

Open Board Meeting

Nov. 20, 2014

**NCUA Chairman Debbie Matz
Statement on NCUA 2015 Operating Budget**

Starting in May of each year, NCUA begins the rigorous process of developing our next year's budget.

As a result of the intense analysis, scrubbing, and reviews, I am pleased that this is the lowest budget increase in seven years.

The 4.2 percent increase ensures that we have the resources to do our jobs—protecting the safety and soundness of the industry and being a vigilant steward of the National Credit Union Share Insurance Fund—in a manner that is efficient and recognizes that our operating costs are borne by the credit unions that we regulate and insure.

As we have indicated in previous years, the agency employs a zero-based process to develop our budget.

Some people have asked me what zero-based budgeting means:

- It means every position and every expense must be individually justified;
- It also means our budget is developed from the bottom up.

Zero-based budgeting at NCUA begins with a field-level review of every credit union to determine the number of workload hours that will be needed for the upcoming year. Field staff recommend the number of hours to supervise each credit union based on asset size, complexity, and financial trends.

Workload estimates are then refined by each level of management in the field, until the budget proposal is forwarded to the Central Office for extensive review and analysis.

I hope this clarifies that the budget requests from the field are not random or wish lists. They are based on a careful analysis of the workload, credit union by credit union. These analyses, which look back and project forward, lay the foundation for their requests, which together represent 72 percent of NCUA staff.

The 15 Central Offices are also rigorously evaluated to ensure NCUA resources are allocated efficiently toward priority needs. We don't just carry over amounts that were budgeted or spent in the prior year. We require every office to explain the merits of every line item, the specific needs for every spending category, and the basis of developing every cost estimate.

Throughout the budget process, the Executive Director and the CFO brief each Board Member multiple times on budget proposals that are submitted, updated, and recommended. So this budget is thoroughly vetted by every level of the agency.

Perhaps the most significant recent change in how we manage the workload is that we reallocate resources wherever possible. Because of our heightened focus on efficiency, several years ago the agency embarked on an initiative to reallocate exam hours from small credit unions to the larger credit unions—where the risk is—rather than merely hiring more staff to examine more complex credit unions.

The result has been that in the past two years:

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

So, too, in this budget, we are reallocating 18 existing regional staff from generalists to specialists, rather than simply hiring new staff on top of the existing staff.

I know there will always be those who argue that NCUA should cut the budget—and that any increase is too big.

Cutting the budget, however, is not an option. Like all businesses, this agency faces non-discretionary costs that tend to increase each year, such as:

- Health care;
- Travel and hotels;
- Telecommunications;
- Leased and owned property;
- Hardware and software; and
- Maintenance and repairs.

So the only way to materially cut the budget would be to substantially cut staff.

Let me remind you: This agency made the mistake of cutting staff in the years leading up to the Great Recession. NCUA cut 71 full-time equivalent staff (FTEs) between 2001 and 2008. To keep costs down, the agency had a smaller exam force, cut back to 18 months between exams, and had fewer office staff analyzing Call Reports.

The result was that the agency was unable to identify many credit unions' problems soon enough to save them from losses.

Another argument some stakeholders make is that NCUA should reduce our staff each year as the number of credit unions declines.

However, that argument has a fatal flaw: Most of the insured shares and troubled assets from those credit unions do not disappear; they are acquired by other credit unions.

So the remaining credit unions are growing larger and more complex, posing a greater concentration risk to the Insurance Fund. Larger, more complex institutions require more examiners with specific specialties in certain operations—from sophisticated investments, to specialized lending, to cutting-edge technology.

In addition, credit unions have requested new powers—like derivatives and asset securitization—which require enhanced supervision.

I have often said that NCUA needs to keep up with the industry that we supervise. So this budget is intended to ensure that NCUA’s supervisory expertise will keep pace with credit unions’ expanding business opportunities.

Specialists are critical to identifying and resolving traditional risks such as interest rate risk, credit risk, and concentration risk, as well as new and evolving operational risks including cybersecurity threats. To address these risks, as I indicated earlier, this budget would reallocate 18 existing regional staff from generalists to specialists in capital markets, real estate and business lending, and information systems.

This budget would also add staff to achieve other important goals and objectives of NCUA’s Strategic Plan:

- Developing financial literacy and consumer protection programs;
- Providing guidance to small credit unions; and
- Strengthening cybersecurity within the agency and throughout the credit union system.

It’s important to note: The nine new positions described in the Board Action Memorandum will be offset by eliminating five general examiner positions. That’s how we arrived at a net increase of only four FTEs.

Let me point out that NCUA is a leader in budget transparency. Stakeholders may be surprised to learn that NCUA discloses considerably more information regarding our budget and spending than independent federal financial regulatory agencies are required to make available to the public. And NCUA provides more financial information than credit unions are required to provide to their own members.

In fact, most credit unions do not provide financial data beyond their annual financial statements. And, if stakeholders are being really honest, they will acknowledge that any suggestion that federal credit unions be required to submit 990 forms, which reveal salaries of top management, would be met with a very negative reaction from many CEOs. I’m speaking from experience...

This year, again, although we are not required to do so, we are providing even greater detail on the NCUA budget:

- Our Board Action Memorandum is twice the length it was in previous years and contains a much greater level of budget detail.
- For our website, we've disaggregated the top five budget categories that you see rolled up in the Board Action Memorandum and broken down each category for all 21 NCUA offices—something we have never done before.
- We're preparing answers to Frequently Asked Questions, which will be posted in the coming weeks after hearing questions from stakeholders.
- Today, for the first time, we are posting four Fact Sheets about the NCUA budget. The Fact Sheets go beyond the numbers:
 - The first Fact Sheet outlines the Budget Development Process in even more detail than we have today.
 - The second Fact Sheet describes the Information Technology Prioritization Council—the panel I created to weigh the costs and benefits of all proposed IT projects before they are included in the budget.
 - The third Fact Sheet outlines NCUA's Procurement Process, which explains how we use contractors where appropriate rather than hiring permanent FTEs.
 - The fourth Fact Sheet sheds light on Transparency. It includes links to all the information posted on NCUA's budget, as well as NCUA's spending throughout the year.

The bottom line: This budget is not only more transparent than last year's; it will cost-effectively provide NCUA with the necessary resources to achieve the agency's mission as both regulator and insurer. This budget is designed to protect the safety and soundness of America's credit union system; and ensure that no credit union member will lose a penny of their federally insured deposits.