March 31, 2016

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

RE: Comments on NCUA's Overhead Transfer Rate Methodology

Dear Gerald Poliquin,

As the Chief Executive Officer of a California State Chartered Federally Insured Credit Union (SCFICU), I am deeply troubled by the increasing financial burden placed on our Credit Union and other SCFICUs due to increases in the Overhead Transfer Rate (OTR). Additionally, in the interest of transparency, I believe that the NCUA Board has an ethical, and possibly legal, responsibility to publish and make public the precise calculations used to determine the OTR.

The OTR is meant to cover “insurance related” costs but it appears the NCUA includes all activities related to safety and soundness. SCFICUs, such as our Credit Union, pay the cost of supervision and safety and soundness examinations in the form of fees assessed by their subject State Regulator. This results in SCFICUs paying twice for safety and soundness issues and examinations not specifically related to “insurance related” activities. Significant increases in the OTR over the past several years provide an unfair benefit to Federally Chartered Credit Unions. I believe the role of the NCUA Board, with regard to the OTR, is to establish a methodology that is consistent and impartial, but recent increases in the OTR, which favor Federally Chartered Credit Unions, certainly create questions about the impartiality of the expense allocations.

In California, as well as other states, a significant number of large asset credit unions (over $1 billion in assets) have converted from Federal to State Charters since the turn of the century. In many cases, this was due to the more stringent field of membership restrictions on Federal Charters. This exodus of credit unions from the Federal Charter has reduced revenues to the NCUA, which has coincided with the OTR increasing from 50% to the current level of over 70%. It appears that in order to stem this trend, the NCUA Board may have acted to reduce operating fees assessed to Federally Chartered Credit Unions. In essence, the NCUA Board has gifted the Federally Chartered Credit Unions with lower fees, at the expense of SCFICUs.

Since 2000, the number of federally chartered credit unions has decreased dramatically, and yet fees assessed to Federally Chartered Credit Unions have been reduced, while the OTR has increased at a record rate. I have always believed the dual role of the NCUA as a regulator and insurer, while beneficial in many ways, has the potential to create a conflict of interest. The OTR is one manifestation of this conflict. This possible conflict of interest makes it necessary, and even vital, that the NCUA Board adopt a more transparent methodology for the determination of the OTR. As I understand the current methodology for determining the OTR, it is based on advice from independent accounting firms. If this is the case, then there should be no reason that the methodology should not be shared with those that actually bear the expense of the NCUA budget, all Federally Insured Credit Unions.

The recent announcement to delegate management of the OTR to the NCUA staff is also troublesome. This action will decrease transparency that is sorely needed in the OTR process.

On behalf of the members and officials of Safe 1 Credit Union, I request the NCUA Board take the following actions with respect to the OTR:

- Submit the OTR as a proposed rule for public comment or establish a structure which allows Federally Insured Credit Unions to provide input and comment on OTR methodology and calculations on a bi-annual basis..

- Make available complete and detailed information and justification regarding OTR determinations and calculations.

- Rescind any actions to delegate OTR determinations to NCUA staff.

- The NCUA Board alone should make all determinations regarding the OTR.

Thank you for your consideration.

Sincerely,

Doug Kileen
CEO
Safe 1 CU

cc: CUNA, CCUL