

August 16, 2017

Attn: NCUA Board and Staff
c/o of Gerald Poliquin, Secretary of the Board
Delivered via email to boardcomments@ncua.gov

Re: Proposal to adjust the Overhead Transfer Rate calculation methodology

Dear Sirs:

Thank you for the opportunity to comment on the proposed changes to the NCUA's Overhead Transfer Rate ("OTR") methodology. We appreciate the Board's desire to simplify the OTR calculation and enhance transparency in the process. In general, we are supportive of the overall methodology changes, and believe they will reduce complexity and improve transparency for the industry.

However, we are concerned with the methodology proposed in Section IV, subsection 1 for time spent examining and supervising federal credit unions. The proposal suggests a 50% allocation of this time to insurance-related activities, and 50% to the NCUA's role as a prudential regulator of federal credit unions. Our concerns with this allocation are as follows:

- The 50% allocation methodology is inconsistent with, and not supported by, the kind of analysis provided in the other allocations. In each of the other allocations, time surveys and other considerations were provided to substantiate the percentage of time spent on insurance and non-insurance activities. Given that examination resources represent a substantial portion of the agency's total budget, it seems the same rigor should be applied to this area.
- Lacking further research and considering the primary functional role of examination activities, we suggest that protecting the insurance fund represents a substantial portion of examination responsibilities, far exceeding the current 50% allocation. In our experience, most offsite and onsite examination time is spent directly or indirectly mitigating the risk of credit union failures and the resulting insurance fund losses. In fact, each of the pillars of the CAMEL(S) rating primarily relates to protecting the fund from undue risk of loss. In contrast, a relatively smaller percentage is dedicated to other regulatory responsibilities, including compliance, BSA, and other activities.
- The fact that some of the insurance protection responsibilities overlap with prudent regulatory responsibilities does not reduce the primary underlying function of the activities, which is to protect the insurance fund from loss.

EXECUTIVE

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- Part of the rationale for the 50% allocation provided in subsection 1 is that it is consistent with the FDIC approach in alternating examinations with state regulators on state-chartered institutions. This assertion is unsupported in the proposal and ignores the following: (1) in its activities, communication and pronouncements, the FDIC prominently asserts its primary focus and intention is to protect the insurance fund by ensuring the safety and soundness of its member institutions; (2) in many cases, it conducts joint examinations with state regulators on an annual basis, rather than alternating examinations, suggesting it considers ongoing protection of the insurance fund through its own examination activities as a critical responsibility; and (3) the FDIC conducts a substantial and increasing amount of offsite monitoring, examination and supervision on all its institutions for safety and soundness purposes on an ongoing basis.

Given these concerns, we request additional consideration be given to the percentage allocation of examination resources before finalizing the proposal. In particular, we would like to see a deeper analysis of the actual examination time spent in activities that relate directly or indirectly to protecting the insurance fund, by ensuring the safety and soundness of the institutions being examined.

We would be happy to discuss our concerns and requests further with you.

Thank you for your review and consideration of our comments.

Respectfully,



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