This presentation contains estimates that are pre-decisional and subject change.
Agenda

- Key Accomplishments
- The NCUA’s Draft 2020 – 2021 Budget
  - Strategic Context
  - Budget Trends
  - Operating Budget
  - Capital Budget
  - Share Insurance Fund Administrative Budget
  - Financing the NCUA Programs
- Conclusion
Key Accomplishments

• **Effective, Not Excessive Regulation**
  - A proposed rule delaying the effective date of the risk-based capital rule to January 2022.
  - A final rule amending the agency’s regulation requiring real estate appraisals for certain commercial transactions to raise the threshold from $250,000 to $1 million among other changes.
  - A final rule allowing federal credit unions the option to offer more payday alternative loan options.
  - A final rule allowing federal credit unions to accept nonmember and public unit shares up to 50 percent of paid-in and unimpaired capital and surplus.
Key Accomplishments

• Second Chance Initiative
  ▪ The NCUA Board issued a proposed interpretive ruling and policy statement that would allow individuals convicted of certain minor offenses to work in the credit union industry without applying for the NCUA Board’s approval.

• Guidance Letters
  ▪ To low-income credit unions describing their authority to offer secondary capital accounts and the framework for the NCUA’s analysis and approval or disapproval of secondary capital plans
  ▪ To federally insured credit unions so they may provide certain financial services to legally operating hemp businesses.

• Cybersecurity
  ▪ Chairman Hood appointed Johnny E. Davis, Jr to serve as Special Advisor to the Chairman for Cybersecurity.
Key Accomplishments

• **Collaboration**
  - The NCUA embarked on a three-year cooperative effort with the Small Business Administration to bring together small businesses and credit unions.
  - The NCUA and the National Association of State Credit Union Supervisors (NASCUS) signed a document of cooperation on August 14, 2019.

• **Stakeholder Engagement**
  - Chairman Hood hosted a commemoration of the 85th anniversary of the signing of the Federal Credit Union Act.
  - The NCUA Board members delivered speeches discussing important financial industry policy issues and NCUA updates with a variety of industry stakeholders.

• **Financial Stewardship**
  - Distributed a $160.1 million Share Insurance Fund dividend to more than 5,500 eligible institutions in May 2019.
2020 – 2021 Budget: Strategic Context

Three strategic goals from the NCUA’s 2018 – 2022 *Strategic Plan* underlie the funding proposed in the 2020 – 2021 Budget:

- **Goal 1: Ensure a safe and sound credit union system**
  - Aligns resources to strategic priorities, including initiatives that address market risks, cybersecurity threats, and other emerging issues.
  - Proposes training investments to ensure the NCUA staff develop and can utilize advanced skills and tools. In 2020, this includes resources to train and prepare the NCUA staff to transition to using its modernized examination tool – MERIT.

- **Goal 2: Provide a regulatory framework that is transparent, efficient and improves consumer access**
  - Funds programs that keep regulations up to date and consistent with current law. The agency is committed to creating a more responsive system that encourages innovation, provides flexibility, protects safety and soundness.
  - Makes financial commitments to assist existing and prospective credit unions with expansion and new chartering activities.

- **Goal 3: Maximize organizational performance to enable mission success**
  - Invests in improved tools, technological improvements, and facilities for the NCUA staff to improve operational effectiveness and efficiency.
  - Provides resources to develop better human capital planning and processes.
2020 – 2021 Budget: Strategic Context

• **Economic Outlook**: factors that continue to shape the environment facing credit unions and will impact the resource needs of the NCUA include:
  - Cybersecurity
  - Lending Trends
  - Financial Landscape and Technology
  - Membership Trends
  - Smaller credit union’ challenges and industry consolidation

• **Enterprise Risk Management**: the budget proposes several programmatic changes – new personnel for cybersecurity, new information security tools, and more robust credit risk analysis – all of which resulted from enterprise risk reviews.
As a share of Credit Union system assets, the NCUA’s Operating Budget continues to decrease:

(NCUA budget (blue line) is a decreasing share of FICU assets (green line))
The 2020 Operating Budget, when adjusted for inflation, increases 1.7 percent compared to 2019:

**NCUA Operating Budget (in Millions of Dollars)**

![Graph showing trends in NCUA budget](image)

- **Approved Budget**
- **Inflation Adjusted Budget (2018 dollars)**

Source: NCUA Annual Budgets, Bureau of Labor Statistics; inflation projections from Blue Chip.

(NCUA budget in nominal dollars (yellow line) and real dollars (blue line))
The 2020 Operating Budget, adjusted for growth due to required FERS contributions, increases at a rate consistent with recent trends and below the historic average:

* Budgets since 2017 exclude non-cash transactions. 2016-2017 growth excluding non-cash transactions was 0.4%.
2020 Operating Budget Summary

<table>
<thead>
<tr>
<th>($ millions)</th>
<th>2019 Board Approved Budget</th>
<th>2020 Draft Budget</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget</td>
<td>$ 304.4</td>
<td>$ 316.2</td>
<td>$ 11.8</td>
<td>3.9%</td>
</tr>
<tr>
<td>Positions</td>
<td>1,182</td>
<td>1,185</td>
<td>3</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

- **Employee Pay & Benefits**: 73.2% ($231.4)
- **Travel**: 8.7% ($27.4)
- **Rent/Communications/Utilities**: 2.6% ($8.2)
- **Administrative**: 1.9% ($5.9)
- **Contracted Services**: 13.7% ($43.3)
# 2020 Operating Budget Categories

<table>
<thead>
<tr>
<th>Budget Category ($ millions)</th>
<th>2019 Board Approved Budget</th>
<th>2020 Draft Budget</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Pay</td>
<td>$159.7</td>
<td>$162.6</td>
<td>$2.9</td>
<td>1.8%</td>
</tr>
<tr>
<td>Employee Benefits</td>
<td>63.1</td>
<td>68.8</td>
<td>5.7</td>
<td>9.0%</td>
</tr>
<tr>
<td><strong>Subtotal, Pay &amp; Benefits</strong></td>
<td><strong>222.8</strong></td>
<td><strong>231.4</strong></td>
<td><strong>8.5</strong></td>
<td><strong>3.8%</strong></td>
</tr>
<tr>
<td>Travel</td>
<td>26.8</td>
<td>27.4</td>
<td>0.6</td>
<td>2.2%</td>
</tr>
<tr>
<td>Rent/Comm./Utilities</td>
<td>8.0</td>
<td>8.2</td>
<td>0.2</td>
<td>2.3%</td>
</tr>
<tr>
<td>Administrative</td>
<td>8.7</td>
<td>5.9</td>
<td>-2.8</td>
<td>-31.9%</td>
</tr>
<tr>
<td>Contracted Services</td>
<td>38.1</td>
<td>43.3</td>
<td>5.3</td>
<td>13.8%</td>
</tr>
<tr>
<td><strong>Total, Operating Budget</strong></td>
<td><strong>$304.4</strong></td>
<td><strong>$316.2</strong></td>
<td><strong>$11.8</strong></td>
<td><strong>3.9%</strong></td>
</tr>
<tr>
<td>Less 2020 FERS growth</td>
<td>---</td>
<td>- 5.0</td>
<td>- 5.0</td>
<td>-1.6%</td>
</tr>
<tr>
<td><strong>Total, excl. FERS growth</strong></td>
<td><strong>$304.4</strong></td>
<td><strong>$311.2</strong></td>
<td><strong>$6.8</strong></td>
<td><strong>2.3%</strong></td>
</tr>
</tbody>
</table>
Pay and Benefits

<table>
<thead>
<tr>
<th>($ millions)</th>
<th>2019</th>
<th>2020</th>
<th>Change 2019 to 2020</th>
<th>% Change 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$ 159.7</td>
<td>$ 162.6</td>
<td>$ 2.9</td>
<td>1.8%</td>
</tr>
<tr>
<td>Benefits</td>
<td>63.1</td>
<td>68.8</td>
<td>5.7</td>
<td>9.0%</td>
</tr>
<tr>
<td>Total</td>
<td>$ 222.8</td>
<td>$ 231.4</td>
<td>$ 8.5</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

- Pay and benefits costs account for over 73 percent of the NCUA budget.

- Increases in required federal retirement fund contributions account for approximately $5 million, or 60 percent, of pay and benefits growth.
  - Other personnel benefits include mandatory employer contributions for Social Security, Medicare, health insurance, and workers compensation.

- Increases to employee pay are required by law to “maintain comparability with other federal bank regulatory agencies” (Federal Credit Union Act).
  - In total, salary budgets increase 1.8 percent, reflecting the combined effect of merit and locality pay increases.
The budget supports 1,185 positions for 2020, an increase of three positions from the 2019 authorized level of 1,182:
### Travel

<table>
<thead>
<tr>
<th>($ millions)</th>
<th>2019</th>
<th>2020</th>
<th>Change 2019 to 2020</th>
<th>% Change 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget</td>
<td>$ 26.8</td>
<td>$ 27.4</td>
<td>$ 0.6</td>
<td>2.2%</td>
</tr>
</tbody>
</table>

- In 2020, all NCUA examiners – who make up two thirds of the agency workforce – will be trained to use the new examination system, MERIT.
- Travel budget includes sufficient funding for travel-related costs for in-person MERIT training.
- Expansion of offsite exam work helped partially offset the increased cost of travel related to MERIT training.
Rent, Communications, Utilities

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>Change 2019 to 2020</th>
<th>% Change 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget</td>
<td>$8.0</td>
<td>$8.2</td>
<td>$0.2</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

- Costs for the NCUA’s infrastructure and business operations. Major cost categories include:
  - Telecommunications (phone, networks, internet)
  - Office utilities and postage
  - Space rental for:
    - Western Regional Office in Tempe, AZ
    - Event spaces, such as sites for MERIT training
# Administrative Services

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>Change 2019 to 2020</th>
<th>% Change 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget</td>
<td>$8.7</td>
<td>$5.9</td>
<td>-$2.8</td>
<td>-31.9%</td>
</tr>
</tbody>
</table>

- Costs for ongoing operations such as Federal Financial Institutions Examination Council (FFIEC) fees, employee relocations, recruitment and advertising, shipping, printing, and supplies.
- Budget decrease results from reclassifying the costs of various information technology-related programs to Contracted Services for consistency with standard government reporting practices.
## Contracted Services

<table>
<thead>
<tr>
<th>($ millions)</th>
<th>2019</th>
<th>2020</th>
<th>Change 2019 to 2020</th>
<th>% Change 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget</td>
<td>$38.1</td>
<td>$43.3</td>
<td>$5.3</td>
<td>13.8%</td>
</tr>
</tbody>
</table>

- Recurring contract support includes:
  - Support for IT enterprise architecture and modernization, as well as ongoing operations and maintenance costs for legacy and new systems
  - Examiner training requirements
  - Shared service agreements for accounting, human resources, and travel systems
  - Financial management support
  - Building physical security and IT information security program
Contracted Services

2020 Contracted Services Budget by Category (in Millions of Dollars)

- Training: 7% ($3.2)
- Administrative/Other: 14% ($6.1)
- Information Technology Security: 9% ($4.0)
- Building Operations, Maintenance and Security: 10% ($4.2)
- Audit and Financial Management Support: 5% ($2.1)
- Information Technology Operations and Maintenance: 45% ($19.7)
- Accounting, Procurement, Payroll and HR Systems and Services: 10% ($4.2)
Contracted Services

- **Major programs within the Contracted Services budget include:**
  - Information Technology (IT) Operations and Maintenance (45 percent): the NCUA contracts for IT network support, help desk services, and other systems support.
  - Administrative Support and Other Services (14 percent): the NCUA relies on contract support for various operational, technical, and legal expertise.
  - Accounting, Procurement, Payroll, and Human Resources Systems (10 percent): the NCUA contracts for back-office support functions such as financial management services, human resources technology, and payroll services.
  - Building Operations, Maintenance, and Security (10 percent): the NCUA utilizes contract services to operate, maintain, and secure its facilities.
  - IT Security (9 percent): the NCUA’s IT security program aims to strengthen cybersecurity and ensure compliance with the Federal Information System Management Act.
  - Training (7 percent): Credit Union examiners attend extensive training annually, much of which is delivered utilizing contract support.
  - Audit and Financial Management Support (5 percent): The NCUA Office of Inspector General contracts with an accounting firm to conduct the annual audit of the agency’s four permanent funds.
Capital Budget

• Information Technology investments
  – The agency’s Information Technology Policy Council oversees the recommended IT software development investments.
  – The NCUA’s largest development project is MERIT (Examination and Supervision solution to replace AIRES).
  – Assessment of other hardware replacements and upgrades.

• NCUA-owned facility investments
  – Central Office Heating, Ventilation, and Air Conditioning (HVAC) replacement project and other capital improvements.
  – Southern Regional Office capital improvements.
## 2020 Capital Budget

<table>
<thead>
<tr>
<th>($ millions)</th>
<th>2019</th>
<th>2020</th>
<th>Change 2019 to 2020</th>
<th>% Change 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Technology software development</td>
<td>$ 17.1</td>
<td>$ 20.8</td>
<td>$ 3.7</td>
<td>21.6%</td>
</tr>
<tr>
<td>Other Information Technology Investments</td>
<td>4.0</td>
<td>2.8</td>
<td>- 1.2</td>
<td>-30.0%</td>
</tr>
<tr>
<td>Capital building improvements and repairs</td>
<td>0.9</td>
<td>1.5</td>
<td>0.6</td>
<td>69.3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 22.0</td>
<td>$ 25.1</td>
<td>$ 3.1</td>
<td>14.0%</td>
</tr>
</tbody>
</table>
2020 Capital Budget

- The capital budget includes $25.1 million for 12 discrete projects. The largest share is for developing MERIT and other IT investments.

<table>
<thead>
<tr>
<th>IT software development investments</th>
<th>2020 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Examination and Supervision Solution and Infrastructure Hosting (MERIT)</td>
<td>$15,781,954</td>
</tr>
<tr>
<td>Enterprise Central Data Repository</td>
<td>1,096,000</td>
</tr>
<tr>
<td>Enterprise Data Program</td>
<td>450,000</td>
</tr>
<tr>
<td>Asset and Liabilities Management Application</td>
<td>2,073,587</td>
</tr>
<tr>
<td>Enterprise Learning Management System Replacement</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Integrated Financial Management System Analysis</td>
<td>400,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other Information technology investments</th>
<th>2020 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise Laptop Lease</td>
<td>650,000</td>
</tr>
<tr>
<td>IT Infrastructure, Platform and Security refresh</td>
<td>2,000,000</td>
</tr>
<tr>
<td>NCUA Website Development</td>
<td>100,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capital building improvements and repairs</th>
<th>2020 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Office Renovations</td>
<td>500,000</td>
</tr>
<tr>
<td>Central Office HVAC System Replacement</td>
<td>750,000</td>
</tr>
<tr>
<td>Austin, TX Office Building Improvements</td>
<td>274,000</td>
</tr>
</tbody>
</table>

| Grand Total, Capital Projects                                           | $25,075,541  |

- More detailed descriptions are available in the budget justification.
Share Insurance Fund Administrative Budget

- Direct costs of Share Insurance Fund (SIF) administration and management.
- Supports the NCUA Guarantee Note (NGN) program and the Corporate System Resolution Program.
- In 2020, the NCUA will conduct its own, in-house analyses of large credit unions stress test results, reducing costs.
- Technical assumptions for cost growth (e.g., salary and benefits inflation, travel, etc.) identical to the Operating Budget.
# Share Insurance Fund Administrative Budget

<table>
<thead>
<tr>
<th>($ millions)</th>
<th>2019</th>
<th>2020</th>
<th>Change 2019 to 2020</th>
<th>% Change 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget</td>
<td>$ 8.4</td>
<td>$ 6.5</td>
<td>-$ 1.9</td>
<td>-22.9%</td>
</tr>
<tr>
<td>Positions</td>
<td>5</td>
<td>5</td>
<td>0</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

## Pie Chart

- **NGN Program Costs**
  - 42%
  - $2.7

- **SIF Direct Expenses**
  - 34%
  - $2.2

- **NCUA Employee Pay & Benefits**
  - 23%
  - $1.5

- **NCUA Employee Travel & Training**
  - 1%
  - $0.08

**Staff Draft: NCUA 2020 – 2021 Budget**
<table>
<thead>
<tr>
<th>Category ($ millions)</th>
<th>2019</th>
<th>2020</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and Benefits</td>
<td>$1.2</td>
<td>$1.5</td>
<td>$0.2</td>
<td>18.7%</td>
</tr>
<tr>
<td>Travel and Training</td>
<td>0.1</td>
<td>0.1</td>
<td>0.0</td>
<td>0.0%</td>
</tr>
<tr>
<td>NGN support</td>
<td>2.9</td>
<td>2.7</td>
<td>-0.2</td>
<td>-7.5%</td>
</tr>
<tr>
<td>SIF Direct Expenses</td>
<td>4.1</td>
<td>2.2</td>
<td>-1.9</td>
<td>-46.7%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$8.4</td>
<td>$6.5</td>
<td>-$1.9</td>
<td>-22.9%</td>
</tr>
</tbody>
</table>
Financing the NCUA Programs

2020 Distribution of Operating Budget Costs

<table>
<thead>
<tr>
<th>Share of Operating Budget covered by:</th>
<th>FCUs</th>
<th>FISCUs</th>
</tr>
</thead>
<tbody>
<tr>
<td>FCU Operating Fee</td>
<td>38.7%</td>
<td>0.0%</td>
</tr>
<tr>
<td>OTR x Percent of Insured Shares</td>
<td>31.3%</td>
<td>30.0%</td>
</tr>
<tr>
<td>(61.3% x 51.1%)</td>
<td></td>
<td>(61.3% x 48.9%)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>70.0%</td>
<td>30.0%</td>
</tr>
</tbody>
</table>
Budget Resources

Key NCUA Budget and Supplementary Materials:
https://www.ncua.gov/About/Pages/budget-strategic-planning/supplementary-materials.aspx

- Budget Proposals and Presentations
- Budget Justifications
- Line Item Budget Detail
- Budget FAQs
- Operating Fees
- Overhead Transfer Rate analyses
- Budget-related Board Action Memoranda
Office Contact

Please contact my office with questions or comments.

Rendell L. Jones
Chief Financial Officer
rljones@ncua.gov
(703) 518-6571

https://www.ncua.gov/About/Pages/budget-strategic-planning/supplementary-materials.aspx
As required by law, the draft Budget Justification was published in the Federal Register on November 1, 2019: https://www.federalregister.gov/documents/2019/11/01/2019-23856/the-ncua-staff-draft-2020-2021-budget-justification

- The public may submit written comments on the draft Budget Justification by emailing: BudgetComments@ncua.gov

- Due date for written comments is Monday, December 2, 2019.
Appendix

• The NCUA’s Four Revolving Funds

• Budget Background
The NCUA: Four Revolving Funds

1. Operating Fund
Per the Federal Credit Union Act, the management of the Administration is vested in the National Credit Union Administration (NCUA) Board. The Board approves the Operating Fund budget to pay the expenses necessary to carry out its responsibilities under the Act.

2. Share Insurance Fund
The National Credit Union Share Insurance Fund is the federal fund created by Congress in 1970 to insure member's deposits in federally insured credit unions.

3. Central Liquidity Fund
The CLF is a mixed ownership government corporation created to improve the general financial stability of credit unions by serving as a liquidity lender to credit unions experiencing unusual or unexpected liquidity shortfalls.

4. Community Development Revolving Loan Fund (appropriated)
The Community Development Revolving Loan Fund provides grants and loans to low-income designated credit unions.
Budget Background

- Calendar Year versus Government Fiscal Year
  - The NCUA operates on a calendar year
  - Budgets and financial reporting coincide with calendar year
  - The NCUA Operating Fee and Share Insurance Fund 1% deposit assessments are based on previous December 31 year-end balance of credit union assets and insured shares, respectively

- Budget submissions to Congress
  - NCUA’s calendar year budgets are converted to the federal government’s fiscal year
Budget Background

Funds Presented in the FY 2020 President’s Budget Appendix:

- Operating Fund
- National Credit Union Share Insurance Fund
- Central Liquidity Facility
- Community Development Revolving Loan Program

Document location: