



National Credit Union Administration  
Office of the Chief Financial Officer

**BOARD ACTION MEMORANDUM**

**TO:** NCUA Board **DATE:** December 13, 2023  
**FROM:** Chief Financial Officer **SUBJ:** 2024–2025 Budget

**ACTION REQUESTED:** Board approval of the 2024–2025 operating budget, capital budget, and National Credit Union Share Insurance Fund (Share Insurance Fund) administrative expenses budget.

**DATE ACTION REQUESTED:** December 14, 2023

**OTHER OFFICES CONSULTED:** Office of the Executive Director

**VIEWS OF OTHER OFFICES CONSULTED:** Concur

**SUBMITTED TO INSPECTOR GENERAL FOR REVIEW:** Yes

**RESPONSIBLE STAFF MEMBERS:** Eugene H. Schied, Chief Financial Officer

**AUTHORITY:**

Pursuant to the Federal Credit Union Act (the Act), authority for management of the National Credit Union Administration (NCUA) is vested in the NCUA Board (the Board). It is the Board's responsibility to determine the resources necessary to carry out the NCUA's responsibilities under the Act.<sup>1</sup> The Board is authorized to expend such funds and perform such other functions or acts as it deems necessary or appropriate in accordance with the Act, regulations, and policies it establishes.<sup>2</sup>

Upon the Board's determination of the budgeted annual expenses necessary for the agency's operations, staff calculate the Overhead Transfer Rate (OTR) and the operating fee paid by federal credit unions in accordance with the methodologies approved by the Board. In accordance with its authority to use the Share Insurance Fund to carry out a portion of its responsibilities, the Board approved the OTR methodology, and authorized the Office of the Chief Financial Officer to transfer resources from the Share Insurance Fund to the Operating Fund to account for insurance-related expenses.<sup>3</sup>

The Board also approved the methodology for calculating the schedule for the operating fee assessed to consumer (also referred to in the operating fee schedule as "natural person") and corporate federal credit unions. The Board-approved methodology gives consideration to the ability of federal credit unions to pay such a fee, and the necessity of the expenses the NCUA

---

<sup>1</sup> See 12 U.S.C. 1752a(a).

<sup>2</sup> See 12 U.S.C. 1766(i)(2).

<sup>3</sup> See 12 U.S.C. 1783(a).

will incur in carrying out its responsibilities in connection with federal credit unions.<sup>4</sup> Pursuant to the Act, fees collected are deposited in the agency’s Operating Fund at the Treasury of the United States, and those fees are expended by the Board to defray the cost of carrying out the agency’s operations, including the examination and supervision of federal credit unions.<sup>5</sup>

At the end of the calendar year, the NCUA’s financial statements are subject to audit and are presented in accordance with Generally Accepted Accounting Principles. The NCUA’s financial statements have received unmodified (or clean) audit opinions since 1984.

**SUMMARY:**

The *2024–2025 Staff Draft Budget Justification* (staff draft) was posted to the NCUA’s website on October 26, 2023, and an identical version was published in the *Federal Register* on November 1, 2023, for public comment. The NCUA conducted additional analysis of the budget and considered the comments received. The recommended 2024–2025 final budget includes various adjustments as a result. The net impact of these adjustments in comparison to the staff draft is to (1) lower the recommended 2024 final operating budget by \$7.6 million and one position, (2) lower the recommended 2024 final capital budget by \$1.2 million, and (3) increase the 2024 final Share Insurance Fund administrative expenses budget by \$6,000.

2024 - 2025 NCUA BUDGET RESOURCES									
Budget	2023 Board Approved Budget	2024 Staff Draft Budget	Revisions to Staff Draft	2024 Revised Budget	Change (2023-2024)	Percent Change (2023-2024)	2025 Revised Budget	Change (2024-2025)	Change Percent (2024-2025)
Operating Budget	\$ 344,158,000	\$ 382,115,000	\$ -7,621,000	\$ 374,494,000	\$ 30,336,000	8.8%	\$ 418,439,000	\$ 43,945,000	11.7%
Capital Budget	\$ 11,276,000	\$ 7,257,000	\$ -1,168,000	\$ 6,089,000	\$ -5,187,000	-46.0%	\$ 10,000,000	\$ 3,911,000	64.2%
Share Insurance Fund Admin. Expenses Budget	\$ 4,956,000	\$ 5,136,000	\$ 6,000	\$ 5,142,000	\$ 186,000	3.8%	\$ 4,856,000	\$ -286,000	-5.6%
<b>Total NCUA Budget</b>	<b>\$ 360,390,000</b>	<b>\$ 394,508,000</b>	<b>\$ -8,783,000</b>	<b>\$ 385,725,000</b>	<b>\$ 25,335,000</b>	<b>7.0%</b>	<b>\$ 433,295,000</b>	<b>\$ 47,570,000</b>	<b>12.3%</b>
<b>Positions*</b>	<b>1,220</b>	<b>1,248</b>	<b>-1</b>	<b>1,247</b>	<b>27</b>	<b>2.2%</b>	<b>1,251</b>	<b>4</b>	<b>0.3%</b>

\* Excludes 5 Central Liquidity Facility positions

The recommended 2024 combined final budget (operating, capital, and Share Insurance Fund administrative expenses budgets) is \$385.7 million and 1,247 positions. The 2025 combined budget is an increase over 2024 of \$47.6 million and four positions; however, \$24.5 million of this increase is the result of the use of carryover to offset the 2024 budget, which would not be available in 2025. Even though the Board adopts a two-year budget for planning purposes, its practice has been to revisit each year’s budget before that budget year begins.

Attachment 1 includes summary budgetary tables for the operating, capital, and Share Insurance Fund administrative expenses budgets; detailed budgetary tables for each office; an updated chart showing the distribution of the budget between amounts paid by federal and federally insured, state-chartered credit unions; and updated worksheets showing the operating fee rates that will be charged to federal credit unions.

<sup>4</sup> See 12 U.S.C. 1755(a)-(b).

<sup>5</sup> See 12 U.S.C. 1755(d).

The 2024–2025 Budget Justification will be updated to explain the changes approved by the Board. The updated justification for the final budget will be published on the NCUA’s website when complete.

**CHANGES TO THE STAFF DRAFT:**

The funding levels recommended in the 2024 combined final budget (operating, capital, and Share Insurance Fund administrative expenses budgets) are reduced by a net of \$8.8 million, for a revised total of \$385.7 million. This revised total reflects an offset of \$24.5 million of unspent prior-year budget surpluses, an increase of \$6.5 million from the staff draft budget. The resulting recommended 2024 funding level is 7.0 percent higher than the Board-approved 2023 budget, down from the 9.5 percent increase reflected in the staff draft budget. Staffing in 2024 would be reduced by one position as compared to the staff draft.

Specific changes to the staff draft operating budget are:

- An additional \$5.3 million in expected surplus is now projected for 2023, for a total of \$23.3 million in carryforward funding in the operating budget. This amount has been used to lower the overall level of new operating budget funding for 2024.
- The budget for agency travel expenses was reduced by \$2 million, reflecting expectations for some examination work to continue to be conducted off-site by NCUA examiners, and other efficiencies gained through remote work.
- One position requested for the Office of Ethics Counsel was eliminated.
- The recommended final budget eliminates two new positions and related funding requested to establish a new Office of the Executive Secretary.
- One new position was added to the Office of External Affairs and Communications to lead implementation of the 21<sup>st</sup> Century Integrated Digital Experience Act and other requirements newly established for Federal Government websites. The new writer-editor position proposed in the staff draft for the Office of External Affairs and Communications was eliminated.
- Funding for one position in the Office of Human Resources that is authorized within the NCUA staffing plan but currently unfunded was moved from 2024 to 2025.
- One new position was added to the Office of the Chief Information Officer to reflect information security management needs. The recommended final budget eliminates

funding proposed in the staff draft for one position in the Office of the Chief Information Officer that is authorized within the NCUA staffing plan but currently unfunded.

- One new position for the Office of the Ombudsman was moved from 2024 to 2025.
- Four additional examiner positions, for a total of nine when including the five additional positions proposed in the staff draft, were added to the regions to reflect updates to the NCUA's examination and supervision program needs for 2024.
- Additional budget amounts for 2024 totaling \$0.1 million, net, were added to several offices primarily because of revised estimates for various contract support costs. Some additional, immaterial adjustments were made to funding levels in the staff draft for technical corrections and to reflect updated information that was not available at the time the staff draft was published.

The recommended final 2024 capital budget is approximately \$1.2 million lower than the staff draft. After reviewing the status of the NCUA's capital projects, balances for several completed capital projects were identified and can be used to lower the overall level of new capital budget funding in 2024. The recommended final 2025 capital budget is unchanged from the staff draft.

The recommended final 2024 and 2025 Share Insurance Fund administrative expenses budgets are higher than the staff draft by \$6,000 and \$131,000, respectively, due to re-estimated administrative expenses.

#### **COMMENTS FROM THE PUBLIC:**

As required by the Federal Credit Union Act, the NCUA held a hearing on November 16, 2023, to discuss the staff draft. The hearing was both open to the public at the NCUA's headquarters and streamed live on the NCUA website. At that meeting, representatives from five different associations presented their views on the staff draft. The NCUA also received written statements from seven organizations that did not make presentations at the budget hearing. All 12 written submissions are posted on the Regulations.gov website.<sup>6</sup>

Many of the general comments relate to the NCUA's operations and program execution, rather than to specific budget matters. The agency will provide these comments directly to the appropriate NCUA senior executives responsible for the relevant programs discussed.

Six commenters expressed concern about the 9.5 percent annual growth rate for 2024 in the staff draft budget. The recommended 2024 combined final budget is \$385.7 million, \$8.8 million lower than the staff draft; this is a 7.0 percent annual growth rate, 2.5 percentage points lower

---

<sup>6</sup> See <https://www.regulations.gov/document/NCUA-2022-0145-0001>.

than the staff draft and approximately 4.9 percentage points lower than the 11.9 percent increase approved by the Board for 2024 as part of the 2023–2024 budget. The changes, as described above, are largely driven by various changes to the positions proposed in the staff draft, reductions to the staff draft travel budget, and additional 2023 surplus funds identified to be used to offset 2024 funding needs.

Seven commenters were concerned about the overall increase in NCUA staffing levels within the staff draft. Specifically, commenters expressed concerns about additional specialist examiners. The recommended final budget would slow implementation of the specialist programs, thus deferring the hiring of seven of the new specialist positions until later in 2024 and thirteen until 2025.

Two commenters recommend increasing eligibility for credit unions on an extended examination cycle to those with \$3 billion or even \$10 billion in assets to establish parity with examination requirements for banks. This comment is related to the budget because wider application of extended examinations could result in lower field staffing requirements. The final budget does not recommend this adjustment given the relative risk this poses to the Share Insurance Fund, concerns about economic uncertainty, and the trend in weakening CAMELS ratings.

Four commenters noted concerns related to the increase in budgeted travel funding in the 2024 staff draft. Specifically, three of the four commenters encouraged NCUA to conduct more examinations offsite to reduce travel costs. The staff draft was reassessed and the recommended final 2024 budget reduces travel funding by \$2 million.

Three commenters expressed concerns about the NCUA's cybersecurity programs and budgets, including one who noted how credit unions inherit risks from the cybersecurity practices at vendors upon which the credit unions rely. The staff draft included a detailed explanation about the NCUA's cybersecurity efforts. Likewise, the agency's Annual Performance Plan includes performance indicators that illustrate some of the results of the agency's cybersecurity efforts. Additionally, at its public meetings, the NCUA Board receives periodic updates about emerging cybersecurity threats.

Two commenters expressed concerns about the costs presented in the staff draft for operating and maintaining MERIT. The recommended 2024 budget includes approximately \$13 million to operate and maintain MERIT and to pay for the infrastructure costs associated with a nationally available system, such as cloud computing services, engineering support, and security functionality. The recommended final 2024 budget reduces contracted services by approximately \$5.1 million, net. This reduction is primarily the result of additional projected 2023 operating budget surplus amounts identified. Overall, the non-pay categories of the recommended final 2024 operating budget are approximately \$7.1 million lower than the staff draft levels, including the additional 2023 surplus amount.

One commenter expressed concerns with the proposed operating fee rates paid by federal credit unions that were in the staff draft budget. The attached operating fee schedule has been updated to reflect the lower operating budget level in the recommended final budget as well as a revised

estimate for interest earned on Operating Fund overnight investments. These changes lower the amounts that will be invoiced to federal credit unions for the annual operating fee. Based on the final recommended budget levels, the 2024 operating fee paid by federal credit unions will increase by 16.36 percent compared to 2023, which is 3.25 percentage points lower than the 19.61 percent increase calculated in the staff draft budget. Some of the relative increase in the 2024 operating fee results from the 2023 operating fee being reduced by surplus Operating Fund cash credited against the fee. Surplus Operating Fund cash is not available as an offset for the 2024 operating fee.

Four commenters recommended additional discussion about how the budget funds programs to address climate-related financial risk, while one commenter expressed appreciation for the fact that the budget does not discuss climate-related financial risk. The final budget does not include any specific discussion of climate-related financial risk. The NCUA is working jointly with other financial regulators to analyze how a changing climate may impact the financial system.

Seven commenters expressed support for the NCUA's dedication to small, low-income, and minority depository institutions (MDI). The 2024 recommended final budget includes assistance for small, low-income, MDI credit unions. This support has been a priority for the NCUA in past budget cycles and will continue to be a focus of the agency.

Five commenters supported funding for the Office of Credit Union Resources and Expansion's process automation project, which is intended to improve the field of membership (FOM) expansion application process. Improvements to the FOM process remain a focus for the NCUA.

#### **FINANCING THE NCUA'S PROGRAMS:**

The NCUA's expenses are funded primarily through fees paid by federal credit unions and transfers from the Share Insurance Fund using the OTR. As the annual budget is developed for Board review and approval, the approved methodologies for calculating the OTR and the operating fees paid by federal credit unions are applied to determine the amount of the budget that will be financed by each. The Board delegated authority to the Chief Financial Officer to administer the approved methodology for computing the operating fees paid by federal credit unions, and to set the fee schedule. The staff draft includes a discussion of the methodology for calculating the OTR and the operating fee on pages 33 through 39.<sup>7</sup>

The final 2024 OTR is 61.7 percent, a decrease of 10 basis points compared to the staff draft. The final 2024 OTR is 70 basis points lower than the rate calculated for the 2023 budget. The residual 38.3 percent of the 2024 budget will be collected through the operating fee billed to federal credit unions. As shown in the chart in Attachment 1, in 2024 federal credit unions will pay the equivalent of 69.2 percent of the costs of the NCUA's operations, while federally insured, state-chartered credit unions will pay 30.8 percent.

Worksheets that show the specific steps used to determine the operating fee and the scale for

---

<sup>7</sup> See: <https://ncua.gov/files/publications/budget/budget-justification-proposed-2024-2025.pdf>.

rates charged to different sized federal credit unions are included in Attachment 1. Based on the \$2 million average asset exemption, the operating fee charged to federal credit unions in 2024 will increase approximately 16.36 percent compared to 2023, a 3.25 percentage point reduction from the estimate provided in the staff draft.

There are two reasons for the changes to the operating fee to be charged to federal credit unions from the estimate reflected in the staff draft budget. First, the operating and capital budgets were reduced by approximately \$8.8 million compared to the amounts presented in the staff draft. Second, the recommendation includes a revised estimate for interest earnings from overnight investment of the NCUA's Operating Fund balances, which is revenue that offsets the amounts the agency is required to collect from federal credit unions. It is important to note that the OTR is billed throughout the year for actual expenses, so the Operating Fund does not earn any interest from balances in the Share Insurance Fund.

Consumer federal credit unions with assets equal to or less than \$2 million will not be assessed an operating fee in 2024, pursuant to the Board's revisions to the operating fee schedule methodology. For consumer federal credit unions with assets greater than \$2 million, the NCUA establishes a three-tiered scale to compute the operating fee charged, also known as the assessment scale. The dividing points on the assessment scale are adjusted upward on an annual basis by the computed rate of federal credit union asset growth. The dividing points are indexed annually by federal credit union asset growth to preserve the same relative relationship of the scale to the applicable asset base.

To illustrate the average rate impact for smaller consumer federal credit unions, the final operating fee rate applied to assets under \$2.4 billion will increase from \$164 per one million dollars of assets in 2023 to \$191 per one million dollars of assets in 2024, an increase of \$27 per million, or approximately 16.4 percent. Consumer federal credit union assets between \$2.4 billion and \$7.1 billion would be assessed at a rate of \$56 per one million dollars of their assets in that range, and consumer federal credit unions with assets above \$7.1 billion would be assessed at rate of \$19 per one million dollars of their assets exceeding that level. Both rates for these higher levels of assets are also approximately 16.4 percent higher than the comparable 2023 levels.

**RECOMMENDED ACTIONS:** As detailed in the staff draft and modified by this board action memorandum, the NCUA Board approves:

1. The 2024 operating budget of \$374,494,000 and 1,247 positions and the 2025 operating budget of \$418,439,000 and 1,251 positions.
2. The 2024 capital budget of \$6,089,000 and the 2025 capital budget of \$10,000,000.
3. The 2024 Share Insurance Fund administrative expenses budget of \$5,142,000 and the 2025 Share Insurance Fund administrative expenses budget of \$4,856,000.

4. That \$23,558,000 from unspent prior-year operating budgets and that will not be spent before the end of 2023 is available for expenditure in 2024.
5. That \$1,990,000 from unspent 2020 operating budget balances and previously made available to pay for rehired credit union examiner annuitants and contractor support for examinations remains available for expenditure for the same purposes in 2024 and 2025.
6. That \$1,168,000 from unspent prior-year capital budgets and that will not be spent before the end of 2023 is available for expenditure on capital projects approved for 2024.
7. That the new position added for the Office of Business Innovation shall be at the SSP-01 level, and the Executive Director may amend relevant human resources policies to reflect this position.

**ATTACHMENTS:**

Attachment 1: Summary Budgetary Tables and OTR and Operating Fee Calculations