BOARD ACTION MEMORANDUM

TO: NCUA Board **DATE:** November 19, 2009

FROM: Chief Financial Officer **SUBJ:** FY 2010/2011 Budget

ACTION REQUESTED: Board approval of the fiscal year 2010 and 2011 operating and capital budgets.

DATE ACTION REQUESTED: November 19, 2009

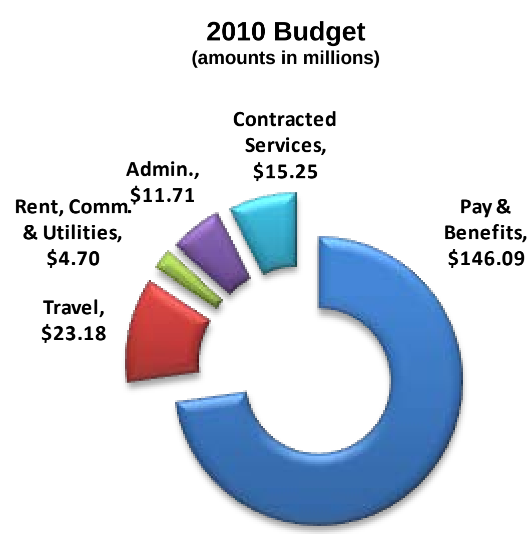
OTHER OFFICES CONSULTED: All Regional and Central Office Directors

VIEWS OF OTHER OFFICES CONSULTED: All concur

BACKGROUND: The budget was prepared from requests submitted by all offices within NCUA. All submissions underwent thorough reviews, and budget hearings were conducted for all regions and selected central offices. The budget presented below has been discussed and agreed upon by the responsible regional and central office directors.

BUDGET IMPACT: Presented below

RESPONSIBLE STAFF MEMBERS: Executive Director David M. Marquis and Chief Financial Officer Mary Ann Woodson



SUMMARY: The 2010 budget of **$200,923,512** represents an increase of $23,059,830 or **13 percent** over the 2009 budget of $177,863,682. The total authorized staff requested for 2010 is **1,112**, which includes an increase of 74 positions from the prior year. See attachments 1 and 2 for a listing of the budget and positions by office.

For 2010, the budget increases to accommodate normal inflationary adjustments as well as to implement program initiatives to ensure successful execution of the agency's safety and soundness mission. Zero based budgeting techniques were used, which is the process of preparing a budget that starts with no authorized funds, and each activity to be funded must be justified each budget cycle.

Authorized Positions

The authorized position level requested for 2010 is 1,112, which is an increase of 74 positions from the final 2009 authorized level of 1,038 positions. Attachment 2 lists 2010 proposed positions by office. The most significant increase relates to the Annual Examination Program, which adds 57 positions. See item 8 below for additional information.

Budget

The budgetary components of the 2010 budget are:

Category	2009 Budget	**2010 Budget**	$ Change	Percent of Total Budget
Employee Pay and Benefits	$ 130,167,806	**$ 146,089,302**	$ 15,921,496	73%
Travel	20,677,769	**23,177,347**	2,499,578	12%
Rent, Communications & Utilities	4,388,796	**4,696,476**	307,680	2%
Administrative	11,284,954	**11,706,333**	421,379	6%
Contracted Services	11,344,357	**15,254,055**	3,909,698	8%
Total	$ 177,863,682	**$ 200,923,512**	$ 23,059,830	100%

MAJOR BUDGETARY CHANGES: The changes in the budget are categorized as either baseline changes or program changes. Baseline changes are those adjustments needed to maintain current services. Program changes represent new initiatives proposed in the budget.

Baseline Changes

Of the $23,060,000 budget increase, $8,280,000, or 36 percent, of the increase is needed to maintain current services. This net increase is broken down into the following components:

1) Merit and locality adjustments provide an **increase of $8,328,000** in both pay and benefits. As specified in the collective bargaining agreement dated January 11, 2008, the average merit pay increase is five (5) percent, and the locality adjustment, which includes the increases and decreases across all localities, can range from a negative (-) to a positive (+) three (3) percent. Changes in locality rates are dictated by the President's Pay Agent. The budget assumes a net growth of 6.5 percent for the combined effect of the merit pay and locality adjustments. These adjustments are effective March 14, 2010.

2) Annualization of partial full-time equivalents (FTE) added in 2009 results in **increase of $2,319,000**. The 2010 budget includes all positions that were added in 2009 at full performance, meaning positions that were partially funded for 2009 are fully funded for 2010. This practice is common in budgeting in order to more accurately reflect cost due to time lags in filling new positions.

3) Anticipated career ladder promotions of staff result in an **increase of $578,000**. Certain entry level positions allow promotions to higher levels based upon required knowledge, skills, and abilities.

4) Mandatory health insurance benefits account for an **increase of $481,000**. The 7 percent increase to the employer's share of premiums, announced by the *Office of Personnel Management*, results in a $6.7 million health insurance budget.

5) Staff turn-over, which includes where retirees are replaced by lower paid employees, provided a **decrease of $2,336,000** in pay and benefits. In 2008, 73 positions turned over, resulting in an average reduction of $32,000 in pay and benefits per position.

6) The budget proposes a **decrease of $1,000,000** in contract trainers for a total budget of $700,000 in order to reflect planned implementation efforts. The 2009 budget included $1.7 million in funding to use outside contractors to train new staff with the purpose of allowing experienced examiners to remain focused and productive on credit union examination and supervision. Normally, experienced examiners would spend a significant amount of time training new examiners. The agency is negotiating with retired examiners to provide some of this specialized training for 2010. Although the training program was not fully implemented in 2009, NCUA intends to implement a similar program, but at a significantly reduced scope for 2010.

7) The remaining **decrease of $90,000** is the result of other smaller increases and decreases, including interest expense, workers compensation, transportation subsidy, and inter-agency assessments (e.g., FFIEC, HMDA).

Proposed Program Changes

Of the $23,060,000 budget increase, $14,780,000 or 64 percent of the increase is the result of proposed program changes. This net increase is broken down into the following components:

Programs Initiatives:

8) The budget proposes **$5,778,000** to implement the Annual Examination Program, which includes increasing and realigning examiner resources. The credit union system continues to experience stress from a faltering economy and dislocations in the financial markets. To adjust to the changing financial landscape and ensure successful implementation of the agency's safety and soundness mission, strategies have been adopted and include allowing regions more flexibility in focusing resources on problem credit unions. The Annual Examination Program incorporates more frequent onsite contact of problem credit unions and enhanced offsite monitoring of credit unions. The increased flexibility comes from allowing the regions to decide on the timing of onsite contact, which can be any time during the year. Accordingly, the scheduling of examinations can be moved forward for credit unions that appear to be negatively trending or have a high risk profile. Increased examiner resources are required for examination or material supervision contact of every Federal credit union every year. The program calls for the addition of 57 positions to the regions in 2010: 39 examiners, 12 problem case officers, four (4) lending specialists, and two (2) supervisory examiners. Additionally, another 28 examiners are anticipated in 2011 to bring this program to full performance.

The program also includes the realignment of examiner resources in order to more effectively match the experience of staff with the examination risk within credit unions. The examination and supervision of California credit unions will temporarily transfer to from Region V (Tempe) to Region II (Capital). The more experienced staff of Region II (Capital) will augment the current California staff and address the credit unions in this economically stressed state. This realignment allocates $9.3 million in resources associated with 62 positions from Region V (Tempe) to Region II (Capital). Region II (Capital) will return the examination and supervision of Alaska credit unions, which it received in 2009, to Region V (Tempe).

9) The resources to stand up of the *Office of Consumer Protection* are proposed at **$1,500,000**. The office will be created on January 1, 2010, include seven (7) new positions, and contain two (2) divisions, the Division of Consumer Protection and the Division of Consumer Access. The office will: a) provide consumer services, including consumer education and complaint resolution; b) establish, consolidate, and coordinate consumer protection functions within the agency; c) act as the central liaison on consumer protection with other federal agencies; d) nationalize field of membership (FOM) processing; e) absorb centralized chartering activities; and f) assume the activities of the agency's ombudsman. The ombudsman investigates complaints and recommends solutions on regulatory issues that cannot be resolved at the regional level. Additional information is provided in attachment 4.

10) The *Office of Chief Economist* will be established with **$344,000** and include two (2) requested positions as well as a position transferred from the *Office of Examination and Insurance,* for a total of three (3) economist positions. The office will be within the *Office of the Executive Director* and will report to the Deputy Executive Director.

11) Within the central offices, there are increases and transfers of positions, resulting in a net increase of three (3) positions totaling **$602,000**. The requests include adding a Corporate Field Supervisor to the *Office of Corporate Credit Unions* and adding a Program Officer and Risk Management Officer to the *Office of Examination and Insurance*. Additionally, a senior staff position will be transferred to the *Office of the Executive Director* to create the Special Assistant to the Executive Director position.

12) The *Asset Management Assistance Center* requests the addition of three (3) positions, totaling **$336,000**, to assist with increased liquidation and asset management requirements.

13) Requests for specialized consultants total **$560,000** from the regions and the *Office of Examination and Insurance*. Professionals with highly specialized skills are required to address unique safety and soundness issues in certain credit unions and in the corporate credit union system.

14) The regions request a **net increase of $368,000** in travel for a total travel budget of $15.6 million, exclusive of the travel budget added with the new positions requested for the Annual Examination Program (see item 8 above). This increase reflects increased travel of examiners partially offset by declines in airfare and hotel rates.

15) The budget proposes an **increase of $349,000** in outreach for a total budget of $427,000. Outreach includes town hall meetings, webinars, conferences, and media

placements. Of this amount, the *Office of Public and Congressional Affairs* requests $200,000 as funding for media placements, especially to expedite the flow of information in response to unforeseen events.

Administrative:

16) The *Office of the Chief Financial Officer* requests **<u>$1,600,000</u>** for the offsite hosting of NCUA's financial management system by the *Department of Transportation Enterprise Service Center*. On January 4, 2010, the hosting services will start and will include, among other services: a) invoice and payment processing; b) software maintenance, upgrades and licensing; c) system security and continuity; and d) end-user support with help desk. The amount requested includes funds needed for special purpose reports and analyses. Funding for the migration of the financial management system was originally approved with the 2008 budget.

17) The *Office of Human Resources*, *Division of Training and Development* requests:
    a. a total of **<u>$978,000</u>** to hold the biennial regional conferences. These national conferences will be held in April 2010 and will include the deployment of new tools to aid examiners with examination and supervision; and
    b. an **<u>increase of $252,000</u>** for the development of new courses, to total $548,000. Courses include topics on consumer lending, residential mortgage lending, member business lending, capital markets, and the Privacy Act.

18) The *Office of Inspector General* (OIG) requests:
    a. an **<u>increase of $725,000</u>** to engage outside professionals to conduct Material Loss Reviews, for a total budget of $800,000. Under the Federal Credit Union Act (12 U.S.C. 1790d(j)), OIG is required to conduct Material Loss Reviews on failed credit unions if the loss to the National Credit Union Share Insurance Fund exceeds $10 million, among other requirements. The budget request is based upon bids received by OIG, which are consistent with other agencies requesting Material Loss Reviews; and
    b. an **<u>increase of $213,000</u>** for a total budget of $713,000 to conduct the agency's independent financial statement audit. The increase is primarily due to increased audit efforts to address technical reporting issues and the new Temporary Corporate Credit Union Stabilization Fund.

19) The *Office of the Chief Information Officer* requests:
    a. a net **<u>increase of $204,000</u>** in consulting and contracted services for a total contracted services budget of $4,511,000. This includes $100,000 for implementation of Networx, the new federal data network infrastructure and $100,000 in cost of living adjustments for OCIO contractors; and
    b. an **<u>increase of $147,000</u>** in telecommunications in order to provide most agency staff with new mobile voice and data devices.

20) The remaining **<u>increase of $824,000</u>** is the result of other increases and decreases, including depreciation on 2010 capital acquisitions ($320,000), agency-wide printing and supplies ($230,000), and security identification card management ($150,000).

<u>Capital Acquisitions</u>

An itemized listing of all capital acquisitions, totaling $4,872,000, is provided by attachment 3. The associated depreciation expense of $320,000 is contained within the administrative category (see item 20 above).

21) The *Office of the Chief Financial Officer* requests **<u>$1,500,000</u>**, for a total budget of $6,500,000, for the migration of the agency's 13 year old financial management system to a Federal share service provider. In October 2008, the agency executed an agreement with the *Department of Transportation Enterprise Service Center* (ESC) to migrate the agency's system. Subsequently, significant changes occurred in the financial operations of the agency, including the addition of the Temporary Corporate Credit Union Stabilization Fund. Also, ESC determined that its initial estimates were not sufficient for the scope of the migration. For instance, ESC's proposed solution to incorporate NCUA's calendar year into the system's October to September fiscal year was more complex than originally anticipated.

22) The *Office of the Chief Financial Officer, Division of Procurement and Facilities Management* requests **<u>$1,993,000</u>**, for continuing renovation on the agency's 17-year old headquarters. Renovations include the lighting, office space, plumbing, and plaza area pavers. Total 2010 needs are $2,443,000; however, $450,000 in funds allocated in 2009 for building repairs and renovations will be used to offset these needs.

23) The *Office of the Chief Information Officer* requires **<u>$835,000</u>** for acquisitions needed to maintain a current, stable, and secure network environment.

24) The *Office of Examination and Insurance,* with the *Office of the Chief Information Officer* requests **<u>$500,000</u>** to update the examination system. The updated system will include an electronic library and web-based examination tools. More than 1,500 examiners, including State Supervisory Authorities, rely on NCUA's examination system.

25) The remaining capital acquisitions of **<u>$44,000</u>** relate to renovations to the agency's Austin, Texas building, shared by *Region IV (Austin)* and the *Asset Management and Assistance Center*.

OFFICE REALIGNMENT: The 2010 budget includes the transfer and realignment of staffing resources, as follows.

Effective January 1, 2010, the National Examination Team (NET) is dissolved. The 2009 budget established the NET, which mobilized current staff to address the most challenging cases posing the highest risk to the National Credit Union Share Insurance Fund (NCUSIF). The creation of the NET provided benefits in the handling of troubled large and complex credit unions that would have not been otherwise achieved in 2009. Despite the benefits, the structure of the program was not conducive in providing effective long-term supervision of these credit unions. The obstacles to long-term program success included: a) lack of infrastructure to support a national team; b) limited availability of specialized staff; and c) quality of life issues of staff. As a result of these obstacles, each NET case will be distributed to the region that can best handle the credit union's examination and supervision.

The Division of Planning, within the *Office of Capital Markets and Planning*, will be moved and contained within the *Office of the Executive Director*. The Division of Planning will be a division of the *Office of the Executive Director* and report to the Deputy Executive Director. The *Office of Capital Markets and Planning* will be renamed to the *Office of Capital Markets*.

The 2010 budget transfers the supervision of five (5) regional training specialists from the regions to the *Office of Human Resources*. This action appropriately aligns the supervision of the regional training specialists with the office that primarily directs the duties for the position. Each region has a training specialist who facilitates the learning of NCUA's examination system and other related knowledge to examiners. The training specialists will remain in their designated territories.

2011 BUDGET: The initial fiscal year 2011 budget of $ 215,873,540 represents an increase of $14,950,028 or 7.4 percent compared to the 2010 budget. The budget includes 1,140 positions, which is an increase of 28 positions to reflect the full performance of the Annual Examination Program. The budget also includes an estimated 6.5 percent inflationary effect in both payroll and non-payroll items.

REPROGRAMMING AUTHORITIES: The Delegation of Authority for budget reprogramming has remained unchanged for twelve years. To increase responsiveness of the regional and central office directors, in light of fast moving or sudden changes in the credit union system, a request is made to revise the reprogramming authorities. The intent is to provide regional and office directors the ability to reprogram up to $50,000 per action, except for pay and benefits budgets. The Executive Director would have the next level of authority, to reprogram up to $100,000 per action. Any reprogramming above these limits remains under the authority of the Board. The proposed Delegations of Authority are set forth in recommendation 4, below.

RECOMMENDED ACTIONS: It is recommended that the NCUA Board approve the following actions:

1. The fiscal year 2010 budget of $200,923,512 and 1,111.85 FTEs and the 2011 budget of $215,873,540 and 1,139.85 FTEs, as presented in attachments 1 and 2.

2. The 2010 capital acquisitions budget totaling $4,871,527 as presented in attachment 3.

3. Vest within the Executive Director the authority to plan and implement the Office of Consumer Protection and the authority to reprogram FTE and funds related to standing up the Office of Consumer Protection, provided that: (a) the agency budget in total, both FTE and dollar, is not changed, (b) funds are solely reprogrammed for the Office of Consumer Protection and not reallocated for any other program, and (c) the Board is immediately notified of the reprogramming.

4. Delete "BUD 1" in its entirety and replace with the delegation to the Regional Directors, President AMAC, and Office Directors of the following: "Authority to approve the reprogramming of budgeted amounts between budget classifications of up to $50,000 per reprogramming action, provided that: (a) funds in pay and benefit cost categories, including awards, are excluded from reprogramming; (b) the budget in total is not changed; (c) funds are not reprogrammed for completely new programs or initiatives not already approved in the budget; and (d) the Chief Financial Officer confirms compliance with the preceding provisions (a), (b), and (c). Upon confirmation by the Chief Financial Officer, the Chief Financial Officer immediately notifies the Board and the Executive Director of the reprogramming."

5. Add “BUD 2” with the delegation to the Executive Director of the following: “Authority to approve the reprogramming of budgeted amounts between budget classifications of up to $100,000 per reprogramming action, provided that: (a) the budget in total is not changed; (b) funds are not reprogrammed for completely new programs or initiatives not already approved in the budget; and (c) the Executive Director immediately notifies the Board and the Chief Financial Officer of the reprogramming.”

____
Chief Financial Officer

Attachments

BUDGET

By Office	2009	Proposed 2010	Change	%	Proposed 2011	Change	%
Office of the Board	2,250,183	2,554,684	304,501	13.53%	2,720,738	166,054	6.50%
Office of the Executive Director	1,690,388	2,500,001	809,613	47.90%	2,662,501	162,500	6.50%
Office of the National Examination Team	-	-	-	0.00%	-	-	0.00%
Office of the Chief Economist	-	475,684	475,684	100.00%	506,603	30,919	6.50%
Office of Consumer Protection	-	1,500,000	1,500,000	100.00%	1,597,500	97,500	6.50%
Office of Capital Markets	2,257,686	1,477,389	(780,297)	-34.56%	1,573,419	96,030	6.50%
Office of the Chief Financial Officer	16,026,547	18,149,760	2,123,213	13.25%	19,329,494	1,179,734	6.50%
Office of the Chief Information Officer	12,305,079	13,072,429	767,350	6.24%	13,922,137	849,708	6.50%
Office of Small Credit Union Initiatives	4,640,332	5,215,503	575,171	12.40%	5,554,511	339,008	6.50%
Office of Corporate Credit Unions	6,982,864	7,804,338	821,474	11.76%	8,311,620	507,282	6.50%
Office of Examination & Insurance	4,864,940	5,838,983	974,043	20.02%	6,218,517	379,534	6.50%
Office of General Counsel	4,958,937	5,318,773	359,836	7.26%	5,664,493	345,720	6.50%
Office of Human Resources	9,727,079	10,555,593	828,514	8.52%	11,241,707	686,114	6.50%
Office of Inspector General	2,412,907	3,224,616	811,709	33.64%	3,434,216	209,600	6.50%
Office of Public and Congressional Affairs	712,740	961,408	248,668	34.89%	1,023,900	62,492	6.50%
Region I - Albany	19,902,439	21,775,085	1,872,646	9.41%	24,135,466	2,360,381	10.84%
Region II - Capital	20,624,272	33,859,063	13,234,791	64.17%	36,532,402	2,673,339	7.90%
Region III - Atlanta	20,786,078	23,116,184	2,330,106	11.21%	24,618,736	1,502,552	6.50%
Region IV - Austin	21,676,741	23,716,725	2,039,984	9.41%	25,730,812	2,014,087	8.49%
Region V - Tempe	23,151,939	16,401,013	(6,750,926)	-29.16%	17,467,079	1,066,066	6.50%
Asset Management & Assistance Center	2,892,531	3,406,281	513,750	17.76%	3,627,689	221,408	6.50%
Total	**177,863,682**	**200,923,512**	**23,059,830**	**12.96%**	**215,873,540**	**14,950,028**	**7.44%**

The 2009 budget column includes the allocation of the Twelve Month Program resources, originally held as undistributed.
The assignment of three (3) positions with the Division of Planning to the Office of the Executive Director and the assignment of five (5) Regional Training Specialists to the Office of Human Resources have significantly increased the budgets of the Office of the Executive Director and the Office of Human Resources, respectively.
Under the Annual Examination Program, resources for examination and supervision of California credit unions are tranferred to Regions II (Capital).

POSITIONS/FULL-TIME EQUIVALENTS (FTE)

By Office	2009	Proposed 2010	Change	Proposed 2011	Change
Office of the Board	11.00	12.00	1.00	12.00	-
Office of the Executive Director	6.00	10.00	4.00	10.00	-
Office of the National Examination Team	2.00	-	(2.00)	-	-
Office of the Chief Economist	-	3.00	3.00	3.00	-
Office of Consumer Protection	-	7.00	7.00	7.00	-
Office of Capital Markets	10.25	6.50	(3.75)	6.50	-
Office of the Chief Financial Officer	31.00	31.00	-	31.00	-
Office of the Chief Information Officer	32.00	32.00	-	32.00	-
Office of Small Credit Union Initiatives	27.00	27.00	-	27.00	-
Office of Corporate Credit Unions	36.00	37.00	1.00	37.00	-
Office of Examination & Insurance	28.40	29.40	1.00	29.40	-
Office of General Counsel	26.20	26.20	-	26.20	-
Office of Human Resources	31.00	36.00	5.00	36.00	-
Office of Inspector General	9.00	9.00	-	9.00	-
Office of Public and Congressional Affairs	5.00	4.00	(1.00)	4.00	-
Region I - Albany	143.50	153.75	10.25	167.75	14.00
Region II - Capital	151.35	231.10	79.75	238.10	7.00
Region III - Atlanta	151.40	160.90	9.50	160.90	-
Region IV - Austin	158.50	167.50	9.00	174.50	7.00
Region V - Tempe	157.70	104.00	(53.70)	104.00	-
Asset Management & Assistance Center	18.00	21.00	3.00	21.00	-
Subtotal Operating Fund	**1,035.30**	**1,108.35**	**73.05**	**1,136.35**	**28.00**
Central Liquidity Facility	2.75	3.50	0.75	3.50	-
Total NCUA	1,038.05	1,111.85	73.80	1,139.85	28.00

The 2009 column includes positions added at the 2009 Mid-session Budget Review (7 FTE) and includes the full performance (i.e., annualization) of partial FTE positions added in the original 2009 (15 FTE). Under the Annual Examination Program, 62 positions are temporarily tranferred to Regions II (Capital).

2010 CAPITAL ACQUISITIONS

Office	Description	Useful Life Months	Months Used This Yr	Deprec Exp This Yr	Interest Exp This Yr	Total Expense This Year	Cash Outlay This Year
OCIO	Data and voice network upgrades: Hardware upgrades, switches, router replacements, and central office/regional office infrastructure upgrades	36	6	41,667	0	41,667	250,000
OCIO	Network printers: Printer upgrades and scheduled printer replacements	36	6	9,167	0	9,167	55,000
OCIO	Data processing upgrades: upgrades of servers, storage systems, and implementing appropriate server virtualization	36	6	41,667	0	41,667	250,000
OCIO	Network security: upgrades to firewalls, intrusion detection system and VPN	36	6	16,667	0	16,667	100,000
OCIO	Presentation equipment	36	6	5,000	0	5,000	30,000
OCIO	Storage Area Network upgrades	36	6	25,000	0	25,000	150,000
							835,000
E&I	Examination system modifications (eLibrary, red flags, real estate module)	60	3	25,000	0	25,000	500,000
OCFO	Accounting system upgrade (Estimated total acquisition, $6.5 million)	60	3	75,000	0	75,000	1,500,000
KING	Completion of plaza paver repairs, phase III	120	6	5,314	0	5,314	106,272
KING	Interior renovations (plumbing, office space)	120	3	50,000	0	50,000	2,000,000
KING	Tenant upgrades under lease agreement	60	10	7,376	0	7,376	44,255
KING	Miscellaneous repairs and renovations	120	6	12,500	0	12,500	250,000
KING	T5 lights/diffusers for all offices	120	9	3,150	0	3,150	42,000
KING	Reprogramming of 2009 funds, allocated to building repairs and renovations, to reduce 2010 needs						(450,000)
							1,992,527
AMAC / Region IV	Kitchen and mailroom remodeling	120	6	1,550	0	1,550	31,000
AMAC / Region IV	ADA building upgrades	120	6	650	0	650	13,000
							44,000
	TOTAL - OPERATING FUND PURCHASES			**319,706**	**0**	**319,706**	**4,871,527**

Office of Consumer Protection

Background

In June 2009, the Obama Administration issued *Financial Regulatory Reform: A New Foundation*. A major aspect of the proposed regulatory restructuring is the creation of a new, independent Consumer Financial Protection Agency (CFPA). A key reason cited for separating consumer protection from the primary regulator is the "*potentially conflicting mission to promote safe and sound banking practices.*"

NCUA employs an integrated approach to examining for consumer and regulatory compliance, which results in synergies. For example, Regulation Z compliance can be reviewed at the same time loan files are being evaluated for underwriting and documentation. NCUA's core training for all examiners includes consumer compliance, and NCUA currently has approximately 30 Principal Examiners with a Subject Matter Examiner designation in consumer compliance.

Executive Summary

NCUA proposes in its 2010 budget to create an Office of Consumer Protection (OCP) with the responsibilities, positions, and related budget as discussed below. This office would be managed by a Senior Staff Position, and be made up of two (2) divisions – the Division of Consumer Protection and the Division of Consumer Access.

Given the complexity of starting up the office, the 2010 budget also delegates to the Executive Director the authority to develop and execute an implementation plan to stand up the Office of Consumer Protection, placing first priority on the Division of Consumer Protection. Full implementation of the office is expected to be completed within two-to-three years.

Objectives for NCUA's Office of Consumer Protection (OCP)

- Demonstrate the importance NCUA places on consumer protection by raising the profile of this function and assigning dedicated resources to this aspect of NCUA's mission.

- Provide a core element within the agency with a sole focus on consumer protection. This group will provide expertise and serve as a strong advocate for consumer safeguards and education.

- Elevate the role of the Ombudsman and provide dedicated resources to this function.

- Serve as liaison with other government agencies on consumer protection issues, including any new agency created with this authority.

Scope of Responsibility

Creating an Office of Consumer Protection allows for incorporating a broader view of NCUA's consumer-related activities. This includes the synergy between enforcement of consumer compliance regulations and providing as many consumers as possible with access to mainstream financial services via the cooperative credit union model (i.e., chartering and field of membership). All NCUA activities focused on consumer protection and consumer access to credit union services will be centralized under the new OCP.

The centralization will also allow the various consumer oversight responsibilities to support the financial education function of the new office. Strengthening consumers' financial health has historically been a fundamental goal of credit unions. It is now an integral goal of NCUA. Through the OCP, NCUA for the first time will have dedicated staff to help consumers achieve financial literacy. This will include inter-agency efforts such as the Financial Education and Literacy Commission (FLEC), consumer outreach efforts such as NCUA's share insurance education campaign, and internal efforts such as the newly proposed financial wellness program for NCUA staff.

Another important function of the OCP will be to centralize field of membership (FOM) processing. This is an important strategic decision given economic challenges facing credit unions, organizational priorities, and workload trends. This centralization of FOM processing is integral to the goal of reallocating staff resources. Deploying staff with the requisite expertise to this new office will result in more efficient resource allocation to specific functions (e.g., staffing the call center versus processing FOM expansions) based on a broader pool of qualified staff. This will streamline operations and eliminate the need for maintaining a separate Division of Insurance in each region. Other advantages of centralizing FOM processing include:

- The proximity of a central FOM function to the Board and the Office of General Counsel would help maintain national consistency and uniformity in the application of FOM expansions;

- Transfer of this responsibility will allow regional staff to remain focused on the safety and soundness mission during the current economic crisis and going forward; and

- The staff with the requisite FOM expertise will work together through a single reporting structure, providing increased resources to apply to FOM issues than exists in current pockets within each region. Employing a larger pool of cross-trained staff will provide flexibility to meet peak workload periods and maintain strong service to credit unions.

Creation of the OCP involves some potential issues that require consideration. In particular, the centralization of FOM processing could be seen as taking this activity one step away from the field. Regions have existing working relationships with credit unions, and credit unions are accustomed to interacting directly with their respective region on most regulatory matters.

However, the agency is in the process of migrating all credit union interactions (e.g., regulatory waivers and other requests) to an electronic, online environment.

For FOM requests, the vision is to electronically route online applications to the OCP where they can be reviewed by the appropriate staff reporting to the central office. Many OCP staff will be able to work from remote locations dispersed throughout the country.

Routing FOM requests to the OCP will consolidate multiple levels of review – and in the process, draw on the experience of field staff who are familiar with the local credit unions and the communities they are trying to serve.

With applications to NCUA fully automated, this transition will be seamless to credit unions. An integrated tracking system will facilitate ongoing customer service and maintain ease of interaction with NCUA.

In addition, implementation plans for the OCP will be designed to mitigate the impact on the regions and credit unions during the transition process, and the OCP will work closely with the regions on these matters.

OCP Staffing
Full staffing for the OCP is estimated to be 30 FTEs, as set forth in Table 1.

As part of the process of standing up this new office, staffing adjustments may be recommended.

Table 1

Division	Staffing[1]
1. **Office of Consumer Protection**	Office Director (SSP-03)
2. **Division of Consumer Protection** • Consumer compliance policy, program & rulemaking. • Interagency liaison for consumer compliance issues. • Fair lending examinations. • Call center (insurance inquiries, member complaints). • Consumer financial literacy programs.	Division Director (CU-15) 2 Program Officers (CU-14) 8 Analysts (CU-13)[2] 2 Technicians (CU-7 to CU-9) Total Staff = 13
3. **Division of Consumer Access** • New charters & conversions. • Field of Membership (FOM) expansions. • Bylaw amendments. • Low income designations.	Division Director (CU-15) 10 Analysts (CU-13) 5 Technicians (CU-7 to CU-9) Total Staff = 16

It is anticipated that most of the personnel needed to staff the new OCP would be reassigned from other offices and the regions, with the remaining staff requirements filled with new hires, per Table 2. To the extent the positions for this new office cannot be filled though reassignments, additional new hires would be needed. This could result in some duplicative costs in the short term because NCUA would allow the regions to maintain current staffing and redeploy them in the region, using attrition to reduce any duplicative staffing over time.

[1] Staffing estimates are based upon work load hours provided by the regions.
[2] Includes resources to conduct fair lending examinations, budgeted at 3,000 hours per year.

Table 2 is our best estimate of the mix between Staff Reassigned and New Hires for 2010. Beyond the initial year, the agency will experience a reduction in examiner time devoted to fair lending examinations. This reduction in workload hours for fair lending will equate to a reduction of 3 FTE examiner positions. Accordingly, the incremental increase in FTE positions in 2011 and beyond is 4 FTEs.

Table 2

	Staff Reassigned	New Hires	Total
Directors	3	0	3
Analysts	12	6[3]	18
Technicians	7	0	7
Program Officers	1	1	2
Total	23	7	30

Transition and Implementation

Reductions in force (RIFs) are not recommended or warranted in creating the OCP. The remaining staff in the regional Divisions of Insurance (11 analysts and 5 technicians) would be reassigned to other work units within the region at the discretion of the regional director. These employees are engaged in handling NCUA work that is outside of the scope of the OCP.

The regional analysts reassigned to the OCP will be offered to work remotely from their current locations (i.e., not be required to move to the central office).

It is anticipated that some, but not all, of the work performed by the technicians will require a full-time presence in the central office. If regional technicians do not wish to relocate, they will remain in the regions and the technician positions in the central office will be filled by new hires. Training programs will be established for the newly hired technicians.

The first priority is to select the office director, two division directors, and newly created staff positions. The immediate responsibilities of this initial staff would include:

- Standing up the new office.
- Seeking input and/or assistance from appropriate internal and external stakeholders.
- Developing a detailed transition plan and bargaining proposal.
- Assisting with labor negotiations.

The implementation and transition details and overall timeline will largely be affected by labor negotiations and specific business process considerations.

[3] As the office is staffed up, the workload hours for fair lending examinations, which equate to 3 examiner positions, will be transferred in. Because these workload hours are spread over many examiners, 3 examiners cannot be transferred in. When the examiner workload is revised, there will be a net reduction in hours equivalent to 3 positions. Hence, the incremental increase, in the long term, is 3 FTEs instead of 6 FTEs.

Budget Impact

The net annual recurring cost of the OCP, upon full implementation, will be $500,000.

Table 3

Incremental Costs	**Cost**
Incremental FTEs	**7**[4]
Incremental Salary and Benefits	$960,000
Remote Duty Station Support, including travel to Central Office	310,000
Savings from Redirection of Regional Division of Insurance FTEs	-540,000
New Technology (i.e. Capital Budget)	100,000
Contractors to Assist Regions and OCP in Transition Process: $10,000 per Region, $20,000 for OCP	70,000
Estimated Relocation Costs	600,000
Total Initial Transition Cost	**$1,500,000**

The full operating budget (gross total costs) for the OCP is estimated to be $4,900,000, as shown in Table 4 below.

Table 4

OCP Budget	**Cost**
Full Performance FTEs	**30**
Personnel cost, including travel	$4,715,000
Computers/Supplies/Communications	95,000
Training	90,000
Total	**$4,900,000**

[4] In the out years, this will be reduced to a net increase of 4 FTEs once the field staff workload budget is reduced for the 3,000 hours associated with the fair lending examiners, which will now be conducted by OCP staff. This will reduce the annual recurring incremental cost by approximately $300,000.