

State Employees' Credit Union



Administrative Offices

August 29, 2017

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

Re: Comments on Proposed Revised Overhead Transfer Rate (OTR) Methodology

Dear Mr. Poliquin:

Thank you for the opportunity to provide comments on the proposal to revise the methodology of the Overhead Transfer Rate (OTR) expense allocation. State Employees' Credit Union of Raleigh, North Carolina is the nation's second largest credit union with more than \$36 billion in assets and 2.2 million members who are provided services through 258 branches, nearly 1,100 ATMs, 24/7 services via phone and an interactive website, www.ncsecu.org.

We support the effort to more reasonably and simply determine the Overhead Transfer Rate. The rate has been increasing and falling disproportionately on state chartered and regulated credit unions in past years. We recognize, appreciate and commend the NCUA Board for taking actions in the past year to include the credit union community in the discussion of the calculation of the OTR and in reducing the OTR from 73.1% to 67.7% of the NCUA budget. Thank you!

Likewise, we commend the efforts to simplify the tortured machination that is the current OTR methodology and to simplify the process. While such a determination will always involve a measure of subjectivity a broad measure may be the only practical and reasonable means of implementation without imposing an arbitrary and needlessly complex process. Fairness, common sense and reason should be the prevailing attributes in determining changes in methodology.

It cannot be determined with precision what the allocation should be. It can be argued that the cost of a regulatory/insurance exam could be jointly split between the State and NCUA exam teams and that the exam should be more efficient with two participants able to share the duties. Examination costs are lower to NCUA when State regulators shoulder a major portion of the effort. It can also be argued that the NCUA operating budget could be reduced as the number of credit unions continues to shrink dramatically. Cost saving measures could include accepting the results of validated ALM models of the ONEs credit unions for Supervisory Stress Testing purposes. Currently there are six such credit unions and there will soon be ten. The initial estimated annual costs for hiring an outside ALM group to conduct these tests runs approximately \$1 million per credit union for NCUA (our estimate). If that is correct you could reduce operating expenses by \$6 million per year while still overseeing independently validated

and supported stress tests. This would reduce NCUA operating expenses and therefore the OTR expenses for all credit unions. Those costs will increase to \$10 million per year in the near future; they don't have to. We would also take this opportunity to acknowledge that NCUA is moving to improve the efficiency of the examination process through more off-site examinations/reviews which reduce travel expenses and put more hours into the examination schedule.

We offer four items for consideration as you deliberate changes to the OTR methodology:

- We recommend you make the allocation methodology simple (as you propose) and review it periodically, publically and with the input of the credit union community (as you commit to do).
- We recommend that you implement the proposed changes to reduce the OTR to 60% and set a goal to reduce it further to 50% over the next three years. This will bring it back to a historically recognized and more acceptable and fair level.
- We recommend you investigate options to improve the financial performance of the National Credit Union Share Insurance Fund in order to take investment gains when appropriate to generate additional earnings while managing interest rate and other risks. Improved performance will benefit all credit unions by increasing the balance of the fund. This can be accomplished with little additional risk.
- We recommend that you continue studying ways to make the examination/insurance review process more efficient and identify and implement additional operating expense reductions.

We appreciate your efforts to improve the OTR methodology. We commend you for the positive changes which have been made over the past year.

Thank you for the opportunity to provide comments on your recommended improvements to the OTR methodology.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael J. Lord". The signature is fluid and cursive, with a large initial "M" and "L".

Michael J. Lord
President