

**Statement by J. Mark McWatters
NCUA Board Member**

As the newest member of the NCUA Board I have learned much regarding the budgetary process over the past few months. I am dismayed by the increase in the 2015 Budget, the historic climb in the Overhead Transfer Rate (OTR) over the past several years, and certain aspects of the budgetary process employed by NCUA. As a Board, we should remain mindful that we are spending other peoples' money – that is, the scarce resources of federal and state chartered credit unions and their members. Any allocation of these funds should follow only after thoughtful reflection as to the necessity of the expenditures and whether the costs have been undertaken in the most efficient, effective, transparent and fully accountable manner.

The Board's job, in my view, is not merely to follow the script set by other financial regulators, but to lead and to set the standard of transparency and accountability for all such regulators. Over the past several weeks I have argued for enhanced budgetary transparency and welcome the additional disclosure noted in the Board Action Memorandum and on the NCUA website. That said, the Board should further enhance the transparency of the budgetary process and NCUA's operations by disclosing or undertaking each of the following:

1. Additional detail regarding each of the following expenditures: Employee Pay and Benefits, Travel, Rent/Communications/Utilities, Administrative, and Contracted Services;
2. A detailed analysis of how NCUA may reduce the expenditures noted in item 1 above;
3. The submission of the methodology employed by NCUA in calculating the OTR for public comment, and a detailed description of the methodology adopted by NCUA following a thoughtful analysis of the comments received;
4. A detailed analysis of expenditures among NCUA, the National Credit Union Share Insurance Fund, the Temporary Corporate Credit Union Stabilization Fund, and the Central Liquidity Facility;
5. A detailed analysis of why NCUA's budget has increased by over 50-percent in the past five years, as well as a year-by-year analysis of all such increases;
6. A detailed analysis of all cost savings programs implemented by NCUA over the past five years;
7. A detailed analysis of all expenditures incurred by NCUA to support the Financial Stability Oversight Council (FSOC);
8. A detailed analysis of all expenditures incurred by NCUA in implementing the Sensitive Compartmented Information Facility (SCIF);

9. A detailed analysis of all expenditures that NCUA anticipates to incur with respect to the proposed risk based net worth rule, as well as all other proposed rules;

10. A formal cost-benefit analysis with respect to each rule or regulation proposed by NCUA, as well as a detailed description of the methodology employed by NCUA in conducting such analysis; and

11. A detailed reconciliation of how NCUA plans to allocate budget expenditures to achieve its strategic goals.

Next year, I strongly encourage the Board to deliver the proposed budget and calculation of the proposed OTR to the credit union community and general public at least two weeks prior to a formal budget hearing. At that hearing NCUA staff should formally present the proposed budget and OTR to the public in a detailed, understandable and transparent manner supported by written analysis posted on the NCUA website. The agency should afford the public the opportunity to submit written comments regarding the proposed budget and OTR and to make presentations to the Board in an open meeting. The Board should not formally act on the proposed budget or OTR until it has reflected upon and given due consideration to the comments. This approach, while somewhat cumbersome, will materially enhance the transparency and inclusiveness of the budgetary process.

I also have two specific observations regarding the budget and the budgetary process that I wish to highlight.

First, NCUA appears overly concerned with head count or, in government-speak, with increasing the number of FTEs. This is myopic. If NCUA truly needs to retain the services of additional professional staff so as to discharge its mandate in a competent manner, the agency should do so without needless hand wringing. NCUA, however, should clearly articulate to the credit union community – to those who pay the bills – why current staffing needs are inadequate, why additional expertise is truly needed as opposed to merely desirable, the most efficient and effective approach to obtaining the necessary professional competence, and the full-cost of retaining the required employees and independent contractors. NCUA should make every effort to minimize these costs, as well as the costs associated with all employees and contractors, and should vet all retention decisions in a transparent and fully accountable manner.

Second, some commentators have argued that NCUA should not invest credit union funded resources in seemingly non-core functions such as the Office of Small Credit Union Initiatives, as assisted by the Office of the Chief Economist, and the Office of Consumer Protection. To me, assisting the underserved in obtaining financial services at an affordable price is an absolutely critical mission of the credit union community. Given the overarching significance of the mandate to serve credit union members of modest means, I welcome and support NCUA's work in this area.

In anticipation of the next budgetary cycle, I invite interested parties to communicate their issues and concerns directly to my office. I particularly welcome specific, concrete observations regarding the budget and the budgetary process as opposed to general, vague comments that often offer little in the way of meaningful guidance. For example, and certainly without limitation, I welcome your specific, detailed comments regarding the agenda and mechanics of a public hearing on the budget, the overall

transparency of the budget and budgetary process, and the methodology employed in calculating the OTR. I very much appreciate your assistance in this endeavor.

Having expressed my views regarding the 2015 Budget, I cannot in good conscience vote to approve the budget.

I also will find it challenging to vote in favor of another NCUA budget unless the transparency of the budget and the budgetary process is materially enhanced and the credit union community and general public are afforded sufficient opportunity to comment on the proposed budget and the OTR prior to action by the Board.

Thank you.