Open Board Meeting November 19, 2015

NCUA Chairman Debbie Matz
Statement on the
2016 Overhead Transfer Rate

Setting the annual Overhead Transfer Rate has always been a thankless job for the NCUA Board and staff, because it is never possible to satisfy all stakeholders. If the Overhead Transfer Rate goes up, state charters complain the rate is too high. If the Overhead Transfer Rate goes down, federal charters complain the rate is too low.

All we can do is ensure the methodology accurately values the work done by NCUA and state examiners, then fairly allocates costs between federal and state charters.

Observers of our open Board meetings and our website can plainly see that the OTR is not some arbitrary number that the NCUA Board or staff picks at random every year. Rather, it's a cost-accounting equation, driven by a methodology that has been in place since 2003, under then-Chairman Dennis Dollar.

For years, the methodology has been transparently posted on our website for all stakeholders to review. In 2011, NCUA asked an independent third party, PricewaterhouseCoopers, to carefully review and evaluate the methodology. PwC concluded, "there was no reasonable basis to conclude that the OTR methodology *ex ante* and for reasons beyond the control of credit unions, favors or disadvantages any one type of credit unions (i.e., federal versus state charter) over another."

The independent accounting firm objectively evaluated NCUA's cost-accounting process, and found the OTR methodology is equitable and neutral with respect to charter choice. PwC also validated which NCUA regulations are insurance-related, and therefore counted toward the Overhead Transfer Rate, and which regulations are not.

Now I will be first to admit that the Overhead Transfer has been a complicated process ever since the current methodology was established in 2003. However, in recent years we have been working to make it even more transparent:

We've posted the full reports from PwC, and posted more than 20 other OTR documents going back to 2003. In addition, I have committed to asking this Board to vote to publish the methodology in the *Federal Register* for public comments next January, at the same time our new Strategic Plan will be published.

It might seem counterintuitive that at the same time we're planning to put the methodology out for comment, we're proposing to give staff the authority to calculate each year's Overhead Transfer Rate. But, this process actually parallels the separation of duties inside a credit union, where the board sets policy and staff executes the policy.

In our case the policy is the actual methodology, which established a static mathematical formula. Each year, staff plug the factors—including examiner hours and insured shares—into the formula to calculate the Overhead Transfer Rate.

It's similar to how a credit union board sets interest rates on loans and shares, and then credit union staff use the appropriate formula to calculate each loan payment and dividend payment. Both calculations are based purely on math. There are no subjective judgments.

Unless the NCUA Board changes the OTR methodology and adds a subjective factor into the equation, the E&I Director and the Chief Financial Officer can calculate the rate each year based on the Board-approved methodology.