

**Debbie Matz:** Could you provide more details on line items where we were actually able to save money?

**Mary Ann Woodson:** Yes. As I said, we removed unneeded and/or vacant FTEs. We also reduced some of our costs related to external consultants. For example, we've reduced the dollar amount that we've been spending in years past on quality control reviews in the regions. Our postage actually decreased by more than 50%. That's because we're relying more on electronic distribution of information, which also decreased our shipping and delivery expenses.

We have also reduced our requirement for printing services. We have renegotiated some contracts. For example, contracts related to material loss reviews and the Federal Information Security Management Act audit were renegotiated which resulted in cost savings. We were able to decrease our relocation costs. Our recruitment and advertising costs are down because we made a change to the service provider that we're using. And also, we've decreased some of our communication cost related to our telephones.

**Debbie Matz:** Thank you. So, the point is that we have gone to great lengths to cut costs wherever possible. But again, we need to do what we need to do, which is to make sure that credit unions are operating safely and soundly – and we need the resources to do that. So, I think we've done an excellent job of putting together a budget that helps us meet our mission and charges credit unions as little as possible.

I don't have any other questions. Board Member Fryzel?

**Michael Fryzel:** I have no questions.

**Debbie Matz:** Is there a motion?

**Michael Fryzel:** Yes, I move that the Board approve, one, the Fiscal Year 2013 Budget of \$251,387,091 and 1,261.50 FTEs as presented in Attachment 1 of the Board Action Memorandum and, two, the 2013 Capital Acquisitions Budget that is presented in Attachment 2 of the Board Action Memorandum.

**Debbie Matz:** I second. All in favor say aye.

**Michael Fryzel:** Aye.

**Debbie Matz:** Aye. Motion carries. Thank you very much.

The next item on our agenda is the NCUA/NCUSIF Overhead Transfer Rate. The staff presenting: Larry Fazio, Director, Office of Examination and Insurance; JeanMarie Komyathy, Director of Risk Management; and Debra Pockat, Loss Risk Analysis Officer. Good morning.

**Larry Fazio:** Good morning. Good morning, Chairman Matz and Board Member Fryzel. Director of Risk Management, JeanMarie Komyathy, and Loss Risk Officer Debra Pockat and I are here to present the Overhead Transfer Rate recommendation for 2013. Based on the established methodology, the OTR computes to 59.1% for 2013. JeanMarie will now provide a

brief overview of the methodology used to compute the rate and Debra Pockat will then discuss the primary components of the rate calculation. Then I'll conclude with some considerations going forward.

**JeanMarie Komyathy:** Good morning. As both regulator for federal credit unions and insurer for federal and most state credit unions, NCUA allocates funding for operations consistent with our dual role. A portion of our activities are geared toward managing risk to the insurance fund, while the other portion of our activities are related to regulating and governing commerce for credit unions. As a result, the NCUA operating budget is financed through two sources. First, the federal credit unions are assessed an annual operating fee for the regulatory portion of our operations. Second, an overhead transfer occurs from the National Credit Union Share Insurance Fund to cover the cost of insurance-related activities in all federally insured credit unions.

NCUA continues to use the method approved by the Board in 2003, which includes annual setting of the Overhead Transfer Rate consistent with this methodology. NCUA has continued to evaluate the methodology and in 2010 obtained a third party validation by PriceWaterhouseCoopers.

NCUA's validated overhead transfer methodology is based on an imputed value or replacement cost approach towards insurance activities and uses up to date information on the examination and supervision process to ensure the approach reflects current practice. The methodology incorporates key factors, including an annual time survey completed from June to May each year; NCUA's Resource Workload Budget and financial budget; the distribution of Insured Shares between federal credit unions and federally-insured state-chartered credit unions; and the value of the insurance-related work conducted by state regulators.

Using those factors, we determine the portion of the NCUA budget that should be funded through an insurance related overhead transfer and the portion that should be funded through operating assessments to federal credit unions. For 2012, the Overhead Transfer Rate was 59.3%. For 2013, we are recommending a 59.1% Overhead Transfer Rate based on the latest results of our methodology.

Debra will now discuss the items that affected this year's calculation.

**Debra Pockat:** Thank you, JeanMarie. Good morning.

**Debbie Matz:** Good morning.

**Debra Pockat:** The Overhead Transfer Rate includes a net increase of budgeted examination and supervision hours for work in all credit unions. It also includes budget changes approved for the cost of NCUA resources and program, as well as the imputed value of insurance-related work completed by state regulators.

For the survey, we use principal examiners in randomly selected supervisory groups from each of our 5 regions. For the time survey ending May 2012, examiners reported spending 63.2% of examination time on insurance-related procedures compared to the May 2011 results of 64.13%. Examiners also reported spending 78.2% of supervision time on insurance-related procedures, an increase from the May 2011 results of 71.09%. Examiners continue to spend an overall, higher

percentage of their time on safety and soundness activities. This is consistent with ongoing events occurring in the current financial environment.

As JeanMarie indicated earlier, the \$251.4 million NCUA operating budget is funded by two sources. \$102.9 million or approximately 41% of the overall 2013 budget will be paid by federal credit unions through the operating fee. An additional \$148.5 million is funded from the overhead transfer.

While the annual exam and supervision hours in federal credit unions fell by 1,794 hours, exam and supervision hours in federally insured state-chartered credit unions increased by over 8,000 hours. In addition, the distribution of insured shares shifted slightly to where federal credit unions hold 54.1% of insured shares while federally insured state-chartered credit unions hold 45.9% of insured shares. After factoring these changes into the approved formula, the Overhead Transfer Rate, as JeanMarie mentioned, decreased slightly from 59.3% approved for 2012 to the recommended level of 59.1% for 2013.

With that, I'll turn it back over to Larry.

**Larry Fazio:** Thank you. Based on ongoing feedback and the NCUA's Board's desire in the application of the OTR to ensure fairness to all credit unions, both federal and state chartered, NCUA also plans to review and evaluate the definitions used for insurance versus regulatory-related activities. An independent outside source will be consulted to review NCUA's work on the definitions and their use in determining the Overhead Transfer Rate in future years. Implementing of any of these refined definitions may be completed in time for the Board to use in considering the OTR for 2014.

This concludes our prepared remarks and we'd be happy to answer any questions you have at this time.

**Debbie Matz:** Thank you very much. I just have a couple of questions. If you recall during last year's briefing on the Overhead Transfer Rate, you indicated changes recommended by the outside firm would be incorporated into this year's calculation. So, can you tell us specifically what changes were included this year?

**Larry Fazio:** Want to take this?

**Debra Pockat:** We actually increased the sample size of the examiners completing the exam time survey, which increased the validity of the results. And by doing so, the increased number of examiners, we received more surveys through this process, which was one of the recommendations by Price Waterhouse.

**Debbie Matz:** I see. Will we continue to make enhancements each year, or is this it?

**Larry Fazio:** Well, as I had indicated, we are going to be looking at continuing to clarify and refine how we define what's insurance related and what's not insurance related, which is the main foundation for how we do the Overhead Transfer Rate. That has been an ongoing area where we feel like we can add additional clarity.

**Debbie Matz:** So, we can continue to expect changes?

**Larry Fazio:** Yes, minor potentially -- and depending on how -- where the work goes with that, but certainly, we make minor tweaks as a normal course of business. And then, we'll see what this sort of in-depth analysis of the definitions reveals for next year.

**Debbie Matz:** One thing that I thought was curious is that the examiner time survey shows an increase in insurance-related activities. So, I was surprised that the Overhead Transfer Rate went down by a few basis points. Can you explain that?

**Larry Fazio:** You want to take that or --

**Debra Pockat:** Sure. The components of the calculations are actually interrelated. With the change in the Insured Share distribution, if you remember, it was 54.14% Federal and 45.94% state-chartered credit unions. That combined with the increased examination hours in the federally-insured state-chartered credit unions actually offsets the increase in insurance-related activities.

**Debbie Matz:** I see. Okay. That makes it clear. Thank you.

I have no other questions. Board Member Fryzel?

**Michael Fryzel:** Thank you. Larry mentioned an outside review of what NCUA is going to put together for the perhaps new Transfer Rate in the future. Who's going to do the outside review? Have any idea?

**Larry Fazio:** We haven't selected a firm yet.

**Michael Fryzel:** And last time it was done by?

**Larry Fazio:** PriceWaterhouseCoopers.

**Michael Fryzel:** Okay, great. I have no further questions.

**Debbie Matz:** Is there a motion?

**Michael Fryzel:** Yes, I move that the Board authorize an Overhead Transfer Rate annually based on the NCUA Board-approved methodology which results in a 59.1% Overhead Transfer Rate for 2013.

**Debbie Matz:** I second. All in favor say aye.

**Michael Fryzel:** Aye.

**Debbie Matz:** Aye. The motion carries. Thank you very much.

The next item will be the federal credit unions' operating fee scale. Once again, Mary Ann Woodson, our Chief Financial Officer, will make the presentation.