

BOARD ACTION MEMORANDUM

TO: NCUA Board

DATE: November 16, 2010

FROM: Director, Office of Examination
and Insurance

SUBJ: Overhead Transfer Rate

ACTION ITEM: 2011 Overhead Transfer Rate

ACTION DATE: November 18, 2010

ACTION REQUESTED: Approve the recommended Overhead Transfer Rate for 2011

OTHER OFFICES CONSULTED: Chief Financial Officer

VIEWS OF OTHER OFFICES CONSULTED: Concur

BUDGET IMPACT, IF ANY: None. The Overhead Transfer Rate (“OTR”) 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 OTR. The OTR is applied to actual expenses incurred each month.

RESPONSIBLE STAFF MEMBERS: Office of Examination and Insurance’s Director of Risk Management Wendy Angus, and Loss/Risk Analysis Officer Tim O’Quinn

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 OTR of 57.2 percent for fiscal year 2010 was approved by the Board in November 2009.

At the November 20, 2003 board meeting, the NCUA Board approved a refined method for calculating the recommended OTR. One of the factors considered in calculating the OTR 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 OTR methodology was applied to the 12-month survey data and 2011 budget. The increase in the 2011 OTR from 57.2 percent to 58.9 percent includes the following contributing factors:

- The 2011 workload budget for federal examination and supervision increased by over 65,000 hours.
- The 2011 workload budget for state examination and supervision increased by over 38,000 hours.
- Examiners reported spending 67.0 percent of their examination and supervision time on insurance related procedures for the time survey ending in 2010, compared to 61.3 percent in the previous survey cycle.
- The 2011 budget for the cost of NCUA resources and programs increased over the previous year.

As recommended by the NCUA Board in 2009, we have engaged an expert firm to conduct an independent review of the methodology used to calculate the OTR and to evaluate the appropriateness of NCUA's calculation. The expert firm will prepare a report that summarizes the analysis and provides recommendations as necessary. This report is expected by the end of November 2010.

RECOMMENDED ACTION: Establish an Overhead Transfer Rate of 58.9 percent for 2011.

ATTACHMENT(S): Calculation of 2011 Overhead Transfer Rate.

STEP 1 – Workload Program (2011)

Core Programs	2011 Workload Hours	Non- Insurance Percent	Non- Insurance Hours	Allocation Basis
Federal Examination	462,663	33%	152,679	Examiner time survey.
Federal Supervision	78,894	32%	25,246	Examiner time survey.
State Exam & Supv	169,517	0%	0	FISCU work is insurance-related.
State Exam Review	7,799	0%	0	FISCU work is insurance-related.
5300 Program - FCU	37,875	33%	12,499	FCU time uses examiner time survey.
5300 Program – FISCU	11,188	0%	0	FISCU portion at all insurance-related.
Total Core Program	767,936	n/a	190,424	
Special Programs				
Fair Lending Exams	3,000	100%	3000	Regulatory program.
Agricultural Lending	2,333	0%	0	NCUSIF risk management program.
FOM & Chartering	406	100%	406	Regulatory program.
RCMS	5,190	0%	0	NCUSIF risk management program.
RISOs	1,200	33%	396	Allocation based on % from time surveys.
Small Credit Unions	18,207	90%	16,474	For FCUs is a regulatory program. However, approximately 10% of the time in this program is related to work in FISCUs.
CUSO Exams	1,730	0%	0	NCUSIF risk management program.
Total Special Program	32,066	n/a	20,276	
Total Core & Special Programs	800,002	n/a	210,699	
Percent of Workload Programs devoted to NCUA's Non-Insurance Role			26%	

STEP 2 – Financial Budget (2011)

Cost Area 2011 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.	\$3.7	77%	\$2.8
All Other Region Costs: Based on non-insurance related portion of core and special workload programs.	\$20.0	26%	\$5.3
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.	\$4.9	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.	\$5.8	90%	\$5.2
Office of Corporate Credit Unions: NCUSIF risk management function other than chartering, FOM, and mergers.	\$8.3	22%	\$1.8
Office of Chief Financial Officer: Based on non-insurance percent, net of staff time associated with NCUSIF accounting.	\$10.0	20%	\$2.0
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.	\$14.2	20%	\$2.8
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.	\$11.1	20%	\$2.2
All Other Costs: Based on non-insurance portion of core and special workload programs. Includes NCUA board, Office of Inspector General, etc.	\$146.7	26%	\$38.6
Total 2011 NCUA Budget	\$224.7		\$60.87

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

STEP 3 – Calculate NCUSIF Costs (2011)

Imputed NCUSIF Costs

	Millions
2011 Financial Budget	\$224.7
Non-Insurance Costs (see Step 2)	- \$60.9
SSA imputed Value	+ \$27.9
Direct Operational Charges to NCUSIF	+ \$1.8
Total NCUSIF Imputed Costs	= \$193.6

STEP 4 – Allocation of NCUSIF Costs (2011)

Insured Shares Allocation

	FCU	FISCU
Total Cost of Providing NCUSIF Insurance	\$193.6	\$193.6
Times Proportional Allocation Basis	54.4%	45.6%
Equals Allocated Insurance Costs	\$105.3	\$88.3

Net of Imputed SSA Value

	Millions
Total Allocated Insurance Costs - FISCUs	\$88.3
Minus SSA Insurance Work Imputed Value	\$27.9
Equals Net Cost of NCUSIF Insurance – FISCUs	\$60.3

Dollar Amount of OTR

	FISCUs	FCUs	Dollar Amt
FISCU Portion of NCUA Insurance Cost	\$60.3	\$72.0	\$132.3
Divided by Percentage of Insured Shares	45.6%	54.4%	

OTR as a Percent of Budget

Dollar Amount of OTR	\$132.3
Divided by NCUA Budget	\$224.7 M
Equals OTR	58.9%

Imputed SSA Value Step 1 – 2011

Gross Workload

Table 1

Average Exam Time (Hours) FCU (Dec. 2009)	Assets < \$10M	\$10M - \$100M	\$100M - \$250M	\$250M - \$500M	> \$500M
CAMEL 1	47	77	139	188	303
CAMEL 2	51	87	161	213	327
CAMEL 3	57	104	209	265	353
CAMEL 4	72	141	274	406	366
CAMEL 5	121	141	274	406	366

Table 2

FISCUs (#) in Each Category (as of Dec 2009)	Assets < \$10M	\$10M - \$100M	\$100M - \$250M	\$250M - \$500M	> \$500M
CAMEL 1	105	193	49	30	48
CAMEL 2	564	711	162	68	91
CAMEL 3	231	271	73	26	34
CAMEL 4	42	47	19	11	11
CAMEL 5		1	5		3

Table 3

Total Hours (Table 1 cells x Table 2 cells)	Assets < \$10M	\$10M - \$100M	\$100M - \$250M	\$250M - \$500M	> \$500M
CAMEL 1	4,935	14,861	6,811	5,640	14,544
CAMEL 2	28,764	61,857	26,082	14,484	29,757
CAMEL 3	13,167	28,184	15,257	6,890	12,002
CAMEL 4	3,024	6,627	5,206	4,466	4,026
CAMEL 5		141	1,370		1,098
Total	49,890	111,670	54,726	31,480	61,427
Total Gross Exam Hours					309,193

Imputed SSA Value Step 2 - 2011

Net Workload

Net of Insurance-Related Time

FISCUs	Hours
Gross FISCU Exam Hours	309,193
x Insurance Factor Based on Exam Time Survey	67%
= Total Insurance Hours w/out Risk-Based Scheduling	207,159

Net of Risk-Based Scheduling

	Hours
Total Insurance Hours w/out Risk-Based Scheduling	207,159
- Not Eligible for Deferral Hours	242,408
= Eligible for Deferral	0
x Adjustment for Risk-Based Scheduling	66.7%
= Annual Eligible for Deferral Hours	0
+ Not Eligible for Deferral Hours	242,408
+ Adjustment for Additional Supervision	0
= Total FISCU Hours with Risk-Based Scheduling	242,408

Net of NCUA Time in FISCUs

	Hours
Total FISCU Hours with Risk-Based Scheduling	242,408
+ 2011 Budgeted Supervision Hours	48,313
- 2011 Budgeted Insurance Review Hours	121,204
- 2011 Budgeted State Exam Report Review Hours	7,799
Total Additional FISCU Insurance Hours Needed	161,718

Imputed SSA Value Step 3 - 2011

Additional Staff Needed

Examiner Productive Time

2011 Core and Special Workload Program Hours	800,002
/ Total 2011 Workload Program Hours	1,437,497
= Productivity Ratio	55.7%
Total Work Hours in a Year Per Full Time Equivalent (FTE)	2,080
x Productivity Ratio	55.7%
= Productive Hours per FTE Examiner	1,158

Number of Examiners Needed

Net Additional FISCU Hours Needed	161,718
/ Productive Hours per FTE Examiner	1,158
= Number of Additional FTE Examiners Needed	139.7

Total Additional Staff Needed

Additional Staff Needed	Ratio Examiners to Position	FTEs Per Position
Examiners	1/1	139.7
Supervisory Examiners	1/9	15.5
Analysts	1/15	9.3
Directors	1/25	5.6
Other Regional Staff	1/20	7.0
= Number of Additional FTEs Needed		177.1

Imputed SSA Value Step 4 - 2011

Imputed Cost

Gross Cost

Total Cost of Regions (2011 Budget)	\$137,485,873
/ FTEs in Regions (2011 Budget)	867.5
= Per Regional FTE Cost	\$158,485
x Number of Additional FTEs Needed	177.1
= Cost of Additional Regional Positions	\$28.1 M

Net Cost

	Millions
Cost of Additional Regional Positions	\$28.1
+ Additional OHR Costs (14.7% of \$11.1 million budget)	\$1.6
- SSA Training and Equipment Cost	\$1.8
= Imputed SSA Value	\$27.9