



**BOARD ACTION MEMORANDUM**

**TO:** NCUA Board **DATE:** November 17, 2011  
**FROM:** Chief Financial Officer **SUBJ:** 2012 Operating Fee

**ACTION REQUESTED:** Board approval of the operating fee structure and the assessment scale for 2012.

**DATE ACTION REQUESTED:** November 17, 2011

**OTHER OFFICES CONSULTED:** Office of the Executive Director, Office of Examination & Insurance, Office of Corporate Credit Unions

**VIEWS OF OTHER OFFICES CONSULTED:** Concur

**BUDGET IMPACT:** The ability of NCUA to carry out its planned budget is dependent upon an adequate level of operating revenue.

**RESPONSIBLE STAFF MEMBER:** Chief Financial Officer Mary Ann Woodson

**BACKGROUND:** Section 105 of the Federal Credit Union Act provides the NCUA Board with the authority to assess an operating fee on federal credit unions to finance expenses incurred in carrying out its responsibilities under the Act. On an annual basis the Board is to determine the period for the fee, the method of assessment, and the date of payment. The Board must give consideration to its budget and to the ability of federal credit unions to pay when determining the fee.

**SUMMARY:** The operating fee will be assessed to federal credit unions based on December 31, 2011, year-end assets. To set the assessment scale for 2012, federal credit union asset growth is projected to December 31, 2011. The June 30, 2011, 5300 data indicated that federal credit union assets increased 3.5 percent over December 31, 2010, reported assets. Based upon recent 5300 data, the growth for the year is expected to be 4.75 percent at year-end. The asset level dividing points will be increased by this same average annualized growth rate, except for the first and second asset level tiers which pay no fee or a flat fee of \$100, respectively. Assets are indexed annually to preserve the same relative relationship of the scale to the asset base to which it is applied.

In establishing the rate to be applied to each asset level, a number of factors, as shown in attachment 1, resulted in an operating fee rate decrease of 0.90 percent for natural person federal credit unions. Among these considerations was the July Board action to reduce the 2011 operating budget by \$2 million. Further analysis supports an additional \$500,000 reduction, for a total decrease of \$2.5 million, as shown in item 7 of

attachment 1. This reduction to cash needs considers the operating fund's policy to hold a one-month reserve for contingencies.

The corporate federal credit union rate scale remains unchanged. A portion of the cost of the Office of Corporate Credit Unions (OCCU), or \$2.52 million, is transferred to the National Credit Union Share Insurance Fund. This represents the cost of OCCU which is not covered by the overhead transfer rate and the corporate federal operating fees as shown below:

Cost of the Office of Corporate Credit Unions.....	\$8.04 million
Less: Overhead transfer rate 59.3%.....	\$4.77 million
Less: Corporate federal credit union operating fees.....	<u>\$0.75 million</u>
Amount transferred to National Credit Union Share Insurance Fund.....	\$2.52 million

Attachment 2 shows the proposed operating fee scale.

**RECOMMENDED ACTION:** It is recommended that the NCUA Board approve the following items related to the operating fee to be implemented for the 2012 assessment cycle:

1. Increase the asset level dividing points for the natural person federal credit union operating fee scale by 4.75 percent, which is equal to the estimated asset growth.
2. Decrease the natural person federal credit union operating fee rates by 0.90 percent, which is equal to the rate adjustment indicated on attachment 1.
3. Require the Operating Fund to maintain sufficient cash reserves equal to one month of expenses plus any contingencies.
4. Collect operating fees by Monday, April 30, 2012.

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Chief Financial Officer

Attachments

## PROJECTED FISCAL YEAR 2012 OPERATING FEE REQUIREMENTS

(amounts in millions)

1	Proposed Operating Budget .....	<b>\$ 236.85</b>
2	Overhead Transfer Rate                    59.30% .....	(140.45)
3	Corporate Credit Union Costs Transferred to NCUSIF .....	(2.52)
4	Interest Income .....	(0.02)
5	Miscellaneous (rents, publication fees, FOIA fees) .....	(1.10)
<b>6</b>	<b>Net</b>	<b>\$ 92.76</b>
7	Operating Fund Cash Balance Adjustment .....	(2.50)
8	Accrued Annual Leave (based on historical annual increase) .....	(0.50)
9	Depreciation (building, leasehold, equipment) .....	(4.22)
10	Capital Acquisitions .....	2.09
11	Payment of King Street Note Payable (scheduled principal payments) .....	1.42
<b>12</b>	<b>Budgeted Operating Fee Requirements</b>	<b>\$ 89.05</b>
13	Corporate Operating Fees .....	(0.75)
<b>14</b>	<b>Natural Person FCU Operating Fees Required</b>	<b>\$ 88.30</b>
15	Fees projected with Asset Growth of    4.75% .....	(89.10)
<b>16</b>	<b>Difference</b>	<b>\$ (0.80)</b>
<b>17</b>	<b>Rate Adjustment Indicated (line 16 divided by line 15)</b>	<b>-0.90%</b>

## PROPOSED OPERATING FEE SCALE

### FY2011 Natural Person Federal Credit Union Scale

<u>Asset Level</u>		<u>Operating Fee Assessment</u>			
\$0	\$500,000	\$0.00	+	0.00000000	X total assets over \$0.00
\$500,000	\$750,000	\$100.00	+	0.00000000	X total assets over \$0.00
\$750,000	<b>\$1,000,254,563</b>	\$0.00	+	<b>0.00022761</b>	X total assets over \$0.00
\$1,000,254,563	<b>\$3,026,755,281</b>	\$227,667.94	+	<b>0.00006634</b>	X total assets over \$1,000,254,563.00
\$3,026,755,281	and over	\$362,106.00	+	<b>0.00002215</b>	X total assets over \$3,026,755,281.00

### FY2012 (Proposed) Natural Person Federal Credit Union Scale

Projected FCU asset growth rate	<b>4.75%</b>	Change in asset level dividing points
Operating fee rate change	<b>-0.90%</b>	Change in assessment rate percentages

<u>Asset Level</u>		<u>Operating Fee Assessment</u>			
\$0	\$500,000	\$0.00	+	0.00000000	X total assets over \$0.00
\$500,000	\$750,000	\$100.00	+	0.00000000	X total assets over \$0.00
\$750,000	\$1,047,766,655	\$0.00	+	0.00022556	X total assets over \$0.00
\$1,047,766,655	\$3,170,526,157	\$236,334.25	+	0.00006574	X total assets over \$1,047,766,655.00
\$3,170,526,157	and over	\$375,884.46	+	0.00002195	X total assets over \$3,170,526,157.00

### FY2012 (Proposed) Corporate Federal Credit Union Scale

<b>\$1,127.80</b>	plus	<b>0.00022340</b>	of assets over	<b>\$5,000,000</b>
<b>\$4,478.80</b>	plus	<b>0.00021110</b>	of assets over	<b>\$20,000,000</b>
<b>\$10,811.80</b>	plus	<b>0.00019870</b>	of assets over	<b>\$50,000,000</b>
<b>\$20,746.80</b>	plus	<b>0.00001230</b>	of assets over	<b>\$100,000,000</b>

Note: The natural person federal credit union scale is used for assets under \$5,000,000.