



BOARD ACTION MEMORANDUM

TO: NCUA Board **DATE:** November 15, 2012
FROM: Office of Examination & Insurance **SUBJ:** Overhead Transfer Rate 2013

ACTION REQUESTED: Approve the recommended overhead transfer rate for 2013

DATE ACTION REQUESTED: November 15, 2012.

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: JeanMarie Komyathy, Office of Examination and Insurance's Director of Risk Management and Loss/Risk Analysis Officer Debra Pockat.

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 59.3 percent for fiscal year 2012 in November 2011.

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. 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 from the Examination Time Survey, which is collected on a twelve month survey cycle, we include additional factors in the methodology:

- 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 Office of Examination and Insurance (E&I) contracted PricewaterhouseCoopers, an expert firm, to conduct an independent review of the methodology used to calculate the overhead transfer rate in 2009. The purpose of the review was to evaluate the appropriateness of NCUA's calculation. The expert firm found that the overhead transfer rate methodology was reasonable and did not favor one type of credit union (i.e. federal versus state chartered) over another.

PricewaterhouseCoopers recommended enhancements documenting the allocation factors tied to insurance related activities. In response, we required each office to develop procedures for monitoring activity as it relates to 'insurance' related activities versus 'regulatory' related activities and incorporated the results. In addition, NCUA plans to further evaluate the definitions for insurance versus regulatory related activities. The agency will consult with an independent expert firm to review staff's analysis of the definitions. While there is currently no specific time table, it is possible this work could be completed in time to inform the Board's decision making when it sets the next annual overhead transfer rate.

As detailed in the attachment, we applied the overhead transfer rate methodology to the 12-month survey data and 2013 budget. This resulted in a decrease in the 2013 overhead transfer rate from 59.3 percent to 59.1 percent. The following factors contributed to the decrease in the overhead transfer rate:

- Modification of the SSA Imputed Value calculation to include costs associated with the Office of the Chief Financial Officer and other central office costs to represent fixed costs of the SSAs.
- The 2013 workload budget for federal examination and supervision was reduced by over 1,794 hours.
- The 2013 workload budget for state examination and supervision increased by over 8,191 hours.
- Examiners reported spending 67.3 percent of their examination and supervision time on insurance related procedures for the time survey ending in 2012, compared to 65.1 percent in the previous survey cycle.
- The 2013 budget of \$251.4 million for the cost of NCUA resources and programs increased over the previous year's budget of \$236.9 million.

The factors listed above resulted in the decreased overhead transfer rate.

RECOMMENDED ACTION: Authorize an overhead transfer rate annually based on the NCUA Board approved methodology which results in a 59.1 percent overhead transfer rate for 2013.

ATTACHMENT: Calculation of 2013 overhead transfer rate.