AlaskaUSA Federal Credit Union®

August 15, 2017

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Dear Mr. Poliquin:

Re: Comments on the Proposed Revisions to the Overhead Transfer Rate (OTR) Methodology

Alaska USA Federal Credit Union (Alaska USA) appreciates the opportunity to comment on the National Credit Union Administration's (NCUA) proposal to revise the OTR methodology. Alaska USA is a federally chartered credit union with $6.9 billion in assets. Alaska USA serves over 628,000 members, primarily in Alaska, Washington, Arizona and California.

The primary goal of the NCUA's proposed OTR change is to reduce the complexity of the calculation, thereby reducing the resources the NCUA needs to administer the OTR. Alaska USA understands and welcomes the NCUA's desire to streamline processes such as its OTR calculation. However, Alaska USA questions the necessity of the proposed change from a well-established OTR methodology, given the limited resource savings the NCUA expects to realize from the change. Alaska USA also questions the equity of the proposed OTR methodology since it is expected to produce a significantly different result than the current methodology, and it is largely driven by an unsupported allocation assumption.

Alaska USA appreciates the rigor of the NCUA's current OTR methodology given the significance of the annual operating fee assessed to federal credit unions. The NCUA has refined its current OTR methodology over many years, including soliciting input from third parties like national audit firm PricewaterhouseCoopers. While the proposed revision would streamline the current calculation, it does not cite any flaws with the results produced by the current methodology. Therefore, Alaska USA believes that any benefit to be realized from an OTR methodology change must be substantial to warrant a change from the current thorough and proven methodology. The resource savings that the NCUA expects to realize from the OTR calculation change appears to be a reduction of 350 staff hours, resulting from the elimination of the Examination Time Surveys. Alaska USA does not believe that this projected resource savings merits a change from the current well-established OTR methodology.

As previously noted, the primary goal of the proposed OTR change is to reduce the complexity of the calculation, and the proposal cites no flaws with the results produced by the current methodology. PricewaterhouseCoopers has also reviewed and validated the current OTR methodology, and concluded that it is sound, reasonable and equitable. So while the proposed methodology is a more simple calculation, it should produce a result that mirrors the current methodology. However, this is not the case

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as the proposed methodology would have resulted in a 24% increase in federal credit union operating fees had it been applied in 2017. The 60% OTR produced by the proposed methodology for 2017 is a significant reduction from the annual OTR results that have been produced since 2014 when PricewaterhouseCoopers' latest OTR recommendations were adopted. Alaska USA does not believe that the NCUA's OTR proposal produces an equitable result, as no rationale is included in the proposal to support a 24% operating fee increase for federal credit unions.

Alaska USA believes the key reason that the proposed methodology produces a significantly lower OTR is due to the assumption that examination staff hours are equally split between the NCUA's insurer and prudential regulator roles. This new assumption marks a significant change from the current methodology, which assigns most of the examination staff hours to the NCUA's insurer role, based upon the results of the Examination Time Surveys. The NCUA's rationale for the new 50/50 allocation is that it emulates an examination and supervision program in which the NCUA would alternate examinations between its insurer and its prudential regulator functions as if they were separate units within the NCUA. Alaska USA questions this rationale because the NCUA clearly does not rotate its annual examinations between a strict insurer and prudential regulator focus, and it doesn't reflect the NCUA's actual experience of spending more examination time fulfilling its insurer role. Alaska USA also notes that just increasing the allocation for insurance-related examination activities in the proposed OTR methodology from 50% to a more plausible 62% would result in the same OTR, as calculated by the current methodology. While the NCUA did acknowledge, in the proposal, that safety and soundness is not the sole domain of its insurer function, Alaska USA believes a 50/50 allocation is unsupported and goes well beyond demonstrating that safety and soundness is not solely an insurance function. Alaska USA also notes that the NCUA's adoption of the 50/50 allocation runs counter to its own contention that it wouldn't be appropriate to set the OTR at 50% "without a reasoned basis" to demonstrate that the allocation is proper.

In conclusion, Alaska USA believes that a more substantial resource savings is needed for the NCUA to consider changing its current OTR methodology, and any new simplified OTR calculation should produce the same result as the current methodology.

Thank you for the opportunity to comment. If you have any questions, please contact me at j.cassidy@alaskausa.org or (907) 786-2501.

Sincerely,

John P. Cassidy
Chief Financial Officer