



National Credit Union Administration  
Division of Examination and Insurance

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SSIC 2160

**TO:** NCUA Board of Directors

**FROM:** Director Larry Fazio  
Office of Examination and Insurance

**SUBJ:** 2018 Overhead Transfer Rate Summary

**DATE:** November 16, 2017

**Summary:** The *Federal Credit Union Act* authorizes NCUA to expend funds from the National Credit Union Share Insurance Fund (Share Insurance Fund) for administrative and other expenses related to federal share insurance (12 U.S.C. §1783). An overhead transfer from the Share Insurance Fund covers the expenses associated with insurance-related functions of NCUA's operations.

At today's November 16, 2017, Board meeting, the NCUA Board approved a simplified principles based methodology for calculating the OTR. The OTR formula is based on the following underlying principles to allocate agency operating costs:

1. Time spent examining and supervising federal credit unions is allocated as 50 percent insurance related.<sup>1</sup>
2. All time and costs NCUA spends supervising or evaluating the risks posed by federally insured state-chartered credit unions or other entities NCUA does not charter or regulate (for example, third-party vendors and CUSOs) is allocated as 100 percent insurance related.<sup>2</sup>

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<sup>1</sup> The 50 percent allocation mathematically emulates an examination and supervision program design where NCUA would alternate examinations, and/or conduct joint examinations, between its insurance function and its prudential regulator function if they were separate units within NCUA. It reflects an equal sharing of supervisory responsibilities between NCUA's dual roles as charterer/prudential regulator and insurer given both roles have a vested interest in the safety and soundness of federal credit unions. It is consistent with the alternating examinations FDIC and state regulators conduct for insured state-chartered banks as mandated by Congress. Further, it reflects that NCUA is responsible for managing risk to the Share Insurance Fund and therefore should not rely solely on examinations and supervision conducted by the prudential regulator.

<sup>2</sup> NCUA does not charter state-chartered credit unions nor serve as their prudential regulator. NCUA's role with respect to federally insured state-chartered credit unions is as insurer. Therefore, all examination and supervision work and other agency costs attributable to insured state-chartered credit unions is allocated as 100 percent insurance related.

3. Time and costs related to NCUA’s role as charterer and enforcer of consumer protection and other non-insurance based laws governing the operation of credit unions (like field of membership requirements) are allocated as 0 percent insurance related.<sup>3</sup>
4. Time and costs related to NCUA’s role in administering federal share insurance and the Share Insurance Fund are allocated as 100 percent insurance related.<sup>4</sup>

These four principles are applied to the activities and costs of the agency to arrive at the portion of the agency’s Operating Budget to be charged to the Share Insurance Fund.

OTR Results for 2018

Based on the newly Board–approved methodology, the OTR for 2018 calculates as 61.5 percent. The OTR for 2017 was 67.7 percent under the previous methodology. Had the new methodology been in place last year, the OTR would have been 60.0 percent. The primary driver of the decrease in the 2018 OTR is the change in methodology. Principle 1 assumes NCUA shares the burden of examining and supervising Federal Credit Unions (FCUs) equally, resulting in 50 percent of examination and supervision time being allocated to insurance activities. Under the previous methodology, examination and supervision time was determined by an annual time study which resulted in a higher percentage of insurance related time.

Distribution of Operating Budget Costs

The OTR represents insurance-related costs in the NCUA Operating Budget to be paid for out of the Share Insurance Fund; thus, 61.5 percent of the total operating budget will be paid out of the Share Insurance Fund. The remaining 38.4 percent of the Operating Budget will be paid for through the FCU Operating Fee.

Thus, the explicit and implicit distribution of total Operating Budget costs for FCUs and federally insured, state-chartered credit unions (FISCUs) is as follows:

<b>Portion of Operating Budget covered by:</b>	<b>FCUs</b>	<b>FISCUs</b>
FCU Operating Fee	38.5%	0.0%
OTR x Percent of Insured Shares	31.4% (61.5% x 51.1%)	30.1% (61.5% x 48.9%)
<b>Total<sup>5</sup></b>	<b>69.9%</b>	<b>30.1%</b>

**ATTACHMENTS:**

- (1) Calculation of the 2018 Overhead Transfer Rate

<sup>3</sup> As the federal agency with the responsibility to charter federal credit unions and enforce non-insurance related laws governing how credit unions operate in the marketplace, NCUA resources allocated to these functions are properly assigned to its role as charterer/prudential regulator.

<sup>4</sup> NCUA conducts liquidations of credit unions, insured share payouts, and other resolution activities in its role as insurer. Also, activities related to share insurance, such as answering consumer inquiries about insurance coverage, are a function of NCUA’s role as insurer.

<sup>5</sup> Totals may not reconcile due to rounding.

**Attachment 1**

**Calculation of the 2018 Overhead Transfer Rate**

**STEP 1 – Workload Program (2018)**

<b>Allocation of Workload Hours</b>				
<b>Workload Programs</b>	<b>(A)</b>	<b>(B)</b>	<b>(A) x (B)</b>	
<b>2018 Data</b>	<b>Budgeted Workload Hours</b>	<b>Percent Insurance-Related</b>	<b>Insurance-Related Workload Hours</b>	<b>Allocation Basis</b>
Federal Credit Union Examination and Supervision <sup>2</sup>	496,920	50%	248,460	Based on allocation principle 1 reflecting NCUA’s roles as both prudential regulator and insurer.
State Credit Union Exam & Supervision <sup>3</sup>	191,873	100%	191,873	Based on allocation principle 2 reflecting NCUA’s role as insurer.
Consumer Compliance Reviews & Related Training	0	0%	0	Based on allocation principle 3 reflecting NCUA’s role as prudential regulator.
Field of Membership & Chartering	500	0%	0	Based on allocation principle 3 reflecting NCUA’s role as charterer.
CUSO and Third-party Vendor Reviews <sup>4</sup>	6,690	100%	6,690	Based on allocation principle 2 reflecting NCUA’s role as insurer. Field staff time conducting reviews of CUSOs and third-party vendors – NCUA does not charter or regulate CUSOs and third-party vendors.
<b>Total</b>	<b>695,983</b>	<b>N/A</b>	<b>447,023</b>	
<b>Total Insurance-Related Workload Hours to Total Workload Hours</b>			<b>64.2%</b>	Weighted average of field staff program time devoted to NCUA’s role as insurer.

NOTE: The totals may not reconcile exactly due to rounding.

**STEP 2 – Financial Budget (2018)**

<b>Allocation of NCUA Operating Budget</b>			
<b>Cost Area</b>	<b>(A) Operating Budget \$Millions</b>	<b>(B) Percent Insurance-Related</b>	<b>(A) x (B) Operating Cost to be Borne by the Share Insurance Fund \$Millions</b>
<p><b>Regions and ONES</b> The financial budget for the agency’s five regional offices and ONES is allocated based on the weighted average of insurance-related activities calculated from the workload budget using principles 1, 2, and 3 in Step 1. Resources in the regions and ONES execute NCUA’s examination program. Thus, the budgeted costs related to these programs should receive the same allocation basis as the programs themselves.</p>	\$162.5	64.2%	\$104.4
<p><b>Asset Management Assistance Center</b> Manages liquidation payouts and assets acquired from liquidations on behalf of the Share Insurance Fund. Thus, the OTR allocation factor is based on principle 4 and allocated at 100 percent insurance-related.</p>	\$4.4	100.0%	\$4.4
<p><b>Office of Consumer Financial Protection</b> This office is responsible for all functions related to consumer compliance, financial protection, and member education. These activities are allocated based on principle 3 as 0 percent insurance-related. The office does some work with respect to federally insured state-chartered credit unions, including share insurance coverage matters, in NCUA’s role as insurer; these activities are allocated based on principle 4 as 100 percent insurance-related. The net of this combined activity results in an OTR allocation factor of 3 percent insurance-related.</p>	\$5.0	3.0%	\$0.1

<p><b>Office of Credit Union Resources and Expansion</b> Processes charter applications and field of membership expansion requests. Provides consulting and training services for both federal credit unions and federally insured state-chartered credit unions. Also processes grants and loans for federally insured credit unions. Principle 1 is applied to the office’s work with federal credit unions and principle 2 is applied to the office’s work with federally insured state-chartered credit unions. Principle 3 is applied to the office’s work related to charting and field of membership. The net of this combined activity results in an OTR allocation factor of 31.4 percent insurance-related.</p>	\$10.4	31.4%	\$3.3
<p><b>Subtotal</b> The 61.5 percent subtotal factor represents the dollar-weighted average of the above four cost centers (Regions and Ones, Asset Management Assistance Center, Office of Consumer Financial Protection, and Office of Credit Union Resources and Expansion) representing specific aspects of NCUA’s mission.</p>	\$182.2	61.5%	\$112.1
<p><b>All Other Offices</b> This category includes the offices that design or oversee the agency’s mission and its related offices, or provide necessary support to mission offices or the entire agency. As such, the proportion of insurance-related activities for these offices correspond to that of the mission offices. Therefore, these office costs are allocated based on the weighted average of insurance-related activities calculated in the subtotal above.</p>	\$115.9	61.5%	\$71.3
<b>Total</b>	<b>\$298.1</b>		<b>\$183.5</b>

NOTE: Numbers may not reconcile exactly due to rounding.

**STEP 3 – Calculate the OTR**

<b>OTR Calculation</b>	
Operating Costs to be Borne by the Share Insurance Fund	\$183.5
÷ Total Operating Budget	\$298.1
<b>=OTR</b>	<b>61.5%</b>