CUNA
Credit Union National Association

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August 29, 2017

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

Re: Request for Comment Regarding Revised Overhead Transfer Rate Methodology

Dear Mr. Poliquin:

The Credit Union National Association (CUNA) appreciates the opportunity to submit comments concerning the National Credit Union Administration's (NCUA) Request for Comment Regarding Revised Overhead Transfer Rate (OTR) Methodology. CUNA represents America's credit unions and their 110 million members.

CUNA thanks the NCUA Board for reviewing the OTR and making the process more simple and transparent. We have long advocated for full transparency and open communication regarding the OTR with the credit union community. As we stated in our 2016 comment letter, it is not our intent, nor should it be that of the NCUA, to benefit a Federal credit union (FCU) over a state-chartered credit union or a state-chartered over an FCU.[1] As you know, CUNA is the largest credit union trade association, representing the bulk of both federal and state-chartered credit unions. Our goal is to ensure a fair distribution of the charges for the supervision of credit unions, consistent with the Federal Credit Union Act (FCUA), for all credit unions regardless of charter type.

CUNA has consistently opposed any overhead transfer of agency expenses to the National Credit Union Share Insurance Fund (NCUSIF) that is not for legitimate, substantiated "insurance-related" costs, consistent with fairness to state and federal credit unions and the FCUA. We believe the proposed changes represent an approach that will lead to more fair and consistent assessments.

[1] 12 U.S.C. 1790 states: "It is not the purpose of this subchapter to discriminate in any manner against State-chartered credit unions and in favor of Federal credit unions, but it is the purpose of this subchapter to provide all credit unions with the same opportunity to obtain and enjoy the benefits of this subchapter."

Details of Proposed OTR Methodology

CUNA generally supports the underlying principles of the simplified OTR formula. One of goals of this modeling should be a more consistent OTR applied to all credit unions (see chart).

Year	OTR
2008	52.0%
2009	53.8%
2010	57.2%
2011	58.9%
2012	59.3%
2013	59.1%
2014	69.2%
2015	71.8%
2016	73.1%
Current 2017	67.7%
Proposed 2017	60%

The above chart clearly demonstrates that the OTR has swung wildly in one direction since 2008, which places a greater burden of funding the NCUA on state-chartered credit unions. Spikes can result in confusion among credit unions regarding NCUA's methodology in calculating the OTR.

We support the 50% allocation method to insurance and for the examination of FCUs. Allocating 50% of an examination to insurance appears to be reasonable and should be simple to apply. We also support applying 100% of credit union service organization (CUSO)examination costs to the insurance funds, as NCUA authority over CUSO absent credit unions safety and soundness is very limited.

NCUA's proposal that enforcement of consumer protection and other charter issues are 0% insurance-related properly reflects a state supervisory authority's (SSA) role in supervising state-chartered credit unions. Allocating as 100% insurance-related to the share insurance fund all specific insurance activities such as liquidations, resolutions, and other activities that are insurance fund-related would be the proper allocation for insurance-specific activated.

As noted in our previous comment letter, the number of troubled credit unions with a rating of CAMEL 4/5 has decreased from a peak of 409 in 2011 to 210 as of June 2017.[2] If indeed the OTR is designed to capture what the NCUA is characterizing as "insurance related activities," one would logically expect the OTR to correspondingly decrease with a decrease in less stable credit unions. While there are other factors that might have a bearing on those activities related to insurance activities, such as the conversion of a federal charter to a state charter, with the improving economy and the strengthening of credit union balance sheets, the dramatic increase in the transfer rate is staggering and highlights the potential flaw in the fairness of the current methodology.

[2] NCUSIF Second Quarter Statistics (2017), presented at the July 20, 2017, NCUA Board Meeting.

Alternate OTR Model

CUNA proposed an alternate OTR model in our April 2016 comment letter.[3] That alternate model would have led to an OTR of 56.3% instead of the 67.7% in place for 2017, under the current method and 60% under the proposed method. It appears that NCUA's proposed model yields similar results to CUNA's proposed model driving the OTR to 60%, which is still higher than years 2008 through 2013, but more in line with historical averages.

Year	Portion of NCUA Operating Budget Covered by FCU Operating Fees	FCU Portion of NCUA Operating Budget Covered by OTR and Operating Fees
2008	48.0%	76.5%
2009	46.2%	75.4%
2010	42.8%	73.9%
2011	41.1%	73.0%
2012	40.7%	72.7%
2013	40.9%	72.4%
2014	30.8%	67.1%
2015	28.2%	65.1%
2016	26.9%	64.3%
Current 2017	32.3%	66.9%
Proposed 2017	40.0%	70.6%

Although the proposed 60% OTR represents a large increase for FCUs, the FCU portion of the budget funded by the combination of the OTR and operating fees is lower than the years prior to 2014.

The NCUA's proposed approach is reasonable if it does not lead to spikes or frequent large fluctuations in the OTR. CUNA believes the proposed methodology achieves the goal of simplification, making the process easier to understand. This simplification could also save resources while maintaining a fair and equitable distribution of funding obligations - consistent with statements in our April 2016 comment letter. Although the proposed method would increase FCU Operating Fees by 55% vs. 2016, it would increase the FCU proportion of total payments only modestly (from approximately 67.0% using current method to 70.6% using the proposed approach). Moreover, it would keep the FCU fraction of total funding (i.e. transfer + FCU operating fees) below the proportions seen for many years prior to 2014).

[3] https://www.cuna.org/uploadedFiles/CUNA/Legislative_And_Regulatory_Advocacy/Track_Regulatory_Issues/Pending_Regulatory_Changes/2016/OTR%20Operating%20Fee%20Comment%20Letter.pdf

Thank you for the opportunity to express these views to the NCUA. If you have further questions or would like to discuss CUNA's comments in more detail, please feel free to contact me at 202.508.6705

Sincerely,

J. Lance Noggle

Lance Noggle
Senior Director of Advocacy and Counsel