



TO: NCUA Board

DATE: December 17, 2020

FROM: Office of Examination and Insurance
Office of the Chief Financial Officer

SUBJ: Final Notice Overhead
Transfer Rate Methodology and
Operating Fee Schedule
Methodology

ACTION REQUESTED: Board approval to issue the attached final notice on the Overhead Transfer Rate (OTR) methodology and the Operating Fee Schedule methodology.

DATE ACTION REQUESTED: December 18, 2020.

OTHER OFFICES CONSULTED: OGC

VIEWS OF OTHER OFFICES CONSULTED: Concur.

BUDGET IMPACT, IF ANY: None.

SUBMITTED TO INSPECTOR GENERAL FOR REVIEW: Yes.

RESPONSIBLE STAFF MEMBERS: Myra Toeppe, Director, Office of Examination and Insurance; Scott Neat, Associate Director, Office of Examination and Insurance; Victoria Nahrwold, Director of Risk Management, Office of Examinations and Insurance; Eugene Schied, Chief Financial Officer; James Holm, Supervisory Budget Analyst, Office of Chief Financial Officer; Ian Marenga, Associate General Counsel, and John Brodin, Senior Staff Attorney, Office of General Counsel.

SUMMARY: Following a July 2020 notice and request for comment issued by the Board on these subjects, the Offices of Examination and Insurance and the Chief Financial Officer are requesting the NCUA Board approve the issuance of a final notice on two matters:

1. The existing principles-based Overhead Transfer Rate (OTR) methodology adopted in 2017. NCUA did not propose any changes to the existing methodology at this time; however, the NCUA Board committed to requesting public comment on the OTR methodology every three years and in the event it proposes a change to one or more of the principles, and
2. Clarifications and changes to the methodology the agency uses to determine how it apportions operating fees charged to federal credit unions (FCUs). The Board uses operating fees to fund part of the NCUA's annual budget.

BACKGROUND: In 2017, the NCUA published in the Federal Register a request for comment regarding a revised OTR methodology based on the Board's internal assessment and comments received from a 2016 request for comment. The primary goal of the proposed changes to the OTR methodology at that time was to simplify the methodology and reduce the resources needed

to administer the OTR. The existing OTR methodology focuses on assigning a percentage share of work to insurance costs in four categories of activities:

1. 50 percent insurance related - Time spent examining and supervising FCUs.
2. 100 percent insurance related - All time and costs the NCUA spends supervising or evaluating the risks posed by FISCUs or other entities the NCUA does not charter or regulate (e.g. third-party vendors and credit union service organizations).
3. Zero percent insurance related - Time and costs related to the NCUA's role as charterer and enforcer of consumer protection and other noninsurance based laws governing the operation of credit unions, for example, field of membership requirements.
4. 100 percent insurance related - Time and costs related to the NCUA's role in administering federal share insurance and the Share Insurance Fund.

The principles-based OTR methodology has streamlined the process for calculating the OTR, reduced administrative costs and resources, and provided consistency in the calculated the OTR each year. The Board adhered to its commitment of publishing for comment the OTR methodology every three years by including the current OTR methodology in the July 2020 notice and request for comment. The Board did not recommend any changes to the OTR methodology.

In 2016, the Board published in the Federal Register a request for comment on its methodology for determining its Operating Fee Schedule. The Board made no changes in response to comments received about its methodology and delegated authority to the NCUA Chief Financial Officer to apply the published methodology. Since that time, the Chief Financial Officer has applied the published Operating Fee methodology and explained its application in the NCUA's annual budget documents.

In the July 2020 notice and request for comment, the Board proposed to clarify how it to treats capital project budgets and miscellaneous revenues when calculating future operating fees, and proposed making other conforming changes to how it calculates annual inflationary adjustments to operating fee rate tier thresholds for consistency with proposed changes to its regulation governing assessment of the annual operating fee. The request for comment also sought views about how or whether the Board should modify the current three-tier Operating Fee Schedule, how or whether the Board should increase the asset threshold below which FCUs are assessed no operating fee, and what incentives the Board might provide to encourage credit union participation in the annual voluntary diversity self-assessment.

In response to the public comments received on the Operating Fee Schedule, staff recommends adopting the changes proposed by the Board and conducting further study regarding the issues about which the Board collected comments. Regarding the OTR Methodology, after review of the public comments, staff does not recommend any changes but does recommend further study of these issues for potential future enhancements to the methodology.

RECOMMENDED ACTION: Board approval to issue a final notice on the existing OTR methodology and the NCUA Operating Fee Schedule methodology.

ATTACHMENT: Notice regarding NCUA's Overhead Transfer Rate methodology and Operating Fee Schedule methodology.

cc: Executive Director Larry Fazio
Acting General Counsel Frank Kressman
Associate General Counsel Kevin Tuininga
Senior Staff Attorney John Brolin
Director Myra Toeppe
Associate Director Scott Neat
DRM Director Victoria Nahrwold
All Risk Officers
Chief Financial Officer Eugene Schied
Supervisor Budget Analyst James Holm