

## BOARD ACTION MEMORANDUM

**TO:** NCUA Board **DATE:** November 20, 2014  
**FROM:** Office of Examination & Insurance **SUBJ:** Overhead Transfer Rate 2015

**ACTION REQUESTED:** Approve the recommended overhead transfer rate for 2015

**DATE ACTION REQUESTED:** November 20, 2014.

**OTHER OFFICES CONSULTED:** Office of the Chief Financial Officer.

**VIEWS OF OTHER OFFICES CONSULTED:** Concur

**BUDGET IMPACT, IF ANY:** None. The overhead transfer rate 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 overhead transfer rate. The overhead transfer rate is applied to actual expenses incurred each month.

**SUBMITTED TO INSPECTOR GENERAL FOR REVIEW:** N/A

**RESPONSIBLE STAFF MEMBERS:** Larry Fazio, Director Office of Examination & Insurance, Robert Parrish, Acting Director of Risk Management and Loss/Risk Analysis Officer Russell Moore.

**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 NCUA Board approved the current overhead transfer rate of 69.2 percent for fiscal year 2014 in November 2013.

At the November 20, 2003 board meeting, the NCUA Board approved a refined method for calculating the recommended overhead transfer rate. 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.

### Clarification Adopted for ETS

In 2012, the Office of Examination and Insurance (E&I) clarified the application of the insurance-related and non-insurance related definitions in the ETS in response to industry and examiner comments. This clarification involved how examiners record the time they spend examining for compliance with various regulations. Specifically, the NCUA rules and regulations were individually mapped to the proper ETS category based on the extent to which a regulation was designed to protect the NCUSIF (a new sub-category of insurance related labeled “insurance-regulatory”) or to govern commerce and/or provide consumer protection (labeled “non-insurance or consumer regulatory”).

This breakdown and mapping of regulations is consistent with the existing overall definitions of insurance-related and non-insurance related. The primary definitions did not change; the regulations have merely been explicitly mapped based on the overarching definitions. While examiners continue to use their judgment as to what exam procedures to perform during an examination or supervision contact based on the risks and product-service mix of the credit union, this clarification created more consistency as to where examiners recorded the time on the ETS.

In 2013, E&I contracted with PricewaterhouseCoopers, LLP to review the mapping of NCUA regulations to the categories on the ETS. The PricewaterhouseCoopers, LLP review concluded: *“The NCUA rules and regulations matrix aligns consistently with the insurance and regulatory activities and provides a documented basis supporting the allocation of examiner time between insurance and regulatory activities.”*

### OTR Results for 2015

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,<sup>1</sup> with the remaining 12.2 percent allocated to non-insurance related activities.

Based on the OTR methodology, the overhead transfer rate for 2015 calculates as 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.

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<sup>1</sup> Compared to 88.2 percent in the previous ETS cycle.

Distribution of Operating Budget Costs

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 NCUSIF. The remaining 28.2 percent of the operating budget is paid for through the federal credit union (FCU) operating fee.

Thus, the explicit and implicit distribution of total operating budget costs for federal credit unions and federally insured state chartered credit unions (FISCUs) is as follows:

<b>Portion of Operating Budget covered by:</b>	<b>FCUs</b>	<b>FISCUs</b>
FCU Operating Fee	28.2%	0.0%
OTR x Percent of Insured Shares	38.2% (71.8% x 53.2%)	33.6% (71.8% x 46.8%)
Total	66.4%	33.6%

**RECOMMENDED ACTION:** Establish an overhead transfer rate of 71.8 percent for 2015.

**ATTACHMENTS:**

- (1) Calculation of 2015 overhead transfer rate

**Attachment 1**

**Calculation of the 2015 Overhead Transfer Rate**

**STEP 1 – Workload Program (2015)**

Core Programs	2014 Workload Hours	Non-Insurance Percent	Non-Insurance Hours	Allocation Basis
Federal Examination	453,355	13.4%	60,750	Examiner time survey.
Federal Supervision	67,228	5.7%	3,825	Examiner time survey.
State Exam & Supv	194,001	0%	0	FISCU work is insurance-related.
State Exam Review	4,772	0%	0	FISCU work is insurance-related.
5300 Program - FCU	31,989	13.4%	4,287	FCU time uses examiner time survey.
5300 Program – FISCU	9,642	0%	0	FISCU portion considered insurance-related.
<b>Total Core Program</b>	<b>760,987</b>	<b>n/a</b>	<b>68,861</b>	
<b>Special Programs</b>				
Fair Lending Exams		100.0%		Regulatory program now completed by OCP.
RLS	4,185	13.4%	561	Based on insurance but includes a portion of regulatory.
FOM & Chartering	500	100.0%	500	Regulatory program.
RCMS	4,336	0%	0	NCUSIF risk management program.
RISOs	3,802	13.4%	509	Allocation based on % from time surveys.
Small Credit Unions	18,714	4.0%	749	Allocation based on types of assistance provided by Time Reporting categories.
CUSO Exams	8,640	0%	0	NCUSIF risk management program.
<b>Total Special Program</b>	<b>40,177</b>	<b>n/a</b>	<b>2,319</b>	
<b>Total Core &amp; Special Programs</b>	<b>801,164</b>	<b>n/a</b>	<b>71,180</b>	
Percent of Workload Programs devoted to NCUA's Non-Insurance Role			<b>8.9%</b>	

NOTE: The totals may not reconcile exactly due to rounding.

## STEP 2 – Financial Budget (2015)

Cost Area 2015 Financial Budget	Dollar Budget (\$M)	Non- Insurance Percent	Non- Insurance Cost (\$M)
<b>All Regional Costs:</b> Based on regulatory related portion of core and special programs.	\$152.95	8.9%	\$13.61
<b>Office of Consumer Protection:</b> Primarily non-insurance (regulatory) function i.e. chartering/FOM - net of work related to share insurance coverage for members and FISCUs.	\$9.37	86.3%	\$8.09
<b>Asset Management Assistance Center and Assistance Program:</b> Manages liquidation payouts, assets acquired from liquidations and assistance programs, and recoveries for the NCUSIF.	\$6.41	0%	\$0
<b>Office of Small Credit Unions:</b> Ensures small credit unions operate in safe and sound manner through its consulting program. However, it also addresses consumer regulatory issues.	\$5.93	4.0%	\$0.24
<b>Office of National Examinations and Supervision:</b> NCUSIF risk management function other than chartering, FOM, and mergers.	\$10.10	0%	\$0
<b>Office of Minority and Women Inclusion</b>	\$2.90	100.0%	\$2.90
<b>Other Internal Offices:</b> Based on non-insurance percent. (OHR, OCIO, OCFO)	\$91.82	8.9%	\$8.16
<b>Total 2015 NCUA Budget</b>	<b>\$279.48</b>		<b>\$32.97</b>

NOTE: The totals may not reconcile exactly due to rounding.

### STEP 3 – Calculate NCUSIF Costs (2015)

#### Imputed NCUSIF Costs

	Millions
2015 Financial Budget	\$279.48
Non-Insurance Costs (see Step 2)	(\$32.97)
SSA imputed Value	\$41.56
Direct Operational Charges to NCUSIF	\$1.44
<b>Total NCUSIF Imputed Costs</b>	<b>\$289.51</b>

### STEP 4 – Allocation of NCUSIF Costs (2015)

#### Insured Shares Allocation

	FCU	FISCU
Total Cost of Providing NCUSIF Insurance	\$289.51	\$289.51
Times Proportional Allocation Basis	53.2%	46.8%
<b>Equals Allocated Insurance Costs</b>	<b>\$154.02</b>	<b>\$135.49</b>

#### Net of Imputed SSA Value

	Millions
Total Allocated Insurance Costs - FISCUs	\$135.49
Minus SSA Insurance Work Imputed Value	(\$41.56)
<b>Equals Net Cost of NCUSIF Insurance – FISCUs</b>	<b>\$93.93</b>

#### Dollar Amount of OTR

	FISCUs	FCUs	Dollar Amt.
FISCU Portion of NCUA Insurance Cost	\$93.93	\$106.77	\$200.70
Divided by Percentage of Insured Shares	46.8%	53.2%	

#### OTR as a Percent of Budget

Dollar Amount of OTR	\$200.70
Divided by NCUA Budget	\$279.48
<b>Equals OTR</b>	<b>71.8%</b>

## Imputed SSA Value Step 1 – 2015

### Gross Workload

Table 1

Average Exam Time (Hours) FCU (Dec. 2013)	Assets < \$10M	\$10M - \$100M	\$100M - \$250M	\$250M - \$500M	> \$500M
<b>CAMEL 1</b>	39	81	159	206	366
<b>CAMEL 2</b>	41	91	185	251	371
<b>CAMEL 3</b>	46	109	232	299	491
<b>CAMEL 4</b>	69	158	305	292	503
<b>CAMEL 5</b>	99	309	0	0	

Table 2

FISCUs (#) in Each Category (as of Dec 2013)	Assets < \$10M	\$10M - \$100M	\$100M - \$250M	\$250M - \$500M	> \$500M
<b>CAMEL 1</b>	56	103	41	34	70
<b>CAMEL 2</b>	372	705	192	104	134
<b>CAMEL 3</b>	206	234	53	15	15
<b>CAMEL 4</b>	53	38	6	3	6
<b>CAMEL 5</b>	5	4	0	0	0

Table 3

Total Hours (Table 1 cells x Table 2 cells)	Assets < \$10M	\$10M - \$100M	\$100M - \$250M	\$250M - \$500M	> \$500M
<b>CAMEL 1</b>	2,157	8,364	6,500	7,012	25,646
<b>CAMEL 2</b>	15,410	64,061	35,568	26,088	49,728
<b>CAMEL 3</b>	9,441	25,598	12,304	4,484	7,363
<b>CAMEL 4</b>	3,634	5,995	1,829	876	3,019
<b>CAMEL 5</b>	495	1,235	0	0	0
<b>Total</b>	31,139	105,253	56,201	38,461	85,757
<b>Total Gross Exam Hours</b>					<b>316,810</b>

## Imputed SSA Value Step 2 - 2015

### Net Workload

#### Net of Insurance-Related Time

<b>FISCUs</b>	<b>Hours</b>
Gross FISCU Exam Hours	316,810
x Insurance Factor Based on Exam Time Survey	86.6%
(1) = Total Insurance Hours w/out Risk-Based Scheduling	274,357
Current Budgeted State Exam Hours	152,440
x 2 (Assuming 50/50 Joint)	2
(2) = Total Calculated Annual FISCU Exam Insurance Hours	304,880

#### Net of NCUA Time in FISCUs

	<b>Hours</b>
Total FISCU Hours - Greater of (1) or (2) Above *	304,880
+ 2014 Budgeted Supervision Hours	41,561
- 2014 Budgeted Insurance Review Hours	152,440
<b>Total Additional FISCU Insurance Hours Needed</b>	<b>194,001</b>

\*Uses the larger of two calculations – current budgeted state exam insurance hours or projected FISCU exam insurance hours based on ETS.



### Imputed SSA Value Step 3 - 2015

#### Additional Staff Needed

##### Examiner Productive Time

2015 Core and Special Workload Program Hours	801,164
/ Total 2015 Workload Program Hours	1,524,259
= Productivity Ratio	52.6%
Total Work Hours in a Year Per Full Time Equivalent (FTE)	2,080
x Productivity Ratio	52.6%
= Productive Hours per FTE Examiner	1,093

##### Number of Examiners Needed

Net Additional FISCU Hours Needed	189,229
/ Productive Hours per FTE Examiner	1,093
= Number of Additional FTE Examiners Needed	173.1

##### Total Additional Staff Needed

Additional Staff Needed	Ratio Examiners to Position	FTEs Per Position
Examiners	1/1	173.1
Supervisory Examiners	1/9	19.2
Analysts	1/15	11.5
Directors	1/25	6.9
Other Regional Staff	1/20	8.7
= Number of Additional FTEs Needed		219.4

**Imputed SSA Value Step 4 - 2015  
Imputed Cost**

**Gross Cost**

Total Cost of Regions (2015 Budget)	\$159.36M
/ FTEs in Regions (2014 Budget)	864.6
= Per Regional FTE Cost	<b>\$184,326</b>
x Number of Additional FTEs Needed	219.4
= Cost of Additional Regional Positions	<b>\$40.45</b>

**Net Cost**

	<b>Millions</b>
Cost of Additional Regional Positions	\$40.45M
+ Additional OHR Costs (21.0% budget)	\$2.55M
- SSA Training and Equipment Cost	(\$1.44M)
<b>= Imputed SSA Value</b>	<b>\$41.55M</b>

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