

Questions and Answers: NCUA's 2015 Budget

Q. What is NCUA's budget for 2015, and how does it compare to prior year's budget increases?

The Board of the National Credit Union Administration (NCUA) approved a 2015 budget of \$279,477,779. This is an increase of 4.2 percent or \$11,187,483 over the 2014 budget of \$268,290,296. This is the smallest percentage increase since 2008.



Q. What processes does NCUA use to create its annual budget, and to keep costs down as much as possible?

NCUA develops its budget using zero-based budgeting techniques, which ensure each activity is individually justified to the Board in order to be considered for funding. Under this process, the budget for each office is rigorously evaluated to ensure NCUA resources are allocated efficiently and priority needs are funded in accordance with NCUA's Strategic Plan and goals, regardless of the prior year funding level. NCUA requires each office to explain the merits of every line item, the specific needs for each category of spending, and the basis of developing each cost estimate.

In addition, analytical and summary information is also prepared to provide for comparison to prior years and to highlight material increases or decreases to budget items. The NCUA Board works constantly to reduce any unnecessary expenses, and to realign strategically existing resources to achieve cost savings or more efficiently achieve the strategic objectives associated with maintaining the safety and soundness of the credit union system and protecting the National Credit Union Share Insurance Fund.

Q. What happened to the money that the NCUA Board gave back mid-year in 2014?



The NCUA Board unanimously voted in July 2014 to give back \$1.1 million in funding that would not be spent from the 2014 budget. These funds were used to offset the 2015 budget requirements and reduce operating fees assessed to credit unions in 2015. This \$1.1 million return to credit unions will be realized in the 2015 operating fee assessment billed in the second quarter of 2015. The [2015 Operating Fee Board Action Memorandum](#) provides more detail.

Q. How does the NCUA 2015 budget align with NCUA's Strategic Plan 2014-2017 or its 2015 Annual Performance Plan? How does NCUA demonstrate that annual budget expenditures support NCUA's strategic goals?

NCUA integrates its strategic and annual planning into its budget formulation process. Through the integration, the NCUA Board ensures that resources are aligned to the agency's highest priorities and strategic goals.

NCUA's budget process uses the agency's strategic goals and objectives set forth in the [NCUA Strategic Plan 2014 through 2017](#) as a framework to ensure agency priorities and initiatives drive resulting resources needs and allocations. The annual budget provides the resources to execute against the strategic plan and undertake tasks in NCUA's major programs. The Strategic Plan also identifies the NCUA's goals and objectives. Each regional and central office director develops a budget request identifying resources required to support NCUA's mission and strategic goals and objectives. These requests are then evaluated to ensure each office's requirements are individually justified and consistent with the agency's overall strategic plan.

Q. What factors drove the overall 4.2% increase for the 2015 NCUA budget?

NCUA's budget is a product of thorough planning and evaluation by all offices to effectively use its resources in the most efficient manner without sacrificing our core mission of protecting the safety and soundness of the credit union system. Highlights of NCUA's budget changes include:

- **Pay & Benefits.** Pay and benefits increased by \$7.3 million, or 3.7 percent, for a total budget of \$201.9 million. The increase supports the merit and locality pay increases required by NCUA's current collective bargaining agreement (CBA) as well as the new positions, promotions, position changes, and other mandatory employer contributions including health insurance and retirement.
- **Travel.** Travel increased \$774,215, or 2.7 percent, for a total budget of \$29.3 million. The planned travel costs are supported by the projected 2015 program examination hours and central office travel planned to support field staff with credit union examinations.
- **Rent, Communications & Utilities.** The Rent, Communication & Utilities expenses increased by \$156,896, or 2.8 percent, for a total budget of \$5.8 million for essential telecommunication costs to improve data capacity and network reliability. Funding also supports financial subscription services, leased facilities, postage, and utilities.



- **Administrative Expenses.** Administrative expenses increase by \$941,522 or 6.1 percent, for a total budget of \$16.3 million. This funding supports server and end-user licensing costs, including email, word processing, spreadsheet and database management applications, as well as supplies, depreciation expense, and Federal Financial Institutions Examination Council fees.
- **Contracted Services.** Contracted Services expenses increased by \$2.1 million or 8.5 percent, for a total budget of \$26.2 million. The contracted services line items of the budget reflect costs incurred when products and services are acquired in the commercial marketplace. These services include critical mission support such as information technology hardware and software development support, accounting and auditing services, and specialized subject matter expertise.

For many years prior to the crisis, NCUA had relatively flat overall budgets that did not fund sufficient investments in improving technology infrastructure. For example, our existing ARIES examination software is over 15 years old. One key driver of budget increases these past few years is a compelling need to address technology gap areas. As reviewed and approved by the Information Technology Prioritization Council, the 2015 budget funds needed investments in critical information technology systems, including CU On-line and ARIES, as well as needed business intelligence tools and a updated Consumer Assistance Center complaint management system. NCUA has determined these projects are needed investments required for continued success of our examination program and are funded by the capital budget.

Additionally, within the capital budget are funds for central office building renovation projects. This includes converting existing retail space into a modern training facility, as well as converting the vacated training space into office space. This repurposing project is designed to ensure the central office space will be used more efficiently and will avoid the expense of purchasing or leasing additional space outside of the central office in 2015.

Q. How does NCUA determine pay increases for its employees each year, what are the standards used by the agency in setting pay levels or merit increases?

There are several factors impacting NCUA's annual pay and benefit expense. First, by statute, NCUA is required to maintain pay comparability with other federal financial regulators. Second, we have a collective bargaining agreement with the National Treasury Employees Union (NTEU) that sets employee benefit levels as well as setting annual levels of potential merit pay increase ranges, based on employee performance, for nearly 80% of our staff. Last, NCUA experiences the same type of normal annual increases in benefit expenses (such as health insurance and retirement contributions) as other government agencies and the private sector does.

Q. Why is NCUA's travel budget increasing, when the number of credit unions it supervises is shrinking? Can't NCUA do more off-site monitoring to help control costs?



Given the virtual nature of the NCUA workforce, travel is a necessary expense of ensuring the safety and soundness of the credit union system. Although the number of credit unions is shrinking, the complexity of the existing credit unions is increasing. To meet the oversight needs of the generally more complex credit unions, there is a required increase in specialists.

This increases travel demands, as the specialists are not local examiners traveling to local credit unions. Rather, they are regionally based staff traveling a high percentage of the time to locations outside their immediate area to areas where their specialist skill sets are required for an examination.

Several years ago the agency embarked on an initiative to reallocate exam hours from small credit unions to the larger credit unions, to more accurately reflect potential failure risk impact to the National Credit Union Share Insurance Fund. While the number of credit unions to be examined is shrinking, the examination requirements of our generalist examiners are shifting from smaller to larger entities that pose a larger potential risk exposure to the National Credit Union Share Insurance Fund. As an example, in the past two years:

- Median exam hours in credit unions under \$10 million decreased 22 percent; while
- Median exam hours in credit unions over \$10 billion increased 50 percent.

Q. What information does NCUA provide publicly about its use of contracted services and the process for selecting contractors?

Contracted services include critical mission support and infrastructure such as information technology hardware and software development support, accounting and auditing services, hotel lodging and training rooms. Contracting specialized subject matter expertise is often a cost-effective approach to support career staff. To that end, NCUA uses the commercial marketplace to obtain necessary goods and services which offer the best value to the agency.

NCUA administers its procurement program to achieve the following objectives:

- *Robust competition* serves the public interest and is the preferred method of source selection. For contracts valued more than \$7,500 and up to and including \$100,000, a minimum of three vendors are invited to participate in a competition. For contract requirements over \$100,000, 10 or more vendors are invited to participate in a competition.
- Make awards based on the *best value* to NCUA by balancing proposed solutions, price and schedule, among other factors; and
- Provide minority and women-owned businesses with *fair opportunities* to participate in NCUA's bidding process (ensuring that they comprise 1/3 of the vendors invited to participate in each competition) pursuant to the law.



Q. Where can I get more information on how the Overhead Transfer Rate is calculated and the methodology used? Has NCUA changed that methodology recently?

The overhead transfer from the National Credit Union Share Insurance Fund (NCUSIF) covers the expenses associated with insurance-related functions of NCUA's operations.

Over a decade ago in 2003, the NCUA Board approved a refined method for calculating the recommended Overhead Transfer Rate (OTR) which is still the basis for today's OTR calculation. The overhead transfer methodology incorporates the following key factors:

- 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.
- The results of the annual Examination Time Survey (ETS). The ETS captures the time NCUA spends in federal credit unions carrying out its dual mission as an insurer and a regulator. NCUA primarily achieves its mission through the examination and supervision process, and examinations and supervision are the primary catalysts for other agency functions

For the 2013-2014 ETS results, examiners report an average of 87.8 percent of their exam and supervision time spent on insurance related activities, with the remaining 12.2 percent allocated to non-insurance related activities.

Based on the 2003 OTR methodology, the overhead transfer rate for 2015 calculates to be 71.8 percent. The OTR for 2014 was 69.2 percent. The primary driver of the increase in the 2015 OTR was a slight increase in the percentage of insured shares held by state chartered credit unions.

The overhead transfer rate represents insurance-related costs in the NCUA operating budget to be paid for out of the NCUSIF. Thus, 71.8 percent of the total operating budget will be paid out of the National Credit Union Share Insurance Fund. The remaining 28.2 percent of the operating budget is paid for through the federal credit union (FCU) operating fee.

Details related to the calculation of the OTR BAM is located using the following link:
<http://www.ncua.gov/about/Documents/Agenda%20Items/AG20141120Item4.pdf>



Q. Apart from the Overhead Transfer Rate, what are the 2015 budget items that the Share Insurance Fund will fund directly, and why?

The National Credit Union Share Insurance Fund (NCUSIF) funds certain costs directly. As of September 30, 2014, these expenses represent about 1.2% (approximately \$3.3 million) of operating charges to the NCUSIF. Examples include stress testing of credit unions with over \$10 billion in assets by the Office of National Examinations and Supervision; training related travel and computers for examiners of State Supervisory Authorities (state regulators), audit support services, and back charges. Pursuant to the Federal Credit Union Act, NCUA only charges the NCUSIF for charges attributed to NCUA's insurance-related operations.

In general, direct charges must be direct expense that can be traced directly to program costs under Subtitle II – Share Insurance – of the Federal Credit Union Act. That is, these costs do not have a component that can be deemed regulatory. A pure example is the bank fees for processing insurance checks to depositors when a credit union fails.

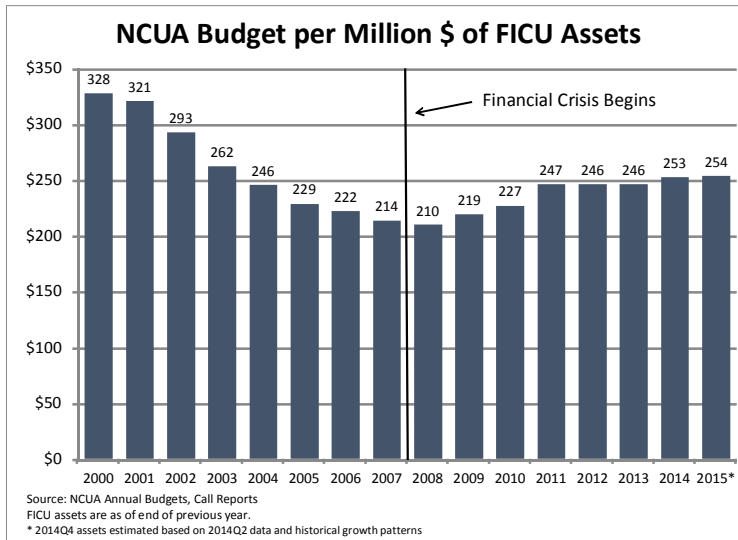
Q. Why has the NCUA budget continued to go up each year, even though the number of credit unions it supervises is declining and the financial crisis is behind us?

Even though a credit union may close, most of the insured shares and troubled assets from those credit unions do not disappear; they are acquired by other credit unions. Although the number of credit unions has declined the remaining credit unions are growing larger and more complex, posing a greater concentration risk to the National Credit Union Share Insurance Fund (NCUSIF). Larger, more complex institutions require more examiners with specific specialties in certain operations—from sophisticated investments, to specialized lending, to cutting-edge technology. This is very similar to the process a credit union goes through when adding products or services or experiences high levels of growth. They must hire the expertise and acquire the systems to effectively run and maintain their organization.

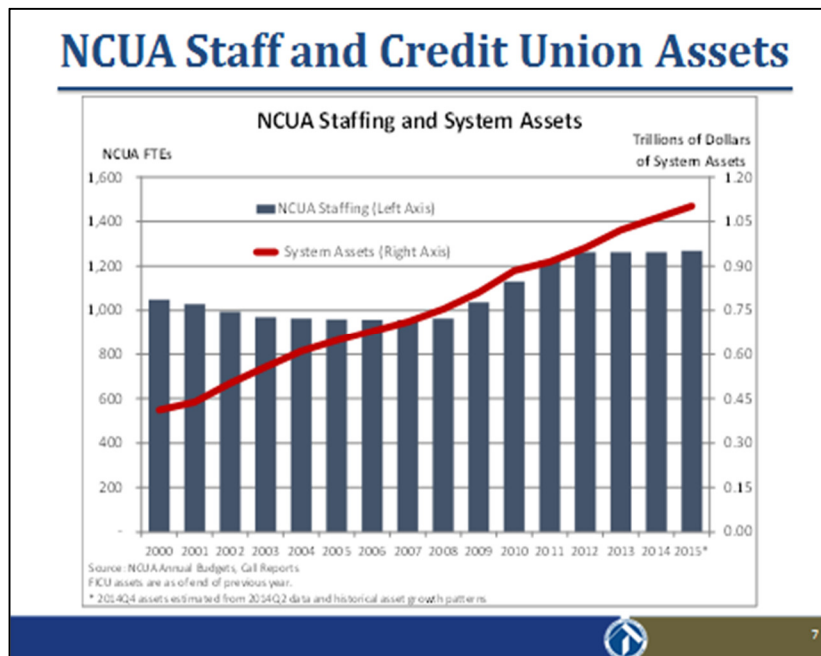
There is also the cost that comes simply from replacing and modernizing obsolete systems and meeting new regulatory and statutory requirements imposed on federal agencies. In addition, credit unions have requested new powers—like derivatives and asset securitization—which require enhanced supervision and additional staff specialist expertise. NCUA needs to ensure our supervisory expertise keeps pace with credit unions' expanding business opportunities.

The NCUA Board's view is that examiner resource allocation decisions should not be based simply on the number of credit unions (units), but more focused on assets and total dollar exposure to help protect the NCUSIF, consistency with the agency's statutory mission.

It's important to note that NCUA's budget, as a share of overall federally insured credit union system assets has remained relatively flat since the increase.



An effective and efficient operating budget translates into a sound and reasonable annual investment by credit unions to protect the National Credit Union Share Insurance Fund and the credit union system.



Q. Does NCUA release more detailed financial information for each fund it manages? If so, where I can find that information?



NCUA's Chief Financial Officer reports quarterly to the NCUA Board at public meetings on the financial status of the National Credit Union Share Insurance Fund and the Temporary Corporate Credit Union Stabilization Fund. Video, audio and written transcripts of these public quarterly financial reports are posted on NCUA's website for a full year.

In addition, NCUA posts publicly monthly reports on the fiscal status of the four permanent funds and one temporary fund managed by the agency. These include:

- Operating Fund
- National Credit Union Share Insurance Fund
- Central Liquidity Facility
- Community Development Revolving Loan Fund
- Temporary Corporate Union Stabilization Fund (posted under the Board Meeting Calendar for each quarterly briefing)

The NCUA website hosts a dedicated page for Budget and Supplemental Materials. Further, NCUA's Strategic Plan and Annual Performance Plans are also released to the public. Finally, NCUA's Audited Financial Statements for all four permanent funds and the Temporary Corporate Credit Union Stabilization Fund are released publicly. Together, the audited statements, including all notes, provide a comprehensive picture of NCUA's spending and financial performance. <http://www.ncua.gov/Legal/RptsPlans/AnnRpts/Pages/annualrpt.aspx>

Q. Where can I go to get more information about NCUA's budget?

Website (link): <http://www.ncua.gov/about/Pages/budget.aspx>