

fee, and the necessity of the expenses the NCUA will incur in carrying out its responsibilities in connection with federal credit unions.⁴ Pursuant to the law, fees collected are deposited in the agency's Operating Fund at the Treasury of the United States, and those fees are expended by the Board to defray the cost of carrying out the agency's operations, including the examination and supervision of federal credit unions.⁵

At the end of the calendar year, the NCUA's financial transactions are subject to audit in accordance with Generally Accepted Accounting Principles. The NCUA's financial statements have received an unmodified (or clean) audit opinion since 1984.

SUMMARY:

2023 - 2024 NCUA BUDGET RESOURCES									
Budget	2022 Board Approved Budget	2023 Staff Draft Budget	Revisions to Staff Draft	2023 Revised Budget	Change (2022-2023)	Percent Change (2022-2023)	Revised 2024 Budget	Change (2023-2024)	Percent Change (2023-2024)
Operating Budget	\$ 320,138,000	\$ 350,817,278	\$ (6,659,278)	\$ 344,158,000	\$24,020,000	7.5%	\$ 387,588,000	\$43,430,000	12.6%
Capital Budget	\$ 13,069,000	\$ 11,229,000	\$ 47,000	\$ 11,276,000	\$ (1,793,000)	-13.7%	\$ 11,234,000	\$ (42,000)	-0.4%
Share Insurance Fund Admin. Budget	\$ 6,246,000	\$ 4,906,000	\$ 50,000	\$ 4,956,000	\$ (1,290,000)	-20.7%	\$ 4,354,000	\$ (602,000)	-12.1%
Total NCUA Budget	\$ 339,453,000	\$366,952,278	\$ (6,562,278)	\$360,390,000	\$20,937,000	6.2%	\$ 403,176,000	\$42,786,000	11.9%
Positions*	1,196	1,221	(7)	1,214	18	1.5%	1,240		

* Note: excludes five positions funded by the Central Liquidity Facility (CLF).

The "Staff Draft: 2023 – 2024 Budget Justification" (staff draft) was posted to the NCUA website on September 29, 2022, and an identical version was published in the *Federal Register* on October 5, 2022. The recommended 2023 final budget is \$6.7 million and 7 positions lower than the staff draft for the operating budget, higher by \$47,000 net for the capital budget, and higher by \$50,000 for the Share Insurance Fund administrative budget.

The recommended final budget is for a total 2023 budget (operating, capital, and Share Insurance Fund administrative budgets) of \$360.4 million and 1,214 positions. This reflects a carryover of \$24.2 million of unspent 2022 budget funds for the operating and capital budgets. The 2024 budgets are projected to increase over 2023 by \$42.8 million; however, \$24.2 million of this increase is the result of the use of carryover to offset the 2023 budget, which would not be available in 2023. Even though the Board adopts a two-year budget for planning purposes, its practice has been to revisit each year's budget before that budget year begins.

The Operating Fee collected from federal credit unions would be further reduced by \$15 million due to accumulated cash in excess of funding needs.

Attachment 1 includes summary budgetary tables for the operating, capital, and Share Insurance Fund administrative budgets; detailed budgetary tables for each office; an updated chart showing

⁴ See 12 U.S.C. 1755(a)-(b).

⁵ See 12 U.S.C. 1755(d).

the distribution of the budget between amounts paid by federal and federally insured, state-chartered credit unions; and updated Operating Fee worksheets.

An updated 2023 – 2024 Budget Justification for the final budget will be published on the NCUA website when complete. The 2023 – 2024 Budget Justification will be updated to explain the changes approved by the Board and to respond to relevant comments from the public, as discussed below.

CHANGES TO THE STAFF DRAFT:

The funding levels in the total 2023 staff draft budget would be reduced by \$6.7 million, for a revised total of \$360.4 million in the recommended final budget. The resulting funding level is 6.2 percent higher than the Board-approved 2022 budget. Staffing would be reduced by seven positions net as compared to the staff draft.

Specific changes to the staff draft operating budget are:

- Two positions were added to the Office of the Executive Director to support the Financial Technology and Access team. These new staff will work with credit unions to harness the opportunities that innovation provides to support financial inclusion efforts and make financial services more accessible to underserved communities. The Financial Technology and Access team will also work to increase the capabilities of the NCUA's virtual exam program.
- Three specialist examiner positions were deferred to 2024, one position from each region.
- Six total positions were eliminated from the following offices: Office of the Ombudsman (new associate ombudsman), Office of Examination and Insurance (new senior credit specialist, permanent risk officer), Office of National Examinations and Supervision (permanent senior data scientist), Office of Minority and Women Inclusion (new diversity specialist), and the Office of Credit Union Resources and Expansion (permanent consumer access analyst).
- The budget for employee salaries and benefits was increased by a net of \$162,000 reflecting the lower overall staffing level outlined above, and refined compensation estimates needed to fund existing staffing levels.
- The budget for travel expenses was reassessed, and the recommended final budget reduces the travel budget by \$1 million compared to the staff draft. The travel budget in 2023 would support approximately 70 percent of pre-pandemic travel activity.
- Contract support for the virtual examination project was deferred to 2024, reducing the 2023 budget by \$500,000.
- The budget for information technology support contracts was lowered by \$373,000, net.
- The budget for facilities-related support contracts was lowered by \$150,000.
- The budget for human resources support contracts was lowered by \$100,000.
- The budget for the fees that the NCUA pays to the Federal Financial Institutions Examination Council (FFIEC) was increased by \$615,000 based on the final estimate for NCUA contributions that was provided by the FFIEC after the staff draft was published.

- As committed in the mid-session budget briefing presented to the Board on July 21, 2022, the Office of the Chief Financial Officer updated its analysis of agency spending trends to assess what level of budget surplus from 2022 could be used in 2023. The staff draft estimated \$18 million would be available, but OCFO has identified an additional \$5.2 million in expected surplus for 2022, for a total of \$23.2 million in carryforward in the operating budget. This amount has been used to lower the overall level of new Operating Budget funding recommended for 2023.

Some additional, non-material adjustments were made to funding levels in the staff draft for technical corrections and to reflect updated information that was not available at the time the staff draft was published.

The recommended final 2023 capital budget is \$47,000 higher, net, than the staff draft. Included within this amount is an additional \$547,000 for performance enhancements to the MERIT examination system, and an additional \$500,000 for the cost of relocating the NCUA's disaster recovery site to a new location. These amounts are offset by \$1,000,000 in surplus capital funding that OCFO identified after reviewing the status of prior years' capital project budgets. The recommended final 2024 capital budget is unchanged from the staff draft.

The recommended final 2023 and 2024 Share Insurance Fund administrative budgets are higher than the staff draft by \$50,000 in each year due to re-estimated administrative expenses.

COMMENTS FROM THE PUBLIC:

As required by the Economic Growth, Regulatory Relief, and Consumer Protection Act (P.L. 115-174), the NCUA held a hearing on October 19, 2022, to discuss the staff draft. The hearing was both open to the public at the NCUA's headquarters and streamed live on the NCUA website. At that meeting, representatives from four different associations presented their views on the staff draft. The NCUA also received written statements from four organizations that did not make presentations at the budget briefing. All written submissions are posted on the Regulations.gov website.⁶

Many of the general comments received from the public about the 2023 – 2024 staff draft relate to the NCUA's operations and program execution, rather than to specific budget matters. The agency will provide these comments directly to the appropriate NCUA senior executives responsible for the relevant offices discussed.

Seven commenters criticized the 9.6 percent annual growth rate for the staff draft 2023 operating budget. The staff draft was reassessed, and the recommended final 2023 operating budget is \$344.2 million, or \$6.7 million less than the staff draft.

Overall, the recommended final budgets would increase by \$20.9 million, or 6.2 percent, as compared to the budgets approved for 2022. This is 190 basis points lower than the 8.1 percent

⁶ See <https://www.regulations.gov/document/NCUA-2022-0145-0001>.

increase proposed in the 2023 staff draft and is 610 basis points lower than the 12.3 percent increase approved by the Board for 2023 as part of the 2022 – 2023 budget. The changes, as described above, are largely driven by a reduction of seven positions proposed in the staff draft, reductions to the staff draft contracts and travel budgets, and additional 2022 surplus funds identified by OCFO.

Five commenters were concerned about the overall increase in NCUA staffing levels within the staff draft. Specifically, the increase of 10 additional specialist examiners was noted as an area on concern. The recommended final budget would slow the pace of implementation of the specialist programs, thus delaying the hiring of three positions until 2024.

Two commenters recommend increasing eligibility for credit unions permitted to have an extended examination cycle from \$1 billion in assets to no asset limit or at least \$3 billion for parity with the banking agencies. This comment is related to the budget because wider application of extended examinations would result in lower field staffing requirements. The final budget does not recommend this adjustment given the risks such a change would pose at this time.

Four commenters noted concerns related to the increase in budgeted travel funding in the 2023 staff draft. The staff draft was reassessed and the recommended final 2023 operating budget reduced travel funding to a level that will support 70 percent of pre-pandemic travel activity. This is a decrease of \$1 million from the staff draft travel budget amount.

Three commenters expressed concerns about the NCUA's cybersecurity programs and budgets, including two who noted how credit unions inherit risks from the cybersecurity practices at vendors upon which the credit unions rely. The 2023 staff draft included a detailed explanation about the NCUA's cybersecurity efforts. The agency's Annual Performance Plan likewise includes outcome-focused performance indicators that illustrate the results of the agency's cybersecurity efforts. Additionally, at its public meetings the NCUA Board receives periodic updates summarizing cybersecurity preparedness and emerging cybersecurity threats. However, Congress has not authorized the agency to supervise or regulate vendors who provide services to credit unions. And, pursuant to an open recommendation from the NCUA's Inspector General, and consistent with recommendations from the Financial Stability Oversight Council and the Government Accountability Office, the NCUA has requested that Congress provide the agency with vendor authority.

One commenter requested additional justification for the increase in contracted services budgets in the 2023 staff draft, while a separate commenter expressed more general concerns about increases in all non-pay budgets. The recommended final 2023 budget reduces contracted services by \$6.1 million, net. This reduction is primarily the result of an additional \$5 million in projected 2022 operating budget surplus amounts identified by OCFO. Overall, the non-pay budget categories of the recommended final 2023 budget are \$6.5 million lower than the staff draft levels, including the additional 2022 surplus amount.

Two commenters expressed concerns about the costs presented in the staff draft for operating and maintaining MERIT. The recommended 2023 final budget includes \$12 million to operate and maintain MERIT and to pay for the infrastructure costs associated with a nationally available system, such as cloud computing services, engineering support, and security functionality. The NCUA investment in this infrastructure – which makes up approximately half of the recommended \$12 million operations and maintenance budget – is used in part to support other applications already deployed as well as those under development. The infrastructure costs have previously been presented as related exclusively to MERIT because that system was developed simultaneously with the larger infrastructure project. In future budgets, the NCUA will distinguish the costs associated solely with MERIT operations and maintenance from the costs of infrastructure that supports multiple technology applications.

One commenter urged NCUA to evaluate its cash needs and provide a refund to credit unions in the amount of any surplus. The attached operating fee schedule reflects a credit of \$15 million to the operating fee, which contributes to what would be an average estimated 2023 operating fee rate reduction of approximately 1.8 percent compared to the 2022 fee level. This \$15 million reduction to the operating fee lowers the amounts that will be invoiced to federal credit unions for the annual operating fee collection due April 15, 2023.

One commenter questioned the NCUA's investments in contract support for various types of quantitative risk analyses, noting that credit unions themselves have also invested in analytic tools, such as for compliance with Current Expected Credit Loss (CECL) requirements. As discussed in the budget justification materials, NCUA strategic plans, and the agency's Annual Reports, the NCUA prioritizes robust analytical capabilities to help ensure the safety and soundness of the credit union system.

One commenter requested additional details on the new Office of the Ombudsman and the role of this office within NCUA. The Riegle Act of 1994 requires that each appropriate federal banking agency and the National Credit Union Administration Board establish an independent intra-agency appellate process. The duties of the Ombudsman are to act as a liaison between the agency and any affected person with respect to any problem such party may have in dealing with the agency resulting from the regulatory activities of the agency and ensure that safeguards exist to encourage complainants to come forward.

FINANCING THE NCUA'S PROGRAMS:

The NCUA's expenses are funded primarily through fees paid by federal credit unions and transfers from the Share Insurance Fund using the OTR. As the annual budget is developed for Board review and approval, the approved methodologies for calculating the OTR and Operating Fees are applied to determine the amount of the budget that will be financed by each. The Board delegated authority to the Chief Financial Officer to administer the approved methodology for calculating the Operating Fees, and to set the fee schedule.

The staff draft includes a discussion of the methodology for calculating the OTR and the Operating Fee on pages 46 through 52.⁷

The OTR estimates presented in the staff draft have not changed and the final 2023 OTR is 62.4 percent. This is a decrease of 30 basis points from the rate calculated for the 2022 budget. The residual 37.6 percent of the 2023 budget will be collected through the Operating Fee. As shown in the chart in Attachment 1, in 2023 federal credit unions will cover 68.7 percent of the costs of the NCUA's operations, while federally insured, state-chartered credit unions will pay 31.3 percent.

Worksheets that show the specific steps used to determine the Operating Fee and the scale for rates charged to different sized federal credit unions are included in Attachment 1. Based on the current Operating Fee methodology, the Operating Fee charged to federal credit unions will decrease approximately 1.8 percent compared to 2022, a 17.2 percentage point reduction from the estimate provided in the staff draft.

There are two reasons for the changes to the Operating Fee. First, the operating and capital budgets in total were reduced by approximately \$6.7 million compared to the amounts in the staff draft. Second, the recommendation includes a credit of \$15 million in cash from the Operating Fund, representing prior year, unspent Operating Fee cash collections the NCUA does not currently require. It is important to note that the OTR is billed throughout the year for actual expenses, so there are not excess funds collected that can be "returned" at the end of each year.

Consumer federal credit unions with assets less than \$1 million are not assessed an operating fee. For consumer federal credit unions with assets greater than \$1 million, the NCUA establishes a three-tiered scale to compute the fee charged, also known as the assessment scale. The dividing points on the assessment scale are adjusted upward on an annual basis by the computed rate of asset growth. The dividing points are indexed annually by asset growth to preserve the same relative relationship of the scale to the applicable asset base.

To illustrate the average rate impact for smaller consumer federal credit unions, the final operating fee rate applied to assets under \$2.26 billion will decrease from \$167 per one million dollars of assets in 2022 to \$164 per one million dollars of assets in 2023, a decrease of \$3 per million, or approximately 1.8 percent. Consumer federal credit union assets between \$2.26 billion and \$6.84 billion would be assessed at a rate of \$48 per million, and consumer credit unions with assets above \$6.84 billion would be assessed at rate of \$16 per million, both of which are also 1.8 percent lower than the comparable 2022 levels.

RECOMMENDED ACTIONS: As detailed in the staff draft justification and modified by this board action memorandum, the NCUA Board approves:

1. The 2023 operating budget of \$344,158,000 and 1,214 positions and the 2024 operating budget of \$387,588,000 and 1,240 positions.

⁷ See <https://ncua.gov/files/publications/budget/budget-justification-proposed-2023-2024.pdf>.

2. The 2023 capital budget of \$11,276,000 and the 2024 capital budget of \$11,234,000.
3. The 2023 Share Insurance Fund administrative budget of \$4,956,000 and the 2024 Share Insurance Fund administrative budget of \$4,354,000.
4. That \$23,225,000 from unspent prior-year operating budgets is available for expenditure in 2023 from the Operating Fund.
5. That \$1,000,000 from unspent prior-year capital budgets is available for expenditure in 2023 from the Operating Fund for expenses related to capital projects.
6. That \$3,900,000 from unspent 2020 operating budget balances and previously made available to pay for rehired credit union examiner annuitants and associated support remains available for expenditure for the same purposes in 2023 and 2024.
7. That \$15,000,000 of cash in the Operating Fund be returned to federal credit unions in the form of a credit (reduction) to the 2023 Operating Fee schedule.

ATTACHMENTS:

Attachment 1: Summary Budgetary Tables and OTR and Operating Fee Calculations