

BOARD ACTION MEMORANDUM

TO: NCUA Board

DATE: November 19, 2008

FROM: Director, Office of Examination
and Insurance

SUBJ: Overhead Transfer Rate

ACTION ITEM: 2009 Overhead Transfer Rate

ACTION DATE: November 20, 2008

ACTION REQUESTED: Approve the recommended Overhead Transfer Rate for 2009.

OTHER OFFICES CONSULTED: 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.

RESPONSIBLE STAFF MEMBERS: Deputy Director of Examination and Insurance John Kutchey, and Loss/Risk Analysis Officer Cherie Freed.

SUMMARY: The *Federal Credit Union Act* authorizes NCUA to expend funds from the 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 overhead transfer rate of 52.0 percent for fiscal year 2008 was approved by the Board in November 2007.

At the November 20, 2003 board meeting, the NCUA Board approved a refined method for calculating the recommended overhead transfer rate. One of the factors considered in calculating the overhead transfer rate is the annual completion of the Examination Time Survey. An independent study conducted by Deloitte and Touche confirmed that the ongoing survey is an appropriate method of determining one of the factors used to calculate the overhead transfer rate. 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.

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.

- 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.

For the time survey ending June 2008, examiners reported spending 61.82 percent of combined examination and supervision time on insurance-related procedures, an increase from the June 2007 results of 57.35 percent. The June 2008 results break down to 61.28 percent and 63.87 percent of examination and supervision time, respectively, for insurance-related procedures, compared to 57.85 percent and 54.20 percent for the prior cycle. As the survey reflects, examiners are spending a higher percentage of examination and supervision time on insurance related issues such as financial analysis, evaluating risks, and assessing efforts to protect earnings and net worth.

As detailed in the attachment, the calculation methodology approved in 2003 was applied to the June 2008 survey data. The calculation results in a recommended overhead transfer rate of 53.8 percent for 2009.

RECOMMENDED ACTION: Establish an overhead transfer rate of 53.8 percent for 2009.

ATTACHMENT(S): Calculation of 2009 Overhead Transfer Rate.

STEP 1 – Workload Program (2009)

Core Programs	2009 Workload Hours	Non-Insurance Percent	Non-Insurance Hours	Allocation Basis
Federal Examination	373,604	39%	144,659	Examiner time survey.
Federal Supervision	88,097	36%	31,829	Examiner time survey.
State Exam & Supv	95,547	0%	0	FISCU work is insurance-related.
State Exam Review	8,340	0%	0	FISCU work is insurance-related.
5300 Program	51,481	21%	10,910	FCU time uses examiner time survey. FISCU portion at all insurance-related.
Total Core Program	617,069	n/a	187,398	
Special Programs				
Fair Lending Exams	3,210	100%	3,210	Regulatory program.
Agricultural Lending	258	0%	0	NCUSIF risk management program.
FOM & Chartering	306	100%	306	Regulatory program.
RCMS	5,390	0%	0	NCUSIF risk management program.
RISOs	1,800	39%	697	Allocation based on % from time surveys.
Small Credit Unions	21,271	90%	19,246	For FCUs is a regulatory program. However, approximately 10% of the time in this program is related to work in FISCUs.
CUSO Exams	1,958	0%	0	NCUSIF risk management program.
Total Special Program	34,193	n/a	23,459	
Total Core & Special Programs	651,262	n/a	210,857	
Percent of Workload Programs devoted to NCUA's Non-Insurance Role			32%	

STEP 2 – Financial Budget (2009)

Cost Area 2009 Financial Budget	Dollar Budget (\$M)	Non- Insurance Percent	Non- Insurance Cost (\$M)
Divisions of Insurance: Primarily non-insurance (regulatory) function involving chartering and fields of membership, net of work related to share insurance coverage for members and FISCUs.	\$4.8	78%	\$3.7
All Other Region Costs: Based on non-insurance related portion of core and special workload programs.	\$103.0	32%	\$33.3
Asset Management Assistance Center and Assistance Program: NCUSIF function that handles liquidation payouts, manages assets acquired from liquidations and assistance programs, and manages recoveries for the National Credit Union Share Insurance Fund.	\$2.9	0%	\$0.0
Office of Small Credit Unions: Primarily non-insurance related function to facilitate the expansion of credit union services. However, 10% FISCU participation rate.	\$4.1	90%	\$3.7
Office of Corporate Credit Unions: NCUSIF risk management function other than chartering, FOM, and mergers.	\$7.1	20%	\$1.4
Office of Chief Financial Officer: Based on non-insurance percent, net of staff time associated with NCUSIF accounting.	\$5.5	20%	\$1.1
Office of Chief Information Officer: Combination of support for state and federal examiners and staff related to hardware and software, as well as efforts for program development driven by Examination and Insurance.	\$12.4	20%	\$2.5
Office of Human Resources: Based on non-insurance percent, adjusted for Division of Training and Development time related to training for state examiners and staff.	\$10.5	20%	\$2.1
All Other Costs: Based on non-insurance portion of core and special workload programs. Includes NCUA board, Office of Inspector General, etc.	\$27.6	32%	\$8.9
Total 2009 NCUA Budget	\$177.8		\$56.8

NOTE: The totals may not reconcile due to the results of rounding.

STEP 3 – Calculate NCUSIF Costs (2009)

Imputed NCUSIF Costs

	Millions
2009 Financial Budget	\$177.8
Non-Insurance Costs (see Step 2)	- \$56.8
SSA imputed Value	+ \$22.3
Direct Operational Charges to NCUSIF	+ \$1.5
Total NCUSIF Imputed Costs	= \$144.8

STEP 4 – Allocation of NCUSIF Costs (2009)

Insured Shares Allocation

	FCU	FISCU
Total Cost of Providing NCUSIF Insurance	\$144.8	\$144.8
Times Proportional Allocation Basis	54.7%	45.3%
Equals Allocated Insurance Costs	\$79.3	\$65.6

Net of Imputed SSA Value

	Millions
Total Allocated Insurance Costs - FISCUs	\$65.6
Minus SSA Insurance Work Imputed Value	\$22.3
Equals Net Cost of NCUSIF Insurance – FISCUs	\$43.3

Dollar Amount of OTR

	FISCUs	FCUs
FISCU Portion of NCUA Insurance Cost	\$43.3M	\$52.3M
Divided by Percentage of Insured Shares	45.3%	54.7%
Equals Dollar Amount of OTR	\$95.6M	\$95.6M

OTR as a Percent of Budget

Dollar Amount of OTR	\$95.6M
Divided by NCUA Budget	\$177.8M
Equals OTR	53.8%

Imputed SSA Value Step 1 – 2009

Gross Workload

Table 1

Average Exam Time (Hours) FCU (Dec. 2007)	Assets < \$10M	\$10M - \$100M	\$100M - \$250M	\$250M - \$500M	> \$500M
CAMEL 1	48	80	149	195	309
CAMEL 2	52	91	175	210	316
CAMEL 3	56	113	218	291	390
CAMEL 4	66	154	322	260	459
CAMEL 5	65	154	322	260	459

Table 2

FISCUs (#) in Each Category (as of June 2008)	Assets < \$10M	\$10M - \$100M	\$100M - \$250M	\$250M - \$500M	> \$500M
CAMEL 1	157	257	63	44	81
CAMEL 2	688	798	172	67	73
CAMEL 3	261	188	53	16	16
CAMEL 4	38	30	5	2	2
CAMEL 5	3	1	1	0	0

Table 3

Total Hours (Table 1 cells x Table 2 cells)	Assets < \$10M	\$10M - \$100M	\$100M - \$250M	\$250M - \$500M	> \$500M
CAMEL 1	7,536	20,560	9,387	8,580	25,029
CAMEL 2	35,776	72,618	30,100	14,070	23,068
CAMEL 3	14,616	21,244	11,554	4,656	6,240
CAMEL 4	2,508	4,620	1,610	520	918
CAMEL 5	195	154	322	0	0
Total	60,631	119,196	52,973	27,826	55,255
Total Gross Exam Hours					315,881

Imputed SSA Value Step 2 - 2009

Net Workload

Net of Insurance-Related Time

FISCUs	Hours
Gross FISCU Exam Hours	315,881
x Insurance Factor Based on Exam Time Survey	61.3%
= Total Insurance Hours w/out Risk-Based Scheduling	193,572

Net of Risk-Based Scheduling

	Hours
Total Insurance Hours w/out Risk-Based Scheduling	193,572
- Not Eligible for Deferral Hours	129,684
= Eligible for Deferral	63,888
x Adjustment for Risk-Based Scheduling	66.7%
= Annual Eligible for Deferral Hours	42,592
+ Not Eligible for Deferral Hours	129,684
+ Adjustment for Additional Supervision	7,270
= Total FISCU Hours with Risk-Based Scheduling	179,546

Net of NCUA Time in FISCUs

	Hours
Total FISCU Hours with Risk-Based Scheduling	179,546
+ 2009 Budgeted Supervision Hours	30,705
- 2009 Budgeted Insurance Review Hours	64,842
- 2009 Budgeted State Exam Report Review Hours	8,340
Total Additional FISCU Insurance Hours Needed	137,069

Imputed SSA Value Step 3 - 2009

Additional Staff Needed

Examiner Productive Time

2009 Core and Special Workload Program Hours	651,262
/ Total 2009 Workload Program Hours	1,203,108
= Productivity Ratio	54.1%
Total Work Hours in a Year Per Full Time Equivalent (FTE)	2,080
x Productivity Ratio	54.1%
= Productive Hours per FTE Examiner	1,126

Number of Examiners Needed

Net Additional FISCU Hours Needed	137,069
/ Productive Hours per FTE Examiner	1,126
= Number of Additional FTE Examiners Needed	121.7

Total Additional Staff Needed

Additional Staff Needed	Ratio Examiners to Position	FTEs Per Position
Examiners	1/1	121.7
Supervisory Examiners	1/9	13.5
Analysts	1/15	8.1
Directors	1/25	4.9
Other Regional Staff	1/20	6.1
= Number of Additional FTEs Needed		154.3

Imputed SSA Value Step 4 - 2009

Imputed Cost

Gross Cost

Total Cost of Regions (2009 Budget)	\$107,727,162
/ FTEs in Regions (2009 Budget)	748.95
= Per Regional FTE Cost	\$143,838
x Number of Additional FTEs Needed	154.3
= Cost of Additional Regional Positions	\$22.2M

Net Cost

	Millions
Cost of Additional Regional Positions	\$22.2
+ Additional OHR Costs (15.2% of \$10.5 million budget)	\$1.6
- SSA Training and Equipment Cost	\$1.5
= Imputed SSA Value	\$22.3