From:	John McKenzie
To:	_Regulatory Comments
Subject:	Indiana Credit Union League Comments on NCUA"s Overhead Transfer Rate Methodology
Date:	Tuesday, April 26, 2016 10:55:36 AM
Attachments:	image002.png

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Comments on NCUA's Overhead Transfer Rate Methodology

Dear Mr. Poliquin:

The Indiana Credit Union League (ICUL) appreciates the opportunity to submit comments on the National Credit Union Administration's (NCUA) Overhead Transfer Rate (OTR) and the Federal Credit Union Operating Fee Schedule Methodology. The ICUL member credit unions represent 97% of assets and members of Indiana's credit unions, with those memberships totaling more than two million consumers. We represent 37 state-chartered credit unions and 96 federal-chartered credit unions in the state of Indiana. Although we have more FCUs, the state-chartered credit unions represent 55 percent of Indiana CU total deposits. As an organization that represents both federal and state-charted credit unions, we are strong proponents of a fair and equitable system to determine the overhead transfer rate so that neither charter group will be unduly burdened or disadvantaged.

While we recognize that NCUA has taken steps in an effort to explain in greater detail how it collects the information to complete the OTR calculation, we believe that the current OTR and FCU Operating Fee Schedule calculation processes still need to be addressed further. A calculation methodology that results in an increase from 52% at the beginning of the financial crisis to the current level of 73.1% raises questions that the NCUA has not satisfactorily answered. During the same timeframe, the number of troubled credit unions has decreased significantly, the balance sheets of credit unions strengthened dramatically, and the overall economy in which credit unions operate has improved. It seems counter-intuitive that the OTR would show such a dramatic increase and despite more information on the OTR calculation, the agency has not provided a sufficient rationale for the public policy that underlies the OTR increases. We recognize that FCU operating fees have decreased during this timeframe; but that is not the result of NCUA reducing its costs, but rather results from NCUA funding an increasing budget through the OTR. We are not proposing that NCUA simply transfer costs that are currently included in the OTR calculation, and fund these costs through increased FCU operating fees. We would like to see the impact of the agency's budget decrease for federal and state chartered federally insured credit unions alike.

We do not believe that all "safety and soundness" related costs of NCUA equate to being "insurance related activity" costs subject to the OTR calculation. "Safety and soundness" is part of the standard regulatory examination of credit unions, not just an insurance examination issue. We encourage NCUA to review what costs are truly "insurance related activities," and believe that the Federal Credit Union Act provides sufficient guidance in aiding this evaluation. True "insurance related activities" are what should be included in the OTR calculation.

The current method seems to make the state-chartered credit unions pay the state supervisory authority (SSA) for safety and soundness examinations, then through an ever increasing OTR percentage pay for perceived safety and soundness factors again. Although the FCUs have appreciated the lower overall cost of the FCU Operating Fees, it does seem to decrease the balance of total costs for state-chartered credit unions and federally chartered credit unions. Although we understand that the NCUA budget has to be funded, we feel the OTR must stick to a very high percentage of its funding toward "insurance related costs."

We support NCUA continuing to use a formula-based approach for the OTR calculation. We believe that with better definitions of what are truly “insurance related activities” the transfer rate should decrease. One portion of the process that remains very subjective is the Examiner Time Survey. We recognize that NCUA has worked to improve the survey process and has automated the process; there is still subjectivity in the examiners’ allocation of time spent on various activities during the examination. We would encourage NCUA to continue to train examiners on completing the survey, and being as accurate as possible since this is a key component in how examiner hours are allocated.

As part of the process for ways to further enhance the process, we encourage NCUA to pursue implementation of an 18-month examination cycle for strong credit unions, and to look closely at ways to better use the examination reports generated by SSAs in lieu of having joint examinations (with the equivalent of two full examiner groups) or at times, two completely separate examinations. This results in doubling the costs of the examination process, with the added expenses being allocated to the OTR. With this emphasis, NCUA could reduce its budget while also lowering the OTR percentage. Additionally, more cost savings could be achieved by doing an increased amount of examination work remotely. We believe that through efficiencies that could be gained through better use of SSA examination information and a longer exam cycle where appropriate, plus more work done remotely, NCUA could lower the OTR while maintaining the lower operating fee schedules.

We do not support delegating to NCUA management the calculation of the OTR and operating fee schedule. We believe that these calculation methodologies should continue to be reviewed and determined by the NCUA Board as part of the agency’s annual budget process. We also believe that any revisions in the OTR methodology as well as changes in the OTR itself should be subject to notice and public comments. We continue to believe that the methodologies used for the OTR and operating fee calculations, as well as the NCUA budget, would benefit from full transparency that would result.

Finally, an overarching concern we have regarding the agency’s use of OTR is that in essence it gives the agency a blank check to fund the NCUA’s ever increasing budget. Through the use of the agency’s categorization of insurance versus non-insurance related costs, the NCUA is able to draw upon the funds in the NCUSIF to pay for agency expenses with broad discretion. We are not suggesting the agency operate with insufficient resources, but we urge the agency to do a better job of containing overall costs and managing resources, which come from federally insured credit unions. NCUA should return to a budget review process that includes credit union input and improve upon that process by sharing the next year’s proposed budget figures with the credit union community so they may provide meaningful comments before the budget is adopted by the NCUA Board.

We appreciate the NCUA Board’s positive step of seeking comments on the OTR calculation methodology and urge the Board to address the serious concerns we have raised on behalf of Indiana credit unions. If you have any questions about our letter, I would welcome the opportunity to discuss them and please do not hesitate to give me a call at (317) 594-5320.

Sincerely,

John McKenzie

John McKenzie
President, Indiana Credit Union League