedures for necessary changes considering economic conditions.
3. Review NCUA regulations for both natural person and corporate credit unions for needed changes to ensure they are current, necessary, and effective.
4. Enhance the ability of NCUA to share information and legislative efforts with credit unions, leagues, State Supervisory Authorities and associations.
5. Continue to promote a strong dual-chartering system by maintaining a balanced “playing field” through the appropriate means for the two systems.
6. Review and consider all communications/input regarding the effectiveness of all regulations.

<i>Strategic Goal #3 A safe, sound and facilitative regulatory environment</i>						
Outcome Goal 3.1: NCUA regulations are current, clearly written, flexible, necessary and relevant for an effective regulatory environment.	2000	2001	2002	2003	Est. 2004	Est. 2005
Goal 3.1(a) NCUA regulations facilitate credit union innovation.						
Measure: The completed review and update of the NCUA Rules and Regulations as appropriate Target: One-third annually	○	○	○	●	◐	◐
Outcome Goal 3.2: NCUA’s supervision process supports credit union financial services that are innovative and competitive in a changing economic environment.	2000	2001	2002	2003	Est. 2004	Est. 2005
Goal 3.2(a) The NCUA Board’s regulatory philosophy is effectively communicated throughout all levels of the organization.						
Measure: Positive responses to Question 64 of the annual Human Capital Survey regarding NCUA employees satisfaction level with the information they receive from management on what’s going on in their organization Target: 50 percent or better	○	○	○	○	○	◐
Goal 3.2(b) NCUA’s supervision process is efficient, effective, flexible and facilitative in a competitive environment yet maintains safety and soundness standards.						
Measure (1): Credit unions’ average rating to questions 3 and 7 of the NCUA Examination Survey regarding whether topics discussed with credit union officials were relevant to the identified and potential risks and whether the overall examination process was effective Target: Rating of 4.5 or better	○	○	○	●	◐	◐

Measure (2): Examination and supervision productive time as a percentage of total examiner time Target: 59 percent or greater	○	○	○	○	●	●
Measure (3): Corporate credit unions with a CRIS Risk Management rating of 3 Target: 90 percent or better	○	○	○	○	●	●
Outcome Goal 3.3: NCUA contributes to a statutory environment that promotes credit union innovation.	2000	2001	2002	2003	Est. 2004	Est. 2005
Goal 3.3(a) Communication of legislative and regulatory information is efficient, timely and effective.						
Measure (1): Availability of legislative and regulatory information to credit unions, credit union leagues, and trade associations Target: Publish as appropriate	○	○	○	○	●	●
Measure (2): Percentage of FICUs subscribing to NCUA's electronic subscription service Target: Increase from prior year	○	○	○	○	○	TBD
Measure (3): NCUA's website Target: Update and post pertinent items timely	○	○	○	○	●	●

Strategic Goal 4:

Credit unions leverage their unique place in the American financial system to extend availability of service to all who seek such service, while encouraging and recognizing their historical emphasis on servicing those of modest means

Means and Strategies:

1. Effectively administer the Community Development Revolving Loan Fund (CDRLF) to support low-income designated credit unions in providing basic financial and related services to residents within their field of membership and thereby stimulate economic activities that result in increased income, ownership and employment opportunities.
2. Promote and enhance the ability of federal credit unions to expand the availability of affordable products and services to people from all walks of life through the *Access Across America* and *Partnering and Leadership Successes* initiatives.
3. Encourage credit union use by all Americans through an education initiative on the value of the NCUSIF account coverage.
4. Encourage and facilitate federally chartered credit unions to focus on providing competitive services based on sound business practices, to partner with others to increase efficiencies and to consider means to provide technologically based services to those not having access to the Internet.
5. Provide federal credit unions with an efficient process to expand fields of membership through effective statutes (including Federal legislation), regulations, policies and procedures.
6. Identify challenges in forming new federal charters and expanding existing charters, and identify and share resources to mitigate those challenges, partnering with trade associations and others to enhance service to underserved groups.

7. Facilitate the identification of resources available for federal credit unions to obtain economies of scale and to attract and retain new members, especially the underserved.
8. Facilitate the efforts of participating credit unions through loans to those credit unions in providing basic financial and related services to residents in their communities.
9. Facilitate the efforts of participating credit unions to stimulate economic activities in the communities they service to increase income, ownership and employment opportunities for low-income residents, and other community efforts.

Strategic Goal #4 <i>Reasonable access to financial services for Americans of all walks of life</i>						
Outcome Goal 4.1: NCUA promotes increased credit union membership and accessibility with service to the underserved and enhanced financial service offerings.	2000	2001	2002	2003	Est. 2004	Est. 2005
Goal 4.1(a) Financial service availability is expanded to people from all walks of life.						
Measure (1): Potential underserved members added Target: An amount equal to or above the three-year moving average number of potential underserved members added – 2004 goal is 21.6M	○	○	●	●	◐	◐
Measure (2): Increase financial and related services in low income communities through the percentage increase in low-income designated credit unions. Target: An increase of 6.0 percent or greater	○	○	○	○	○	◐
Goal 4.1(b) Emerging trends in demographics and financial service offerings are identified and shared with examiners, State Supervisory Authorities and federal credit unions.						
Measure: An annual survey of emerging trends in demographics and financial service offerings Target: Publish annually	○	○	○	●	◐	◐
Outcome Goal 4.2: NCUA appropriately shapes the regulatory environment to allow credit unions to meet the changing economical and sociological financial needs of credit union members.	2000	2001	2002	2003	Est. 2004	Est. 2005
Goal 4.2(a) The regulatory environment assists low-income designated credit unions in furthering financial service in low-income areas.						
Measure (1): Percentage growth of membership in low-income designated credit unions Target: An increase of 2.0 percent or greater	○	○	○	○	○	◐
Measure (2): Percentage increase in assets at low-income designated credit unions Target: An increase of 8.0 percent or greater	○	○	○	○	○	◐
Measure (3): Percentage increase in shares at low-income designated credit unions Target: An increase of 7.5 percent or greater	○	○	○	○	○	◐
Measure (4): Percentage increase in loans at low-income designated credit unions Target: An increase of 6.0 percent or greater	○	○	○	○	○	◐

Goal 4.2(b)						
The regulatory environment allows credit unions to enhance financial services by reducing regulatory barriers and sharing information and legislative efforts with credit unions, leagues, and associations.						
Measure (1): Percentage increase in the number of credit union members Target: An increase of 2.0 percent or greater – target based on historical performance for the last 3 years	○	○	○	○	●	●
Measure (2): Percentage increase in credit union assets Target: An increase of 8.0 percent or greater – target based on actual 10 year average increase in assets and forecasted economic conditions	○	○	○	○	●	●
Measure (3): Percentage increase in credit union shares Target: An increase of 7.5 percent or greater – target based on actual 10 year average increase in shares and forecasted economic conditions	○	○	○	○	●	●
Measure (4): Percentage increase in credit union loans outstanding Target: An increase of 6.0 percent or greater – target based on historical performance for the last 10 years and forecasted economic conditions	○	○	○	○	●	●
Outcome Goal 4.3: NCUA identifies and shares innovative initiatives to further credit union service while ensuring the safe and sound condition of the credit union system.	2000	2001	2002	2003	Est. 2004	Est. 2005
Goal 4.3(a)						
Innovative best practice member service solutions are available to credit unions.						
Measure (1): Communications describing best practice member service solutions Target: Post articles semi-annually	○	○	○	○	●	●
Measure (2): Single focus workshops that foster the objectives of the <i>Access Across America</i> and <i>Partnering and Leadership Successes</i> initiatives Target: Conduct by year-end	○	○	○	○	●	●
Goal 4.3(b)						
Stimulate economic activities within low-income designated credit unions						
Measure (1): Increased ownership through the percentage growth of the average share balance in low-income designated credit unions Target: An increase of 7 percent or greater	○	○	○	○	○	●
Measure (2): Increased employment opportunities through the percentage growth of member business loan balances in low-income designated credit unions Target: An increase of 15 percent or greater	○	○	○	○	○	●

Strategic Goal 5:

NCUA’s organization is appropriately structured to enable credit unions to continue to flourish while addressing the challenges of the 21st century.

Means and Strategies:

1. Employ effective business planning strategies to continually evaluate the validity and applicability of NCUA's strategic goals, outcome goals, and annual performance goals and measures.
2. Ensure human capital support systems provide necessary tools to meet current and evolving requirements of risk-focused transition and those set by the Office of Personnel Management.
3. Evaluate emerging technologies as potential tools to enhance operational effectiveness and efficiency where appropriate.
4. Promote internal collaboration and efficiency by maintaining a continual strategic dialog between all NCUA Regional and Office Directors through their participation on the Strategic Management Council.
5. Identify, resolve, and report security weaknesses and risks, as well as protect against future vulnerabilities and threats in accordance with the Federal Information Management Reform Act, and the Office of Management and Budget’s Updated Guidance on Security Plans of Action and Milestones.

<i>Strategic Goal #5 Enhanced organizational efficiency and effectiveness</i>						
Outcome Goal 5.1: NCUA has the ability to identify emerging management and human capital issues and trends and implement timely, cost effective solutions.	2000	2001	2002	2003	Est. 2004	Est. 2005
Goal 5.1(a) Human resource decisions are optimal, supported by data and aligned with the agency’s mission, values, and goals.						
Measure: Percentage of participants in the NCUA Human Capital Survey who agree that human capital data is used to make optimal, strategically aligned human resource decisions based on their ratings on all questions included in the “Strategic Alignment” dimension Target: Expect at least 60 percent of participants will agree	○	○	○	○	○	◐
Goal 5.1(b) Subject Matter Examiners (SME) maintain the requisite competencies required by their SME designation.						
Measure (1): Structured training program in each SME area to meet competency requirements established in 2004 Target: Launch by year-end	○	○	○	○	○	◐
Measure (2): Evaluation process for SME training programs Target: Develop and implement by year-end	○	○	○	○	◐	◐

Goal 5.1(c) NCUA staff has the requisite information technology skills to effectively support the accomplishment of agency mission and goals.						
Measure: Percentage of examiners with an average response rating of 4 or better on the Workforce Planning Survey questions pertaining to the use of agency provided hardware, purchased software, and custom applications Target: 90 percent or better	○	○	○	○	○	◐
Goal 5.1(d) Efficiency and effectiveness is enhanced through partnerships with sister FFIEC agencies.						
Measure (1): Advancement of inter-agency goals through participation in task forces and working groups with sister FFIEC agencies Target: Participate annually	○	○	○	○	◐	◐
Measure (2): Active participation in FFIEC E-Learning Committee to enhance NCUA's e-learning capabilities Target: Participate annually	○	○	○	○	◐	◐
Outcome Goal 5.2: NCUA Strategic goals are supported by an integrated, reliable and secure Information Technology architecture.	2000	2001	2002	2003	Est. 2004	Est. 2005
Goal 5.2(a) NCUA program and operational support-related capabilities are enhanced by leveraging existing and emerging technologies.						
Measure: NCUA's rating on an independent customer service survey evaluation Target: Equal to or above peer group average rating	○	○	○	●	◐	◐
Goal 5.2(b) Security reviews reflect on minimal deficiencies.						
Measure: Federal Information Security Management Act (FISMA) security review Target: No material weakness noted	○	○	●	●	◐	◐
Goal 5.2(c) NCUA networks and servers are reliable.						
Measure: Percentage of network and server availability Target: Maintain at an acceptably high level of 98 percent	○	○	●	●	◐	◐
Outcome Goal 5.3: NCUA's organizational structure supports a safe and sound credit union system while facilitating growth and development in a changing environment.	2000	2001	2002	2003	Est. 2004	Est. 2005
Goal 5.3(a) NCUA employs sound business planning principles at all levels of the agency to assess past performance and improve future operating results						
Measure: Requirements detailed in NCUA Instruction 9501 "NCUA Strategic and Annual Performance Planning" dated April 15, 2003 Target: Complete applicable requirements annually	○	○	○	○	◐	◐
Goal 5.3(b) The current environment and NCUA organizational structure and procedures are continually assessed to enhance effectiveness and efficiency.						
Measure: Review Accountability in Management objectives based on credit union demographics, numbers, and geographic location Target: Complete by year-end	○	○	○	○	○	◐
Outcome Goal 5.4: The people, tools, and structure is in place to minimize the impact of any potential crisis situation.	2000	2001	2002	2003	Est. 2004	Est. 2005

Goal 5.4(a) The operational impact of a crisis situation is minimized.						
Measure: Continuity of Operations Management Plan and Continuity of Operations Action Plan Target: Review, test and, if necessary, revise annually	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
Goal 5.4(b) NCUA physical, human capital and information technology assests are protected during a crisis situation.						
Measure: Continuity of Operations Management Plan and Continuity of Operations Action Plan Target: Review, test and, if necessary, revise annually	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>

SECTION IV: Combined Appendices

APPENDIX A: Strategic Program Evaluation

Member Complaint Review – Conducted by the Office of Inspector General (OIG). During 2003, the Office of Inspector General (OIG) conducted a review of NCUA’s member complaint process. The purpose of the review was to: (1) gather information to determine the appropriate role for the agency; (2) evaluate the current process; and (3) compare NCUA’s current process with the processes used by four other federal financial institution regulators.

Overall, the OIG found each of NCUA’s regional offices approached the task of handling member complaints in a serious and responsible manner. The following three recommendations were issued for improving the national member complaint process:

1. Non-regulatory or consumer compliance complaints should be referred to the appropriate credit union for processing.
2. Regional office procedures should be updated to comply with the revised national instruction.
3. Regional office procedures should require the forwarding of complaints to the appropriate district examiner for supervision planning purposes.

NCUA recently issued a revised national instruction addressing each of these recommendations.

Financial Condition of Credit Union Industry - Conducted by the General Accounting Office (GAO). During 2003, the U.S. General Accounting Office (GAO) completed a review of and issued a report on financial condition of

the credit union industry, changes to NCUA’s examination and supervision processes, and other issues related to NCUA and credit unions. Overall, GAO found the financial condition of the credit union industry had improved since GAO’s last report in 1991, and the federal share insurance fund appears financially stable.

GAO’s report included the following five recommendations. Each recommendation is followed by actions taken by NCUA:

1. NCUA should use tangible indicators other than “potential membership” to determine whether credit unions have provided greater access to credit union services in underserved areas.

Implementation of this recommendation would require NCUA to impose additional recordkeeping and reporting burdens on federally insured credit unions. However, NCUA will look for ways to use existing data to determine the successes of credit unions in providing greater access to services in underserved areas.

2. NCUA should consult with other regulators more consistently about risk-focused programs to learn how they have dealt with past challenges.

NCUA will continue to work with other agencies in developing training curriculums for staff.

3. NCUA should improve the process of determining the overhead transfer rate (OTR).

In November 2003, the NCUA Board approved a new method for determining the OTR.

An adjustment to the reserving method is planned for 2004 and additional refinements are being explored.

4. NCUA should research risk-based pricing for share insurance to better allocate costs to insured institutions based on the relative risk they pose to the fund.

Risk-based pricing would require action by Congress to amend the Federal Credit Union Act. The current share insurance model has been very successful, resulting in a healthy fund and industry. However, NCUA will foster discussion on this issue.

5. NCUA should study ways to refine the method of calculating the National Credit Union Share Insurance Fund's (NCUSIF) loss reserves.

Information Systems and Security Program Review – Conducted by Cotton & Company LLP. During 2003, the OIG engaged Cotton & Company to conduct an independent evaluation of NCUA's information systems and security program for compliance with the Federal Information Security Management Act (FISMA). The review found NCUA had made significant accomplishments in 2003 including the completed certification of seven systems and the completion of several security plans.

The review disclosed two weaknesses. The first weakness is in process of being corrected. The second weakness relates to a policy issue and not directly related to the information systems infrastructure

Planned Strategic Program Evaluation 2004-2005

The NCUA Office of the Inspector General's 2004 -2005 audit schedule includes the following audits:

2004 PROJECTS

- Financial Statement Audits (4)
- Federal Information Security Management Act 2004
- Material loss Reviews (as necessary)
- Congressional/NCUA Board Requests (as necessary)
- King St Parking Garage
- Overnight Shipping Controls
- NCUA Risk Based Exam Scheduling Program
- Credit Union E-Commerce
- Federally Insured State Chartered Credit Unions
- Corporate Credit Union IT Related Issues

2005 PROJECTS

- Financial Statement Audits (4)
- Federal Information Security Management Act 2005
- Material loss Reviews (as necessary)
- Congressional/NCUA Board Requests (as necessary)
- Resource Allocation Process
- Adequacy of Information Technology Vendor Reviews
- GEO Differential Program
- Subject Matter Examiner Program
- Risk Focused Examination Process

APPENDIX B: Cross-Cutting Strategies

NCUA participates in various interagency working groups to share ideas, promote the advancement of mutual goals, and increase consistency and efficiency.

As a member of the Federal Financial Institutions Examination Council (FFIEC), NCUA plays a key role in this interagency body. The FFIEC consists of the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision. The FFIEC promotes uniformity in the supervision of financial institutions through the development of uniform principles, standards, and report forms. To effectively administer projects in all its functional areas, the Council established six interagency task forces, each including one senior official from each agency. A discussion of significant activities performed by each task force in 2003 follows:

Task Force on Consumer Compliance:

The task force developed examination procedures to reflect changes to the National Housing Act, Homeowners Protection Act, Home Mortgage Disclosure Act, and the Real Estate Settlement Procedures Act. In addition, the task force developed a working group to update the Inter-agency Fair Lending Examination Procedures.

Task Force on Examiner Education:

A major accomplishment of this task force was the release of the *Information Technology Examination Handbook* in a web-based format. In addition, the task force released six Information Technology booklets.

Task Force on Information Sharing:

The task force's Technology Working Group implemented a collaborative website among the FFIEC agencies. The website is used to disseminate documents and other critical materials pertaining to inter-agency information exchanges.

Task Force on Reports:

During 2003, the task force worked extensively on enhancements to the quarterly Call Report process.

Task Force on Supervision:

The task force issued guidance governing account management and loss allowance practices for credit card lending programs. In addition, the task force coordinated the issuance of an updated Interagency Policy Statement on the internal audit function and outsourcing to reflect provisions of the Sarbanes-Oxley Act and SEC rules regarding auditor independence.

Task Force on Surveillance Systems:

During 2003, the task force successfully implemented several changes and added new features to the Uniform Bank Performance Report.

In addition to the FFIEC Interagency Task Forces, NCUA participates in a number of working groups. The following list includes all of the working groups NCUA staff participated in during 2003. NCUA anticipates working in collaboration with these same groups in 2004.

- Atlanta Federal Executive Board
- Bank Fraud Working Group
- Banking Agencies FOIA Working Group
- Conference of State Bank Supervisors District One

- Dallas Regional Bank Fraud Working Group
- Economic Growth and Regulatory Paperwork Reduction Act Interagency Group
- Employment Information Work Group
- Employee Relations Network
- FACTS Notes Committee
- Fair Credit Reporting Act Group
- Fair Lending Task Force
- Federal Interagency Travel Committee
- Financial and Banking Information Infrastructure Committee
- FIRREA Compensation Committee
- Government Performance and Results Act Financial Institutions Regulatory Working Group
- Gramm-Leach-Bliley Act (GLBA) Study Working Group
- High Risk Money Laundering and Related Financial Crimes Areas NY/NJ.
- Human Resources Management Council
- Interagency Accounting Seminar Planning Committee
- Interagency Budget Group
- Interagency Ethics Council
- Interagency Relocations Advisory Committee
- Interagency Staffing Issues Group
- National Academy of Public Administration
- National Association of State Credit Union Supervisors
- New England Regulatory Compliance Council
- Office of Financial Institution Adjudications
- Office of Personnel Management Employee Assistance Program Report Committee
- Section 314 (U.S.A. Patriot Act) Working Group
- Section 326 (U.S.A. Patriot Act) Working Group
- Sharing Neutrals Program
- Small Agency Financial Council
- Small Agency Human Resource Council
- Southeastern Federal Recruiting Council
- Special Emphasis Program Managers

APPENDIX C: Data Verification and Validation

The examination and supervision programs for natural person and corporate credit unions employ multiple checks and balances to evaluate processes and to verify and validate data collected. These checks and balances are the responsibility of the Office of Examination and Insurance, the Office of Corporate Credit Unions, and the Regional Offices. The Office of the Chief Financial Officer is responsible for the verification and validation of budget data collected. A few of the processes used are listed below by way of example:

Surveillance Systems Working Group. This group is made up of regional and central office employees. The group's charter is to develop a comprehensive understanding of NCUA's entire data collection, storage, and retrieval process, maintain up-to-date documentation on these processes and systems, assist in the implementation of needed changes to our processes and systems, and provide recommendations for improving data collection methods.

5300 Call Report Program. The 5300 Call Report Program is the source of most data collected and reports produced concerning natural person credit union activities. The data are reviewed at three levels for accuracy and validity: the examiner level, the Regional or State Supervisory Authority level, and the Central Office level. The Automated Integrated Regulatory Examination System Committee conducts continuous reviews of the data collected to ensure specific alignment with the agency's program and to the changing environment of credit unions.

5310 Call Report Program. The 5310 Call Report Program is the source of most data collected and reports produced concerning corporate credit union activities. The data are initially reviewed for accuracy and integrity by the corporate field staff. If the corporate credit union has a state charter, the appropriate State Supervisory Authority may review the data. The Office of Corporate Credit Union staff then reviews the 5310 data of both federal and state corporate credit unions to assist in ensuring its integrity and accuracy. Corporate examination procedures are also periodically reviewed by the Office of Corporate Credit Union staff to ensure their specific alignment with the agency's program and to the changing environment of corporate credit unions.

Information System and Technology Program. The Information System and Technology Program provides continuous oversight of the natural person credit union technology related data in addressing safe and secure integration and use of information technology. The accuracy of this data is also reviewed at three levels, as above.

Annual Audits. An outside independent accounting firm conducts annual Certified Public Accountant audits on the National Credit Union Share Insurance Fund, National Credit Union Administration Operating Fund, Community Development Revolving Loan Program, and the Central Liquidity Facility to ensure the accuracy of their financial data.

APPENDIX D: Human Capital Management Plan

NCUA's Human Capital Management Plan focuses on the means by which its personnel are recruited, trained, and retained in the most effective and efficient manner to accomplish the mission. It also addresses the requirements of The President's Management Agenda and the directives of the Office of Personnel Management. The concepts, ideas and elements expressed within are intended for NCUA internal use only.

Environmental Scan:

Demographics. The NCUA staff is its most critical and valuable asset. The agency has invested substantial amounts of time and effort in recruiting, developing and maintaining its highly performing, qualified and diverse workforce. NCUA's workforce demographics reflect a much younger workforce than is typical in most federal agencies. For this reason, NCUA does not expect a wave of retirements proportionate to what other agencies will experience in the next 10 years. At the staff, or non-supervisory level, the peak in retirement eligibility is not anticipated before 2020.

However, NCUA's largest number of retirements within the next 10 years will be at the supervisory and executive level. Nearly 65 percent of the supervisory examiner workforce and nearly 50 percent of the executive level workforce will be eligible to retire between 2005 and 2010. The anticipated executive level and supervisory level retirements provide an excellent opportunity to reassess NCUA's structure; with a focus on ensuring the

agency is citizen-centered as directed by the President's Management Agenda. Implementation of the results of this reassessment began in 2002 with a realignment of headquarters offices and continued into 2004 with phased field realignment. This assessment included a determination of the necessary and appropriate number of executive and supervisory staff, and the number and location of regional offices.

To assure a continuing source of highly qualified leaders, NCUA has developed in-house management and executive development programs targeted at NCUA employees currently at the CU-12 through CU-16 levels.

At the staff level, retention is steady at a high 94 percent fill-rate due to recruitment and retention programs. The fill-rate has also been influenced by planned staff reductions in 2002 and 2003. Recruitment programs have enabled NCUA to maintain a steady influx of candidates for the primary agency occupation, the credit union examiner, with minimal disruptions as workforce losses occur due to retirements and other causes.

Subject Matter Examiner Competency Analysis. During 2003 and 2004, we continued our efforts to conduct competency evaluations of critical occupations. Following up the prior study of CU 5-12 Credit Union Examiners, we conducted a competency analysis of subject matter examiner (SME) areas assigned to CU-12 examiners, in addition to their examination and supervision

responsibilities for their assigned districts. The competency study defined competency requirements in seven SME areas as the first step in a two year process of implementing structured developmental programs for each area that will include identified competencies and competency levels, developmental/training resources, and methods for measuring the effectiveness of the learning event and the transfer of learned skills to the job.

The further development of SME skills is vital to the accomplishment of the

NCUA mission. As SMEs, examiners expand their knowledge of an assigned risk area, such as capital markets or information systems and technology. In this role, they are able to serve as resources in assessing risks, identify when the skills of specialists in their risk area are required, and provide training to other examiners. The expanded knowledge and skill base across the examiner workforce fosters the continued safety and soundness of federally insured credit unions and protects the National Credit Union Share Insurance Fund (NCUSIF).

Human Capital Program Activity

Support of Safety and Soundness Mission:

- | | |
|-----------------------------|-----------------------|
| ➤ Agency Program Alignment | ➤ Performance Culture |
| ➤ Recruitment and Retention | ➤ Continuous Learning |
| ➤ Leadership | ➤ Equal Opportunity |

Note: NCUA's 5-Year Work Force Plan is designed to meet the human capital goals and standards set in the Office of Personnel Management's *Human Capital Scorecard* and the Office of Management and Budget's *Human Capital Standards for Success*, for the President's Management Agenda (PMA).

Strategic Goal #1

Align human capital policies with strategic goals.

Outcome Goal 1.1: Align NCUA's human capital policies to support accomplishment of its mission, vision, goals and strategies.

Means and Strategies:

1. Ensure human capital goals and strategies in the agency's strategic plan and the human resources annual performance plan support mission needs and the PMA.
2. Reinforce linkage between competencies for mission critical occupations and achievement of NCUA strategic goals through such activities as employee training on risk focused supervision process; changes in position descriptions and performance standards to reflect a new risk-focused credit union supervision role; and regular reports to all employees on progress in meeting goals.
3. Assess structure of agency and implement changes to better meet mission goals.
4. Assess progress toward this goal by administering the annual Human Capital Survey.
5. Identify issues and progress toward this goal through Human Resources Internal Review program.
6. Encourage broad employee involvement in updates to NCUA Strategic Plan.
7. Participate in Government-wide collaborative efforts and/or managerial/professional/employee organizations to share best practices and leverage lessons learned.

	Annual Performance Goal 1.1
➤ 2005	1.1a: Ensure there are explicit and well communicated links between HR strategies and plans and the agency's strategic objectives. 1.1b: Ensure the agency is well structured to support its mission. 1.1c: Ensure employees understand their organization's plans and are involved in the strategic planning and reporting process.

Strategic Goal #2

Recruit, develop, and retain employees with strategic competencies.

Outcome Goal 2.1: Ensure NCUA recruits, develops, and retains employees with the strategic competencies required for mission critical occupations.

Means and Strategies:

1. Identify current and potential competency gaps and succession planning needs by conducting workforce planning studies of primary mission-critical occupations and implement recruitment, staffing, training, retention, or other actions (as needed) to better meet requirements.
2. Give management direct automated access to competency information to assist in addressing individual employee and organizational competency needs.
3. Ensure employees acquire mission critical competencies by modifying training and development programs and guidance materials as required (e.g., Entry Level Examiner training courses, manuals, and on-the-job development program; technical training for subject matter examiners; competency-based training and development catalog).
4. Provide efficient, effective staffing services to meet NCUA’s resource management needs (e.g., fill times for examiner recruitment).
5. Maintain turnover rate for Credit Union Examiners at 9 percent or less.
6. Maintain 95 percent fill-rate for Credit Union Examiners throughout the year.
Note: Turnover-rate and fill-rate are independent of the target full time equivalent. For example, should a lower full time equivalent level be established, the 95 percent is based on the lower full time equivalent.
7. Identify issues and progress toward goals through the Human Resources Internal Review program.
8. Assess progress toward this goal by administering the annual Human Capital Survey.

Annual Performance Goal 2.1	
➤ 2005	2.1a: Ensure the desired competency levels in mission critical occupations are achieved. 2.1b: Ensure the desired recruitment/retention rate for employees with strategic competencies is achieved. 2.1c: Ensure the desired quality level of new hires is achieved.

Strategic Goal #3

Inspire and guide achievement of strategic goals in a high quality work environment.

Outcome Goal 3.1: Ensure agency leadership inspires, motivates, and guides others toward goals; coaches, mentors, and challenges staff; adapts leadership styles to various situations; establishes a clear vision for change; models high standards of honesty, integrity, trust, openness, and respect for all by applying these values.

Means and Strategies:

1. Provide opportunities, on a competitive basis, for supervisory and non-supervisory staff to identify and overcome gaps in first line supervisory and executive level competencies through participation in NCUA Management and Executive Development Programs and government-wide leadership programs.
2. Promote compliance with merit principles and ethical standards through training of supervisory, management, and executive staff.
3. Identify and address current and potential competency gaps and succession planning needs by conducting workforce planning studies of mission-critical supervisory occupations and implement recruitment, staffing, training, retention, or other actions, as needed.
4. Assess progress toward this goal by administering the annual Human Capital Survey.
5. Promote and support employee participation on committees at agency and regional/office levels to address strategic, operational, and quality of life issues.

	Annual Performance Goal 3.1
➤ 2005	3.1a: Ensure agency recruits, develops, and retains high performing leaders. 3.1b: Ensure agency leaders create high levels of motivation and commitment in the workforce. 3.1c: Ensure leaders maintain high standards of honesty and integrity that serve as a model to the whole workforce.

Strategic Goal #4

Develop and maintain a high performance organizational culture.

Outcome Goal 4.1: Create a high performance culture that values and rewards employee' contributions to the work of the organization and promotes shared values while ensuring fairness in the workplace.

Means and Strategies:

1. Ensure employee pay is tied to work performance through use of NCUA-wide merit pay system.
2. Foster a high performance culture by use of the full range of awards programs.
3. Use a contributions-based personnel system for NCUA executives to determine pay for promotions or reassignments to executive level.
4. Address employee performance problems through use of performance improvement plans and other personnel actions, such as reassignments, downgrades, and removals.
5. Identify issues and progress toward this goal through a Human Resources Internal Review program.
6. Assess progress toward this goal by administering the annual Human Capital Survey.
7. Foster a climate that values diversity through diversity education programs in connection with government-wide diversity recognition programs.
8. Promote employment diversity within NCUA through diversity recruitment efforts.
9. Assure employee's contributions are accurately measured and goal oriented by strengthening understanding of the appraisal process.

	Annual Performance Goal 4.1
➤ 2005	4.1a: Ensure agency develops, rewards, and retains high performers while dealing effectively and efficiently with poor performers. 4.1b: Ensure employees are engaged and focused on achieving the high standards and optimum results expected of them. 4.1c: Ensure the agency fosters a climate that values diversity.

Strategic Goal #5

Create and promote an agency culture of continuous learning (knowledge management).

Outcome Goal 5.1: Ensure agency promotes a knowledge-sharing culture in a climate of fairness, openness, and continuous learning and improvement.

Means and Strategies:

1. Link employee training and development goals and programs to mission related goals in NCUA strategic plan (e.g., transition to risk-focused credit union supervision).
2. Address current and potential competency gaps and succession planning needs by conducting workforce planning studies of mission-critical supervisory occupations and implement recruitment, staffing, training, retention, or other actions, as needed.
3. Enhance ongoing management of competencies across mission critical occupations by exploring computer-based skills competency management tools.
4. Improve access to learning opportunities through an NCUA training and development catalog based on competencies.
5. Promote continuous learning and improvement through Individual Development Plans for every employee on an annual basis.
6. Improve access by every employee to the latest information, best practices, and upcoming program changes via NCUA's e-mail and intranet systems.
7. Facilitate cost-efficient training, meetings, and information sharing by a widely dispersed nationwide workforce through an agency videoconferencing system.
8. Promote skills development and maintenance of state-of-the-art knowledge of credit union and financial issues with in depth technical training programs.
9. Encourage participation in the Federal Financial Institutions Examination Council technical training courses offered to NCUA employees.
10. Enable each Credit Union Examiner to maintain up-to-date knowledge by providing an annual stipend for the purchase of work-related publications.
11. Invest in internal Management/Executive Development Programs, which enable employees, selected on a competitive basis, to participate in formal courses, developmental assignments, and a group project providing experiential learning.
12. Test computer-based electronic learning to identify the costs/benefits of this methodology for a workforce that is geographically dispersed.
13. Maintain comparability with credit union and banking industry on percent of budget spent for employee training and development. (E.g., in 2003, NCUA spent an average of 2.16 percent as compared to an average of 3.14 percent across the financial industry.*)
14. Assess progress toward this goal by administering the annual Human Capital Survey.
15. Encourage learning and growth through training and development opportunities offered to employees each year.

* Industry data is published by the American Society of Training & Development (ASTD). The ASTD financial industry data cited includes financial institutions (e.g., banks, credit unions) and insurance and real estate organizations.

16. Promote effective utilization of resources by enhancing supervisory competencies and maintaining state-of-the-art knowledge through performance management and discipline training.

	Annual Performance Goal 5.1
➤ 2005	5.1a: Ensure knowledge management systems and/or strategies are in place for use within the agency. 5.1b: Ensure agency invests strategically in training and development opportunities for all employees. 5.1c: Ensure a climate of learning and growth exists throughout the agency.

APPENDIX E: Information Technology Resource Management Plan

NCUA’s Information Technology Management Plan focuses on the means by which information technology will be used to support and enhance mission accomplishment. It also addresses the requirements of The President’s Management Agenda and directives of the Office of Management and Budget. The concepts, ideas, and elements expressed within are intended for NCUA internal use only and do not address credit union use of information technology.

Introduction:

The Clinger-Cohen Act requires all Federal agencies to define the current and future information technology environment or “Enterprise Architecture.” The difference between the current and the future (target) environment determines what must be accomplished and is used as a basis to develop the agency’s information technology strategic and annual performance goals.

Information Technology Vision Statement

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 Mission Statement

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

Current Environment

Work Processes and Information Sets Used:

Work Process	Support Data
Natural Person and Corporate Credit Union Examination Programs, Asset Management and Assistance Program, Central Liquidity Facility Program, and Community Development Revolving Loan Fund Program	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 (i.e., recruiting, classification, staffing, compensation, benefits, training, etc.)

Applications and Systems Supported:

Custom Applications. The core custom applications maintain chartering, examination and financial data stored in the central office database. The applications are multi-tiered and serve both office and field functions. Some custom applications are designed to run on the Intranet or the Extranet.

Automated Integrated Regulatory Examination System (AIRES). AIRES supports the core agency function of examining natural person credit unions for safety and soundness.

Comprehensive Human Resources Integrated System (CHRIS). CHRIS is maintained for NCUA by the General Services Administration and supports all aspects of the personnel life cycle to include recruiting, classification, staffing, compensation, benefits, training, equal employment opportunity reporting, and personnel processing and management.

Financial and Statistical System (F&S). The F&S System contains the financial data for the credit unions. The data from the Form 5300 and Form 5310 Call Reports are maintained in this system.

Management Information System (MIS). The MIS contains information regarding the credit union's location and select event history and financial data. An event can be a merger, liquidation, operations resumption, purchase and assumption, conversion, and/or cancellation.

OSCAR. OSCAR maintains historical credit union examination data for viewing and use by examiners. The data is collected from other systems supported by the NCUA.

Risk Management System (RMS). The RMS contains problem credit union data.

Time Management System (TMS). The TMS contains examiner's weekly examination hours, details of time charged, and itinerary.

Videoconferencing System. The Videoconferencing System connects the regional offices and the Central Office using an Internet Protocol based videoconferencing system.

Software. All client computers are identically configured with a combination of commercial and custom software based on WinTel standards.

NCUA uses the SAP R/3 Enterprise Resource Planning software package to manage the agency's core financial processes. The SAP R/3 Financial Accounting, Controlling, Material Management, and the Human Resources modules have been implemented to support NCUA headquarters, six regional offices, and the Asset Management & Assistance Center. This system also supplies financial processing services for the National Credit Union Share Insurance Fund, the NCUA Operating Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund.

Web-based Environments. NCUA maintains two different web-based environments, which are accessed using a standard Internet browser. Each environment serves a different customer base and is built accordingly.

➤ *Internet.* The NCUA web site (www.ncua.gov) is accessible by anyone having Internet access. The Office of External Affairs maintains the site with content supplied by NCUA offices.

➤ *Intranet.* The NCUA Intranet is accessible only by NCUA employees. The Office of External Affairs maintains the structure of the

site, as well as the custom applications that are hosted on the Intranet. Various NCUA offices own portions of the Intranet and are responsible for appearance and content.

Technology Architecture:

Hardware. NCUA uses a single end-user computing platform for all users. NCUA servers are periodically upgraded or replaced to ensure availability and maintainability. The current configuration is documented in a network diagram maintained by OCIO. Network storage for all servers is provided via a Storage Area Network (SAN) system.

Communications. NCUA has Local Area Networks in each Regional Office and the Central Office that are connected through the agency Wide Area Network. This configuration is described in the NCUA Wide Area Network diagram. Connections to communication systems outside NCUA are protected through a firewall.

Future (Target) Environment

Work Processes:

The focus will be to provide tools to enhance the work processes for increased efficiency and effectiveness in accordance with the NCUA program on Accountability in Management.

Information and Information Sets

Used:

All information and information sets shown above will continue to be collected. The focus will be on providing tools to enhance the collection processes for increased efficiency and effectiveness in accordance with the

NCUA programs. NCUA will migrate toward using Web-based collection means and information distribution. Web-based Form 5300 and Form 5310 Call Report filing is the first step in that migration.

Applications and Systems Supported:

All functions of the applications and systems supported will continue to be supported. The focus will be on enhancing the applications and systems to improve the work. The Financial and Statistical System (Form 5300 and 5310 Call Report Data Collection) is under continuous review and enhancements by the Office of Examination and Insurance and the Office of Corporate Credit Unions. Efforts are also underway to develop a Risk Modeling System to enhance the examiner's capability to assess credit union risk profiles. Additionally, NCUA will develop off-site monitoring for enhanced data management and supervision for increased efficiency and effectiveness in accordance with the new NCUA Risk-Focused Examination Program. Further, NCUA has embarked upon the process of developing enhanced training tools integrating e-learning capabilities into our training process across the agency's enterprise. This enhanced training capability will greatly assist with NCUA's ability to transition to a risk-focused examination process through the efficient training of subject matter examiners.

Technology Architecture:

Hardware. NCUA replaces all the agency end-user computers every three years. This allows NCUA to stay current with changes in hardware and software technology. Anticipated

improvements in hardware include faster processing and greater data storage.

Communications. NCUA's goal is to constantly improve performance and availability of the network.

Security. Security is an integral part of all agency systems and is incorporated throughout the life cycle of each system.

The Federal Information Security Management Act requires that agencies maintain and implement a security plan with appropriate security controls for all critical elements of each system in place. Each plan is reviewed annually for effectiveness. More frequent reviews are completed as necessary for significant changes to the system or to the environment.

APPENDIX F: Contingency Planning

The Federal Government is committed to ensuring that the financial services system will be able to continue to operate under crisis conditions. The Contingency Planning Appendix looks at how NCUA assesses and mitigates event risk and how NCUA evaluates its programs for mission impact.

This appendix also addresses the requirements of The President's Management Agenda, the Government Information Security Reform Act, and recent guidance from the Office of Management and Budget, the Department of Homeland Security (DHS), the Financial Banking Information Infrastructure Committee (FBIIC) and the Financial Services Sector Committee (FSSC).

The concepts, ideas and elements expressed herein are intended for NCUA internal use only and do not address individual credit union contingency planning efforts, which should be based upon their own needs and requirements.

NCUA's approach to Contingency Planning is based on the concept that the most effective management of a crisis situation occurs when it is detected and dealt with quickly. To that end, NCUA in developing its Contingency Planning concept conducted a series of practice exercises in 2004 designed to assist in identifying areas for potential improvement and/or enhancement.

NCUA also completed an update of its Continuity of Operations Plan (COOP) integrating the latest guidance from the DHS, FBIIC and FSSC. NCUA COOP is provided to help NCUA officials

prepare for specific contingency situations. The COOP provides general information for the COOP program and delineates specific responsibilities and procedures. The COOP is supported by Central and Regional Office COOPs, each containing the office's mission, essential functions, order of succession, and delegations of authority. The central and regional office COOPs also list supporting staff, information systems and services, vital information and special equipment required to perform essential functions during a COOP operation.

Contingency Planning Mission

Minimize the impact of any potential disruption to agency operations while continuing to carry out its mission. NCUA accomplishes this by identifying those functions and/or processes that are critical to its operations and develops plans to deal with the potential failure of one or more of them.

NCUA Strategic and Outcome Contingency Planning Goals follow in the table below and are an outgrowth of the governmental guidance, exercise lessons learned and planning efforts described above.

Contingency Planning Strategic Goals

Strategic Goal #1

NCUA management has the ability to assess, direct and manage the potential impact on operations during crisis situations.

Objective

This goal deals with the element of Situation Management. This is the development and communication of management actions to staff and the training of staff to handle these actions during a crisis. The ability of senior management to assess and manage a crisis is often the single most important aspect of minimizing the impact of the crisis to the organization.

Outcome Goal

Effectively manage NCUA operations while minimizing the impact of any potential crisis situation.

Means and Strategies:

1. Identify, train and maintain an effective crisis management team.
2. Identify and prioritize potential crisis scenarios.
3. Prioritize overall agency operations and allocate resources appropriately during a crisis.
4. Provide oversight of the development, testing, and distribution of crisis response plans.
5. Review, update and enhance crisis response plans.

Strategic Goal #2

NCUA has the capability to continue critical operations in crisis situations.

Objective

This goal addresses Continuity of Operations. While no one can think of or plan for all possible options, it is possible to identify those critical elements needed to sustain operations. It is these critical elements that NCUA must focus on during a crisis.

Outcome Goal

Create and maintain an effective operational structure to ensure the continuity of operations.

Means and Strategies:

1. Assess potential crisis situations for the potential impact on program operations.
2. Identify critical program and operational systems.
3. Assess critical systems for their potential impact on the continuity of operations and prioritize based on impact (e.g., allowable down time).
4. Protect the operational integrity of the control structure during a crisis situation.
5. Develop continuity of operations / crisis response plans for critical systems.

6. Train and exercise staff in the execution of continuity of operations / crisis response plans.

Strategic Goal #3 NCUA's Physical, Human Capital and Information Technology assets are safe and secure.
<u>Objective</u> This goal addresses the various aspects of security for NCUA's assets.
<u>Outcome Goal</u> Protect NCUA's Physical, Human Capital and Information Technology assets during a crisis situation.

Means and Strategies:

1. Identify NCUA's critical facilities and equipment, human capital and information technology assets.
2. Assess critical assets for potential internal and external threats.
3. Assess critical systems to identify external factors that affect NCUA's ability to protect critical assets.
4. Develop options to protect critical assets during a crisis.
5. Test agency-wide plans to protect critical assets, both physical and electronic, during a crisis.
6. Train NCUA and SSA employees on the appropriate aspects of the Government Information Security Reform Act.

Strategic Goal #4 NCUA has an effective, secure and sustainable communications network during a crisis situation.
<u>Objective</u> This goal addresses Crisis Communication. NCUA must be prepared to provide effective communications to its staff, other Federal and state agencies, the credit union community and the general public during a crisis.
<u>Outcome Goal</u> Maintain the integrity and function of NCUA's communication network during a crisis.

Means and Strategies:

1. Identify critical agency communication needs.
2. Identify NCUA's critical communications systems (facilities, equipment, and/or personnel).
3. Assess critical communications systems for potential internal and external threats.
4. Develop alternative means of communicating during a crisis.
5. Develop and maintain an effective public affairs and media communications plan for use during a crisis situation.
6. Test agency-wide communication systems as part of the continuity of operations plan.

SECTION V: Glossary of Terms

Environmental Scan – a forward-looking perspective or scan of social, technological, economic, ecologic, political/legislative, international, or other conditions that are relevant to the major functions and operations of the agency over the time period covered by the plan.

Information Technology Enterprise Architecture - the framework an organization uses to articulate its information technology priorities, to manage for results, and to tie information technology architecture to mission objectives. This framework is a comprehensive plan that includes the delimitation of information technology objectives and a description of how resources will be deployed to accomplish them.

Outcome Goal – a description of an intended result, effect, or consequence that will occur from carrying out a program or activity.

Output Goal – a target of performance of the level of activity or effort that will be produced or provided over a period of time or by a specified date, including a description of the characteristics and attributes (e.g., timeliness) established as standards in the course of conducting the activity or effort.

Mission Statement – the articulation of why an organization exists, the “business” it engages in to achieve its purpose, and the values that guide the accomplishment of the mission.

Performance Goal – a target level of performance expressed as a tangible, measurable objective, against which actual achievement can be compared, including a goal expressed as a quantitative standard, value, or rate.

Performance Measure – the results of a program activity compared to its intended purpose expressed as an outcome (assessment) or an output (quantitative or qualitative).

Performance Plan – derived from an agency’s strategic plan and sets out measurable goals that define what will be accomplished during the time period of the plan.

Performance Report – an assessment of an agency’s actual performance and progress in achieving the goals and objectives in the strategic plan and annual performance plan. It also assesses the reliability and completeness of the data contained within it.

Performance Target – a specific tabulation, calculation, characteristic or value used to measure output or outcome.

Program Activity – a specific activity or project as listed in the program and financing schedules of the annual budget.

Program Evaluation – an assessment, through objective measurement and systematic analysis, of the manner and extent to which programs achieve intended objectives.

Strategic Goal – a broad definition of what an agency wants to achieve both organizationally and/or programmatically over a period of time. It should allow for a future assessment to be made of whether the goal was or is being achieved.

Strategic Plan – the framework an organization uses to articulate priorities, to manage for results, and to tie results to the customer/member/beneficiary. The strategic plan is a comprehensive plan that includes the delimitation of strategic objectives and a description of how resources will be deployed to accomplish them.

Strategic Picture – the articulation of a forward-looking image based on the intelligent projection of trends that represent one or more probable scenarios over the time period covered by the plan. It identifies the environmental and operational factors that are relevant to

the accomplishment of the major functions and operations of the agency.

Value Statement – the articulation of those defining characteristics or values that guide an organization’s members as they pursue the mission.

Vision Statement – the articulation of the mental image that represents the successful accomplishment of the mission.

Work Force Plan – the framework an organization uses to articulate human capital priorities, to manage for results, and to align the organizational structure with the efficient accomplishment of its mission. The work force plan is a comprehensive plan that includes the delimitation of specific human capital objectives designed to enhance effectiveness and a description of how resources will be deployed to accomplish them.