

## BOARD ACTION MEMORANDUM

**TO:** NCUA Board

**DATE:** November 8, 2011

**FROM:** Director, Office of Examination  
and Insurance

**SUBJ:** Overhead Transfer Rate

**ACTION ITEM:** 2012 Overhead Transfer Rate

**ACTION DATE:** November 17, 2011

**ACTION REQUESTED:** Approve the recommended Overhead Transfer Rate of 59.3 percent for 2012

**OTHER OFFICES CONSULTED:** Chief Financial Officer

**VIEWS OF OTHER OFFICES CONSULTED:** Concur

**BUDGET IMPACT, IF ANY:** None. The Overhead Transfer Rate ("OTR") is one of the funding sources for the budget, but does not affect the amount of the budget. The NCUA Board approves the budget separately and without regard to the OTR. The OTR is applied to actual expenses incurred each month.

**RESPONSIBLE STAFF MEMBERS:** Office of Examination and Insurance's Director of Risk Management Tim Segerson, and Loss/Risk Analysis Officer Tim O'Quinn.

**SUMMARY:** The *Federal Credit Union Act* authorizes NCUA to expend funds from the National Credit Union Share Insurance Fund (NCUSIF) for administrative and other expenses related to federal share insurance (12 U.S.C. §1783). An overhead transfer from the NCUSIF covers the expenses associated with insurance-related functions of NCUA's operations. The current OTR of 58.9 percent for fiscal year 2011 was approved by the Board in November 2010.

At the November 20, 2003 board meeting, the NCUA Board approved a refined method for calculating the recommended OTR. The methodology was evaluated in 2009 by an independent third party and deemed valid. One of the factors considered in calculating the OTR is the annual completion of the Examination Time Survey. The Examination Time Survey is considered appropriate due to the following:

- NCUA carries out its mission as an insurer and as a federal credit union regulator primarily through the examination and supervision process; and
- Examinations and supervision are the primary catalysts for other agency functions.

Examiners reported spending 65.1 percent of their examination and supervision time on insurance related procedures for the time survey ending in 2011, compared to 67.01 percent in the previous survey cycle ending in 2010.

In addition to results of the Examination Time Survey collected for the 12-month survey cycle, the calculation methodology factors in the following:

- The value to the NCUSIF of the insurance-related work performed by state supervisory authorities (SSAs).
- The cost of NCUA resources and programs with different allocation factors from the examination and supervision program. Allocation factors are reviewed annually.
- The distribution of insured shares between federal credit unions and federally insured state-chartered credit unions.
- Operational costs charged directly to the NCUSIF.

As detailed in the attachment, the OTR methodology was applied to the 12-month survey data and 2012 budget and resulted in the increase in the 2012 OTR from 58.9 percent to 59.3 percent. The following factors effectively offset the 1.91 percent decline in the Examiner Time Survey for this cycle:

- Federal Credit Union examination and supervision time is down by over 8,000 hours for 2012; and
- Federally insured state chartered examination and supervision increased by over 12,000 hours for 2012.

The Office of Examination and Insurance (E&I) contracted with PricewaterhouseCoopers, an expert firm, to conduct an independent review of the methodology used to calculate the OTR in 2009. The purpose of the review was to evaluate the appropriateness of NCUA's calculation. The expert firm found that the OTR methodology was reasonable and did not favor one type of credit union (i.e. federal versus state chartered) over another.

**RECOMMENDED ACTION:** Establish an Overhead Transfer Rate of 59.3 percent for 2012.

**ATTACHMENT(S):** Calculation of 2012 Overhead Transfer Rate.

Attachment

Calculation of the 2012 Overhead Transfer Rate

**STEP 1 – Workload Program (2012)**

Core Programs	2012 Workload Hours	Non-Insurance Percent	Non-Insurance Hours	Allocation Basis
Federal Examination	451,464	36%	161,940	Examiner time survey.
Federal Supervision	81,879	29%	23,671	Examiner time survey.
State Exam & Supv	182,215	0%	0	FISCU work is insurance-related.
State Exam Review	7,634	0%	0	FISCU work is insurance-related.
5300 Program - FCU	46,688	36%	16,747	FCU time uses examiner time survey.
5300 Program – FISCU		0%	0	FISCU portion at all insurance-related.
<b>Total Core Program</b>	<b>769,880</b>	<b>n/a</b>	<b>202,358</b>	
Special Programs				
Fair Lending Exams		100%	0	Regulatory program.
Agricultural Lending	2,617	0%	0	NCUSIF risk management program.
FOM & Chartering	447	100%	447	Regulatory program.
RCMS	2,120	0%	0	NCUSIF risk management program.
RISOs	900	36%	323	Allocation based on % from time surveys.
Small Credit Unions	17,743	21%	3,726	Allocation based on types of assistance provided by Time Reporting categories.
CUSO Exams	3,704	0%	0	NCUSIF risk management program.
<b>Total Special Program</b>	<b>27,531</b>	<b>n/a</b>	<b>4,496</b>	
<b>Total Core &amp; Special Programs</b>	<b>797,411</b>	<b>n/a</b>	<b>206,854</b>	
Percent of Workload Programs devoted to NCUA's Non-Insurance Role			<b>25.9%</b>	

**STEP 2 – Financial Budget (2012)**

<b>Cost Area 2012 Financial Budget</b>	<b>Dollar Budget (\$M)</b>	<b>Non- Insurance Percent</b>	<b>Non- Insurance Cost (\$M)</b>
<b>Office of Consumer Protection Divisions of Insurance:</b> Primarily non-insurance (regulatory) function involving chartering and fields of membership, net of work related to share insurance coverage for members and FISCUs.	\$6.5	75%	\$4.9
<b>All Other Region Costs:</b> Based on non-insurance related portion of core and special workload programs.	\$133.1	26%	34.5
<b>Asset Management Assistance Center and Assistance Program:</b> NCUSIF function that handles liquidation payouts, manages assets acquired from liquidations and assistance programs, and manages recoveries for the National Credit Union Share Insurance Fund.	\$5.5	0%	\$0
<b>Office of Small Credit Unions:</b> Primarily non-insurance related function to facilitate the expansion of credit union services. However, 10% FISCU participation rate.	\$5.5	21%	\$1.2
<b>Office of Corporate Credit Unions:</b> NCUSIF risk management function other than chartering, FOM, and mergers.	\$8.0	20%	\$1.6
<b>Office of Chief Financial Officer:</b> Based on non-insurance percent, net of staff time associated with NCUSIF accounting.	\$10.3	20%	\$2.1
<b>Office of Chief Information Officer:</b> Combination of support for state and federal examiners and staff related to hardware and software, as well as efforts for program development driven by Examination and Insurance.	\$15.6	20%	\$3.1
<b>Office of Human Resources:</b> Based on non-insurance percent, adjusted for Division of Training and Development time related to training for state examiners and staff.	\$13.0	20%	\$2.6
<b>All Other Costs:</b> Based on non-insurance portion of core and special workload programs. Includes NCUA board, Office of Inspector General, etc.	\$39.4	26%	\$10.2
<b>Total 2012 NCUA Budget</b>	<b>\$236.9</b>		<b>\$60.17</b>

NOTE: The totals may not reconcile due to the results of rounding.

**STEP 3 – Calculate NCUSIF Costs (2012)**

**Imputed NCUSIF Costs**

	Millions
2012 Financial Budget	\$236.9
Non-Insurance Costs (see Step 2)	- \$60.2
SSA imputed Value	+ \$31.5
Direct Operational Charges to NCUSIF	+ \$1.5
<b>Total NCUSIF Imputed Costs</b>	<b>= \$209.6</b>

**STEP 4 – Allocation of NCUSIF Costs (2012)**

**Insured Shares Allocation**

	FCU	FISCU
Total Cost of Providing NCUSIF Insurance	\$209.6	\$209.6
Times Proportional Allocation Basis	54.6%	45.4%
<b>Equals Allocated Insurance Costs</b>	<b>\$114.4</b>	<b>\$95.2</b>

**Net of Imputed SSA Value**

	Millions
Total Allocated Insurance Costs - FISCUs	\$95.2
Minus SSA Insurance Work Imputed Value	\$31.5
<b>Equals Net Cost of NCUSIF Insurance – FISCUs</b>	<b>\$63.7</b>

**Dollar Amount of OTR**

	FISCUs	FCUs	Dollar Amt
FISCU Portion of NCUA Insurance Cost	\$63.7	\$76.6	\$140.4
Divided by Percentage of Insured Shares	45.4%	54.6%	

**OTR as a Percent of Budget**

Dollar Amount of OTR	\$2140.4 M
Divided by NCUA Budget	\$236.9 M
<b>Equals OTR</b>	<b>59.3%</b>

**Imputed SSA Value Step 1 – 2012**

**Gross Workload**

Table 1

<b>Average Exam Time (Hours) FCU (Dec. 2010)</b>	<b>Assets &lt; \$10M</b>	<b>\$10M - \$100M</b>	<b>\$100M - \$250M</b>	<b>\$250M - \$500M</b>	<b>&gt; \$500M</b>
<b>CAMEL 1</b>	47	76	151	190	307
<b>CAMEL 2</b>	51	87	167	218	331
<b>CAMEL 3</b>	57	108	191	228	380
<b>CAMEL 4</b>	69	142	280	342	455
<b>CAMEL 5</b>	127	161	222	342	455

Table 2

<b>FISCUs (#) in Each Category (as of Dec 2010)</b>	<b>Assets &lt; \$10M</b>	<b>\$10M - \$100M</b>	<b>\$100M - \$250M</b>	<b>\$250M - \$500M</b>	<b>&gt; \$500M</b>
<b>CAMEL 1</b>	73	163	46	34	58
<b>CAMEL 2</b>	500	701	166	75	107
<b>CAMEL 3</b>	252	283	62	25	22
<b>CAMEL 4</b>	40	53	19	10	8
<b>CAMEL 5</b>	3	3	0	1	1

Table 3

<b>Total Hours (Table 1 cells x Table 2 cells)</b>	<b>Assets &lt; \$10M</b>	<b>\$10M - \$100M</b>	<b>\$100M - \$250M</b>	<b>\$250M - \$500M</b>	<b>&gt; \$500M</b>
<b>CAMEL 1</b>	3,431	12,388	6,946	6,460	17,806
<b>CAMEL 2</b>	25,500	60,987	27,722	16,350	35,417
<b>CAMEL 3</b>	14,364	30,564	11,842	5,700	8,360
<b>CAMEL 4</b>	2,760	7,526	5,320	3,420	3,640
<b>CAMEL 5</b>	381	483		342	455
<b>Total</b>	<b>46,436</b>	<b>111,948</b>	<b>51,830</b>	<b>32,272</b>	<b>65,678</b>
<b>Total Gross Exam Hours</b>					<b>308,164</b>

## Imputed SSA Value Step 2 - 2012

### Net Workload

#### Net of Insurance-Related Time

<b>FISCUs</b>	<b>Hours</b>
Gross FISCU Exam Hours	308,164
x Insurance Factor Based on Exam Time Survey	64.1%
= Total Insurance Hours w/out Risk-Based Scheduling	197,626

#### Net of NCUA Time in FISCUs

	<b>Hours</b>
Total FISCU Hours	270,192
+ 2012 Budgeted Supervision Hours	47,119
- 2012 Budgeted Insurance Review Hours	135,096
- 2012 Budgeted State Exam Report Review Hours	7,634
<b>Total Additional FISCU Insurance Hours Needed</b>	<b>189,849</b>

## Imputed SSA Value Step 3 - 2012

### Additional Staff Needed

#### Examiner Productive Time

2012 Core and Special Workload Program Hours	797,411
/ Total 2012 Workload Program Hours	1,476,060
= Productivity Ratio	54.0%
Total Work Hours in a Year Per Full Time Equivalent (FTE)	2,080
x Productivity Ratio	54.0%
= Productive Hours per FTE Examiner	1,124

#### Number of Examiners Needed

Net Additional FISCU Hours Needed	174,581
/ Productive Hours per FTE Examiner	1,124
= Number of Additional FTE Examiners Needed	<b>155.4</b>

#### Total Additional Staff Needed

Additional Staff Needed	Ratio Examiners to Position	FTEs Per Position
Examiners	1/1	155.4
Supervisory Examiners	1/9	17.3
Analysts	1/15	10.4
Directors	1/25	6.2
Other Regional Staff	1/20	7.8
= Number of Additional FTEs Needed		<b>197.0</b>



### Imputed SSA Value Step 4 - 2012

#### Imputed Cost

#### Gross Cost

Total Cost of Regions (2012 Budget)	\$138,241,241
/ FTEs in Regions (2012 Budget)	880.6
= Per Regional FTE Cost	\$156,985
x Number of Additional FTEs Needed	197.0
= Cost of Additional Regional Positions	\$31.0M

#### Net Cost

	<b>Millions</b>
Cost of Additional Regional Positions	\$31.0.
+ Additional OHR Costs (15.3% budget)	\$2.0
- SSA Training and Equipment Cost	\$1.5
<b>= Imputed SSA Value</b>	<b>\$31.4</b>

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