

Approved by the NCUA
Board on 11/7/11
Marilyn [Signature]
Secretary of the Board

BOARD ACTION MEMORANDUM

TO: NCUA Board

DATE: November 8, 2011

FROM: Director, Office of Examination
and Insurance

SUBJ: Overhead Transfer Rate

ACTION ITEM: 2012 Overhead Transfer Rate

ACTION DATE: November 17, 2011

ACTION REQUESTED: Approve the recommended Overhead Transfer Rate of 59.3 percent for 2012

OTHER OFFICES CONSULTED: Chief Financial Officer

VIEWS OF OTHER OFFICES CONSULTED: Concur

BUDGET IMPACT, IF ANY: None. The Overhead Transfer Rate (“OTR”) is one of the funding sources for the budget, but does not affect the amount of the budget. The NCUA Board approves the budget separately and without regard to the OTR. The OTR is applied to actual expenses incurred each month.

RESPONSIBLE STAFF MEMBERS: Office of Examination and Insurance’s Director of Risk Management Tim Segerson, and Loss/Risk Analysis Officer Tim O’Quinn.

SUMMARY: The *Federal Credit Union Act* authorizes NCUA to expend funds from the National Credit Union Share Insurance Fund (NCUSIF) for administrative and other expenses related to federal share insurance (12 U.S.C. §1783). An overhead transfer from the NCUSIF covers the expenses associated with insurance-related functions of NCUA’s operations. The current OTR of 58.9 percent for fiscal year 2011 was approved by the Board in November 2010.

At the November 20, 2003 board meeting, the NCUA Board approved a refined method for calculating the recommended OTR. The methodology was evaluated in 2009 by an independent third party and deemed valid. One of the factors considered in calculating the OTR is the annual completion of the Examination Time Survey. The Examination Time Survey is considered appropriate due to the following:

- NCUA carries out its mission as an insurer and as a federal credit union regulator primarily through the examination and supervision process; and
- Examinations and supervision are the primary catalysts for other agency functions.

Examiners reported spending 65.1 percent of their examination and supervision time on insurance related procedures for the time survey ending in 2011, compared to 67.01 percent in the previous survey cycle ending in 2010.

In addition to results of the Examination Time Survey collected for the 12-month survey cycle, the calculation methodology factors in the following:

- 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.

As detailed in the attachment, the OTR methodology was applied to the 12-month survey data and 2012 budget and resulted in the increase in the 2012 OTR from 58.9 percent to 59.3 percent. The following factors effectively offset the 1.91 percent decline in the Examiner Time Survey for this cycle:

- Federal Credit Union examination and supervision time is down by over 8,000 hours for 2012; and
- Federally insured state chartered examination and supervision increased by over 12,000 hours for 2012.

The Office of Examination and Insurance (E&I) contracted with PricewaterhouseCoopers, an expert firm, to conduct an independent review of the methodology used to calculate the OTR in 2009. The purpose of the review was to evaluate the appropriateness of NCUA's calculation. The expert firm found that the OTR methodology was reasonable and did not favor one type of credit union (i.e. federal versus state chartered) over another.

RECOMMENDED ACTION: Establish an Overhead Transfer Rate of 59.3 percent for 2012.

ATTACHMENT(S): Calculation of 2012 Overhead Transfer Rate.