action memorandum; and two, the 2012 capital acquisition budget as presented in Attachment 2 of the Board action memorandum.

Debbie Matz: Is there a second?

Christiane Gigi Hyland: Second.

Debbie Matz: All in favor say aye.

Christiane Gigi Hyland: Aye.

Michael E. Fryzel: Aye.

Debbie Matz: Aye. The ayes have it.

I just want to clarify that for the 2012 Share Insurance premium, the anticipated range is 0 to 6 basis points, not 0% to 6%. I was just not quite clear about that. Thank you.

Mary Ann Woodson: Thank you very much. Thank you.

Debbie Matz: Thank you.

We will next get a briefing on our overhead transfer rate. Staff presenting: Tim Segerson, Director of Risk Management; and Tim O'Quinn, Lost Risk Analyst Officer, Office of Examination and Insurance. Good morning.

Tim Segerson: Good morning. Good morning Chairman Matz, Board Member Hyland and Board Member Fryzel. Tim O'Quinn and I are here to present the 2012 overhead transfer rate recommendation of 59.3%. I'll provide a brief overview of the methodology that we used to compute the rate and then Tim will discuss the primary components of the rate calculation.

As both regulator for federal credit unions and insurer of federal and state credit unions, NCUA apportions funding for operations consistent with that dual role. A portion of our activities are purely regulatory in nature, and a portion of our activities are risk- or insurance-related. As a result, the operating fund is financed through two sources -- all federal credit unions are assessed an annual operating fee for the regulatory portion of our operations; and an overhead transfer occurs from the National Credit Union Share Insurance Fund to cover the appropriate insurance-related activities in all federally insured credit unions, both state and federal.

NCUA continues to use the method approved by the Board in 2003, which includes an annual review and approval of the overhead transfer rate by the Board. The overhead transfer methodology is designed to equitably distribute costs between NCUA's two roles as regulator and insurer. NCUA has continued to evaluate the methodology and in 2010 obtained a third-party validation.

The validated overhead transfer methodology is based on an imputed value or replacement cost approach toward insurance activities and uses up-to-date information on examination and supervision processes to ensure the methodology reflects current practice. The methodology incorporates key factors, including an annual time survey completed from June to May each year, NCUA's resource workload budget and financial budget, the distribution of insured shares between federal credit unions and federally insured state-chartered credit unions, and the value of the insurance-related work conducted by state regulators.

Using those factors, we determine the portion of the NCUA budget that should be funded through an insurance-related overhead transfer and the portion that should be funded through regulatory-related operating assessments to federal credit unions.

The approved method has provided a consistent means of equitably distributing costs between federal credit unions and federally insured state-chartered credit unions by taking all these factors into consideration.

For the 2011 budget cycle, the overhead transfer rate was 58.9%. For 2012, we are recommending a 59.3% overhead transfer rate based on the latest results of our methodology.

Tim will talk a little bit more about the details of the formula now.

Tim O'Quinn: The formula includes 4,400 additional hours budgeted for examination and supervision work in all credit unions, the budget changes approved for the cost of NCUA resources and programs, the slight change in the insured share distribution and the imputed value of insurance related work completed by state regulators.

While the annual exam and supervision hours in federal credit unions fell by over 8,000 hours, exam and supervision hours in federally insured state-chartered credit unions increased by over 12,000 hours, which contributed to the increase in the calculation.

The first slide illustrates the increase in core program budget hours for 2012. The next slide shows the increase in NCUA exam and supervision time in state-chartered credit unions.

The examination time survey process is another key factor that goes into the formula to calculate the overhead transfer rate. We use all principal examiners in randomly selected supervisory groups from each of our five regions. The next slide illustrates the decrease in insurance-related activity during this survey period.

For the time survey ending May 2011, examiners reported spending 64.13% of examination time on insurance-related procedures compared to May 2010 results of 66.61%. Examiners also reported spending 71.09% of supervision time on insurance-related procedures, an increase from the May 2010 results of 68.32%. Examiners continue to spend a higher percentage of their time on safety and soundness activities. This is consistent with the events occurring in the current financial environment.

After factoring these changes into the approved formula, the overhead transfer rate increased from 58.9% approved in 2011 to the recommended level of 59.3% for 2012. The next slide shows the increase in the 2012 overhead transfer rate.

The next slide illustrates the funding sources of the $236.9 million NCUA operating budget for 2012. $96.5 million or 40.7% of the overall 2012 budget will be paid by federal credit unions through the operating fee. An additional $140.4 million is funded from the overhead transfer. The overhead transfer is distributed between federal credit unions and federally insured state-chartered credit unions based on the percentage of insured assets.

Federal credit unions hold 54.6% of insured assets while federally insured state credit unions hold 45.4% of insured assets. Based on this distribution, the final slide shows that $76.6 million of the overhead transfer is allocated to federal credit unions in addition to the $96.5 million in operating fees. This results in $173.1 million or 73.1% of the overall 2012 budget attributable to federal credit unions. $63.8 million of the overhead transfer is attributable to federally insured state-chartered credit unions. This means 26.9% of the overall 2012 budget is paid by federally insured state-chartered credit unions.

We would be happy to answer any questions you have at this time.

Debbie Matz: Thank you. You indicated that there was a reduction in insurance-related activity. So can you explain why that didn't that reduce the overhead transfer rate?

Tim O'Quinn: Certainly. All the components of the calculation are interrelated. The reduction in insurance-related activities would have reduced the final calculation, while the increase in state exam and supervision time, combined with the budget change and staff changes offset the reduction based on the time survey results for the year.

Debbie Matz: So they work together?

Tim O'Quinn: Correct.

Debbie Matz: I know we had an outside firm reviewing the calculations and the process we used. So did they concur with our recommendations? Did they make any suggestions on top of what we were doing?

Tim S**egerson**: Yes, they had several minor enhancements, recommendations for minor enhancements, and we have implemented specific recommendations in the calculation methodology.

Debbie Matz: So their recommendations were included in this methodology?

Tim Segerson: Correct.

Debbie Matz: When will the recommendations affect the overhead transfer rate calculations?

Tim Segerson: The ones that were related to the actual calculation methodology were incorporated into the time study that's going on now as part of this process, so they will be part of the presentation at the Board meeting in November of 2012 for the 2013 overhead transfer rate.

Debbie Matz: Okay. I have no other questions.

Christiane Gigi Hyland: No questions, thank you.

Michael E. Fryzel: No questions.

Debbie Matz: Is there a motion?

Christiane Gigi Hyland: Yes. I move that the Board establish an overhead transfer rate of 59.3% for 2012.

Debbie Matz: Is there a second?

Michael E. Fryzel: Second.

Debbie Matz: All in favor say aye.

Christiane Gigi Hyland: Aye.

Michael E. Fryzel: Aye.

Debbie Matz: Aye. The ayes have it. Thank you.

Tim Segerson: Thank you.

Tim O'Quinn: Thank you.

Debbie Matz: Next we will hear about NCUA's operating fee scale. Chris McGrath, Budget Analyst, Office of the Chief Financial Officer, will be presenting. Good morning, Chris.

Chris McGrath: Good morning. I'm here this morning to request Board approval for the final piece of the 2012 budget, the operating fee assessment for federal credit unions.

In the Board’s last action, you approved funding of 59.3% of NCUA’s budget by the Share Insurance Fund. The remaining piece, 40.7%, comes from the operating fee