From:	John McKenzie
To:	_Board Comments
Subject:	Indiana Credit Union League Comment Letter on 2017-2018 Budgets
Date:	Friday, November 04, 2016 11:23:41 AM

The Honorable Rick Metsger
Board Chairman

The Honorable J. Mark McWatters
Board Member

National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: 2017-2018 Budgets

Chairman Metsger and Board Member McWatters,

The Indiana Credit Union League (ICUL) appreciates the opportunity to submit comments on the National Credit Union Administration's Proposed 2017-2018 budgets. The ICUL member credit unions represent 97 percent of assets and members of Indiana's credit unions, with those memberships totaling more than 2.3 million consumers.

ICUL appreciates the NCUA Board's efforts for more transparency in the budgeting process. However, releasing the budget information on October 14 and allowing less than 30 days for review and analysis of the information is insufficient. We would suggest at least 60 days for this comment period in the future. We are concerned to see continued increases in the overall budget of NCUA, resulting in a 45 percent increase in the budget since 2010. The ongoing reduction in the number of credit unions, the movement toward an extended examination cycle, electronic sharing of information, enhancements to the call report process resulting in efficiencies in receiving and analyzing the data, and the continued reduction in the number of problem credit unions would lead us to expect reductions in the budget, not increases. The FDIC experienced even more dramatic increases in problem assets during the economic crisis, but has been able to reduce its budget by 45 percent since 2010.

Pay and benefits expenses make up 72 percent of NCUA's budget. This is the area of the budget where the greatest opportunity exists to significantly impact the total expenses of NCUA. It is concerning that NCUA appears to continue to staff at levels that would allow it to ramp up examinations in the event another financial crisis occurs, rather than staffing to meet the needs in today's economic environment. We encourage NCUA to rethink this approach to staffing, and develop an emergency response plan that would utilize readily available resources outside of NCUA should the need arise. This would enable NCUA to reduce the overall personnel expenses in the budget.

The budget includes expenditures to further automate credit unions sharing data with examiners electronically, the result being less time needed for examiners to spend on site, which should result in reductions in the travel expenses that go along with onsite activities. The budget does just the opposite by increasing travel expenses, not reducing them. The extended examination cycle and fewer problem credit unions would also reinforce less need for travel. Also, as the Small Credit Union Examination Program becomes fully implemented, the amount of time for examiners to spend at credit unions with assets less than $30 million should decrease. Given the less time that examiners need to spend at credit unions, that should result in travel expenses being lower, not higher.

An additional option for NCUA to help reduce expenses is through greater cooperation with the state supervisory authorities (SSAs), and the examinations performed by the SSA examiners. There continues to be a significant overlap in the examinations by NCUA and the SSAs. Even during joint examinations, we hear from credit unions that they are answering the same questions multiple times, and providing the same information multiple times during the examination. We encourage NCUA to continue to develop the relationship with the SSAs and an increased comfort level to facilitate information sharing between the regulators, reducing the number of examiners needed for a joint examination, and efficient ways to share information and examination findings. This would further allow NCUA to reduce overall personnel expenses.

One area of the budget that needs further clarification is the significant increase in the use of contracted services. We recognize that not all activities can or should be performed by NCUA staff. Increases in contract spending represent the largest increase in the 2017 budget, and an even larger increase in the 2018 budget. The supporting material does not provide sufficient detail on how these expenditures will result in efficiency gains that will position NCUA to reduce expenses going forward. NCUA needs to provide additional details on these expenditures to enable stakeholders to feel comfortable with what is being proposed, and that over the long run, NCUA will be positioned to reduce other expenses because of these contracted services, not continue to increase its budget.

The overhead transfer rate (OTR) calculation is directly tied to the budget. As a result, we are concerned that the OTR will increase as the budget is increasing. The NCUA Board has transferred responsibility for the OTR determination to staff, with staff only reporting the OTR to the Board. We remain skeptical of the OTR being solely in the hands of staff, and strongly believe the NCUA Board should have the responsibility for approving this important calculation. As you know, this calculation has been called into question many times, and making it appear that the calculation is purely a mathematical calculation that can be performed by staff, we believe will only exacerbate this problem in the eyes of credit unions. As important as the OTR calculation is, we believe that this should also be subject to more transparency and NCUA should solicit comments for stakeholders on the methodology being used.

We are encouraged by NCUA's efforts to utilize a more transparent budgeting process that allows stakeholders to provide input into the process. We do not believe the information provided by NCUA supporting the proposed budget provides enough detail to fully understand the need for the increases in many line items. We also believe that NCUA, while looking at proposed budgets for two years, should officially approve only the budget for the coming year. This would allow continued transparency and input into the budgeting process each year, and allow NCUA to make adjustments based on the efficiencies gained from the prior year's expenditures on technology and systems.

If you have any questions about our letter, please do not hesitate to give me a call at (317) 594-5320.

Sincerely,

John McKenzie
President, Indiana Credit Union League