Board Action Bulletin

PREPARED BY THE OFFICE OF PUBLIC AND CONGRESSIONAL AFFAIRS

NCUA BOARD MEETING RESULTS FOR NOV. 20, 2014

Slowest NCUA Budget Growth Since 2008

For 2015 No Corporate Stabilization Fund Assessment Anticipated, Low Share Insurance Fund Premium Range Set

ALEXANDRIA, Va. (Nov. 20, 2014) – The National Credit Union Administration Board convened its tenth scheduled open meeting of 2014 at the agency's headquarters here today. The Board approved three items:

- An Operating Budget increase of 4.2 percent, the smallest increase in seven years, to fund NCUA's mission-critical activities in 2015 and meet the agency's strategic priorities.
- A decrease of 0.9 percent in the 2015 federal credit union Operating Fee scale that also exempts 278 federal credit unions with assets below $1 million from paying the fee.
- A 2015 Overhead Transfer Rate of 71.8 percent from the Share Insurance Fund to the Operating Fund in order to fund the agency's insurance-related functions.

The Director of Examination and Insurance also briefed the Board on the anticipated ranges for 2015 Temporary Corporate Credit Union Stabilization Fund assessments and Share Insurance Fund premiums. NCUA has previously announced it expects no future Corporate Stabilization Fund assessments. NCUA estimates a range of zero to five basis points for a possible 2015 Share Insurance Fund premium. NCUA will not charge federally insured credit unions a Share Insurance Fund premium in 2014.

Finally, the Chief Financial Officer reported on the performance of the Corporate Stabilization Fund, which continues to show improvement.

NCUA's 2015 Budget Shows Smallest Percentage Increase in Seven Years

The Board approved by a 2–1 vote a 2015 Operating Budget of $279.5 million, an increase of 4.2 percent from 2014.

"As a result of intense analysis, scrubbing and reviews, I am pleased that this is the lowest NCUA budget increase in seven years," NCUA Board Chairman Debbie Matz said. "The 4.2 percent increase ensures that we have the resources needed to do our jobs—protecting the safety and soundness of credit unions and being a vigilant steward of the 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."

NCUA formulated the 2015 budget using zero-based budgeting to ensure that each office's requests were individually justified and consistent with NCUA's strategic plan. All budget requests received multiple levels of review and reflect NCUA's top priorities, including implementing a robust supervision network, providing credit unions with guidance, promoting greater awareness of critical risks and related threats, strengthening security programs and developing consumer protection and financial literacy programs.

NCUA staffing growth remains well below credit union asset growth. The 2015 budget includes a net increase of 4.2 new staff positions over the 2014 mid-session budget to 1,268.7 full-time equivalents. The Board approved nine new specialized positions, offset by a reduction of five general examiner positions.

Matz said the agency is expanding the information and data it makes available to assist the public in understanding the budget process by adding several fact sheets to its website, including detailed information on the overall budget, office budgets, contracting and the budget process. The agency also will post additional material on frequently asked questions in the coming weeks. NCUA's 2015 budget and supplementary materials are available online.

The table below summarizes changes to the major components of NCUA's 2015 budget:

Budget Expense Category	**Percentage Increase**	**Primary Drivers of Budgetary Change**
Employee Pay and Benefits	3.7	• Merit and locality pay adjustments, primarily those required by the Collective Bargaining Agreement • New positions supporting supervision, cybersecurity, consumer protection, and support for small credit unions
Travel	2.7	• Projected level of 2015 examination hours and central office travel support to credit union examinations
Rent, Communications and Utilities	2.8	• Essential telecommunications costs to improve data capacity and network reliability • Subscription services with financial and portfolio risk analytics that support program examinations
Administrative	6.1	• Adjustments in fund server and end-user licensing costs, including email, word processing, spreadsheet and database management applications
Contracted Services	8.5	• Costs of critical mission support, such as information technology hardware and software development support, accounting and auditing services and specialized subject matter expertise

Projected 2015 Assessment and Premium Ranges Set

The Board received a briefing on the proposed ranges for the 2015 Corporate Stabilization Fund assessment and the Share Insurance Fund premium. Chairman Matz announced at the September Board meeting the agency expects credit unions will not be charged future assessments.

"If current trends continue, and the legacy assets perform well, we should be able to avoid any more assessments," Matz said. "The careful management of the Corporate Stabilization Fund, an improving economy and subsequent growth in the credit union system have significantly minimized anticipated costs of the corporate resolution."

Staff recommended a projected range of zero to five basis points for the Share Insurance Fund premium in 2015. A forthcoming Letter to Credit Unions will detail the factors involved in calculating the range.

At the October Board meeting, Chairman Matz previously announced credit unions will not pay a 2014 Share Insurance Fund premium.

Operating Fee Rate for Federal Credit Unions above $1 Million Falls Slightly

The 2015 Operating Fee rate will decrease 0.9 percent after the Board by a 2–1 vote approved a recommendation from the Chief Financial Officer. In comparison, assets of federal credit unions are projected to grow by 3.8 percent in 2015.

For the third consecutive year, the Operating Fee exempts federal credit unions with assets of less than $1 million. Several factors resulted in the decrease in the Operating Fee rate, including the Board's July vote to reduce the 2014 Operating Budget by $1.1 million.

NCUA uses the Operating Fee to pay the costs of regulating federal credit unions. NCUA will charge the Operating Fee in March 2015 with payments due by April 15, 2015.

Overhead Transfer Rate Set at 71.8 Percent

The Board by a 2–1 vote approved an Office of Examination and Insurance recommendation for an Overhead Transfer Rate of 71.8 percent using the same data-driven methodology consistently applied since 2003.

The Overhead Transfer from the Share Insurance Fund covers expenses associated with NCUA's insurance-related activities. For 2014, the rate was 69.2 percent. The primary reason for the 2.6 percentage point increase is a slight increase in the percentage of insured shares held by state-chartered credit unions and slight changes in the allocation of the Operating Budget.

Corporate Stabilization Fund Stays in Black, Grows Stronger

The Chief Financial Officer reported on the Corporate Stabilization Fund's operations, based on the best available preliminary and unaudited information.

For the quarter ending Sept. 30, 2014, the Corporate Stabilization Fund's net position increased by $138.9 million to a positive $190.1 million. The change resulted primarily from improvements in projected cash flows relating to legacy assets that secure the NCUA Guaranteed Notes program.

Interest on agency borrowings from the U.S. Treasury was $800,000 for the third quarter and $3 million through Sept. 30. Fund administrative expenses were $900,000 for the third quarter and $2.8 million through Sept. 30. Outstanding borrowings from the Treasury remained at $2.6 billion during the third quarter.

Although the Corporate Stabilization Fund has a positive balance, no funds are available to provide credit unions with an immediate rebate. The improving values of the legacy assets secure the NCUA Guaranteed Notes. NCUA also must first repay money borrowed from the Treasury.

NCUA's projections are estimates. Future changes in the economy or the performance of the legacy assets are likely to change the value of the assets NCUA and the Stabilization Fund can eventually access at the end of the NCUA Guaranteed Notes program.

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