

BOARD ACTION MEMORANDUM

TO: NCUA Board

DATE: November 17, 2009

FROM: Director, Office of Examination
and Insurance

SUBJ: Overhead Transfer Rate

ACTION ITEM: 2010 Overhead Transfer Rate

ACTION DATE: November 19, 2009

ACTION REQUESTED: Approve the recommended Overhead Transfer Rate of 57.2 percent for 2010.

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 53.8 percent for fiscal year 2009 was approved by the Board in November 2008.

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 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.

As detailed in the attachment, the overhead transfer rate methodology was applied to the 12-month survey data and 2010 budgets. The increase in the 2010 overhead transfer rate from 53.8 percent to 57.2 percent includes the following contributing factors:

- The 2010 workload budget for federal supervision increased by over 17,000 hours.
- Examiners reported spending 67.3 percent on insurance related procedures for the time survey ending May 2009, compared to 63.9 percent in the previous cycle for onsite supervision.
- The 2010 workload budget for state examination and supervision increased over 35,000 hours.
- The 2010 budget for the cost of NCUA resources and programs increased over the previous year.

RECOMMENDED ACTION: Establish an overhead transfer rate of 57.2 percent for 2010.

ATTACHMENT(S): Calculation of 2010 Overhead Transfer Rate.

STEP 1 – Workload Program (2010)

Core Programs	2010 Workload Hours	Non-Insurance Percent	Non-Insurance Hours	Allocation Basis
Federal Examination	369,750	40%	149,342	Examiner time survey.
Federal Supervision	105,850	33%	34,645	Examiner time survey.
State Exam & Supv	130,784	0%	0	FISCU work is insurance-related.
State Exam Review	7,963	0%	0	FISCU work is insurance-related.
5300 Program	50,518	22%	11,139	FCU time uses examiner time survey. FISCU portion at all insurance-related.
Total Core Program	664,865	n/a	195,125	
Special Programs				
Fair Lending Exams	3,000	100%	3,000	Regulatory program.
Agricultural Lending	364	0%	0	NCUSIF risk management program.
FOM & Chartering	403	100%	403	Regulatory program.
RCMS	5,200	0%	0	NCUSIF risk management program.
RISOs	1,500	40%	606	Allocation based on % from time surveys.
Small Credit Unions	19,484	90%	17,629	For FCUs is a regulatory program. However, approximately 10% of the time in this program is related to work in FISCU.
CUSO Exams	1,500	0%	0	NCUSIF risk management program.
Total Special Program	31,451	n/a	21,638	
Total Core & Special Programs	696,316	n/a	216,763	
Percent of Workload Programs devoted to NCUA's Non-Insurance Role			31%	

STEP 2 – Financial Budget (2010)

Cost Area 2010 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.	\$5.1	71%	\$3.6
All Other Region Costs: Based on non-insurance related portion of core and special workload programs.	\$115.8	31%	\$36.0
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.	\$3.5	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.	\$5.3	90%	\$4.8
Office of Corporate Credit Unions: NCUSIF risk management function other than chartering, FOM, and mergers.	\$7.9	20%	\$1.6
Office of Chief Financial Officer: Based on non-insurance percent, net of staff time associated with NCUSIF accounting.	\$7.7	20%	\$1.5
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.	\$13.7	20%	\$2.7
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.	\$10.7	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.	\$31.3	31%	\$9.7
Total 2010 NCUA Budget	\$200.9		\$62.2

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

STEP 3 – Calculate NCUSIF Costs (2010)

Imputed NCUSIF Costs

	Millions
2010 Financial Budget	\$200.9
Non-Insurance Costs (see Step 2)	- \$62.2
SSA imputed Value	+ \$21.1
Direct Operational Charges to NCUSIF	+ \$1.6
Total NCUSIF Imputed Costs	= \$161.3

STEP 4 – Allocation of NCUSIF Costs (2010)

Insured Shares Allocation

	FCU	FISCU
Total Cost of Providing NCUSIF Insurance	\$161.3	\$161.3
Times Proportional Allocation Basis	54.6%	45.4%
Equals Allocated Insurance Costs	\$88.1	\$73.3

Net of Imputed SSA Value

	Millions
Total Allocated Insurance Costs - FISCUs	\$73.3
Minus SSA Insurance Work Imputed Value	\$21.1
Equals Net Cost of NCUSIF Insurance – FISCUs	\$52.2

Dollar Amount of OTR

	FISCUs	FCUs	Dollar Amt
FISCU Portion of NCUA Insurance Cost	\$52.2M	\$62.8M	115.0M
Divided by Percentage of Insured Shares	45.4%	54.6%	

OTR as a Percent of Budget

Dollar Amount of OTR	\$115.0M
Divided by NCUA Budget	\$200.9M
Equals OTR	57.2%

Imputed SSA Value Step 1 – 2010

Gross Workload

Table 1

Average Exam Time (Hours) FCU (Dec. 2008)	Assets < \$10M	\$10M - \$100M	\$100M - \$250M	\$250M - \$500M	> \$500M
CAMEL 1	46	78	144	193	310
CAMEL 2	51	89	168	208	322
CAMEL 3	56	109	202	278	326
CAMEL 4	67	167	333	351	381
CAMEL 5	96	167	399	351	381

Table 2

FISCUs (#) in Each Category (as of June 2009)	Assets < \$10M	\$10M - \$100M	\$100M - \$250M	\$250M - \$500M	> \$500M
CAMEL 1	128	232	56	30	63
CAMEL 2	604	740	157	77	82
CAMEL 3	260	234	75	20	22
CAMEL 4	39	41	19	9	14
CAMEL 5	0	2	1	0	1

Table 3

Total Hours (Table 1 cells x Table 2 cells)	Assets < \$10M	\$10M - \$100M	\$100M - \$250M	\$250M - \$500M	> \$500M
CAMEL 1	5,888	18,096	8,064	5,790	19,530
CAMEL 2	30,804	65,860	26,376	16,016	26,404
CAMEL 3	14,560	25,506	15,150	5,560	7,172
CAMEL 4	2,613	6,847	6,327	3,159	5,334
CAMEL 5	0	334	399	0	381
Total	53,865	116,643	56,316	30,525	58,821
Total Gross Exam Hours					316,170

Imputed SSA Value Step 2 - 2010

Net Workload

Net of Insurance-Related Time

FISCUs	Hours
Gross FISCU Exam Hours	316,170
x Insurance Factor Based on Exam Time Survey	59.6%
= Total Insurance Hours w/out Risk-Based Scheduling	188,469

Net of Risk-Based Scheduling

	Hours
Total Insurance Hours w/out Risk-Based Scheduling	188,469
- Not Eligible for Deferral Hours	181,084
= Eligible for Deferral	7,385
x Adjustment for Risk-Based Scheduling	66.7%
= Annual Eligible for Deferral Hours	2,462
+ Not Eligible for Deferral Hours	181,084
+ Adjustment for Additional Supervision	978
= Total FISCU Hours with Risk-Based Scheduling	186,986

Net of NCUA Time in FISCUs

	Hours
Total FISCU Hours with Risk-Based Scheduling	186,986
+ 2010 Budgeted Supervision Hours	40,242
- 2010 Budgeted Insurance Review Hours	90,542
- 2010 Budgeted State Exam Report Review Hours	7,963
Total Additional FISCU Insurance Hours Needed	128,723

Imputed SSA Value Step 3 - 2010

Additional Staff Needed

Examiner Productive Time

2010 Core and Special Workload Program Hours	696,316
/ Total 2010 Workload Program Hours	1,272,649
= Productivity Ratio	54.7%
Total Work Hours in a Year Per Full Time Equivalent (FTE)	2,080
x Productivity Ratio	54.7%
= Productive Hours per FTE Examiner	1,138

Number of Examiners Needed

Net Additional FISCU Hours Needed	128,723
/ Productive Hours per FTE Examiner	1,138
= Number of Additional FTE Examiners Needed	113.1

Total Additional Staff Needed

Additional Staff Needed	Ratio Examiners to Position	FTEs Per Position
Examiners	1/1	113.1
Supervisory Examiners	1/9	12.6
Analysts	1/15	7.5
Directors	1/25	4.5
Other Regional Staff	1/20	5.7
= Number of Additional FTEs Needed		143.4

Imputed SSA Value Step 4 - 2010

Imputed Cost

Gross Cost

Total Cost of Regions (2010 Budget)	\$120,860,762
/ FTEs in Regions (2010 Budget)	816.25
= Per Regional FTE Cost	\$148,068
x Number of Additional FTEs Needed	143.4
= Cost of Additional Regional Positions	\$21.2M

Net Cost

	Millions
Cost of Additional Regional Positions	\$21.2
+ Additional OHR Costs (12.9% of \$10.7 million budget)	\$1.4
- SSA Training and Equipment Cost	\$1.6
= Imputed SSA Value	\$21.1