



Proposed Overhead Transfer Rate Methodology

Board Briefing

June 23, 2017

Background

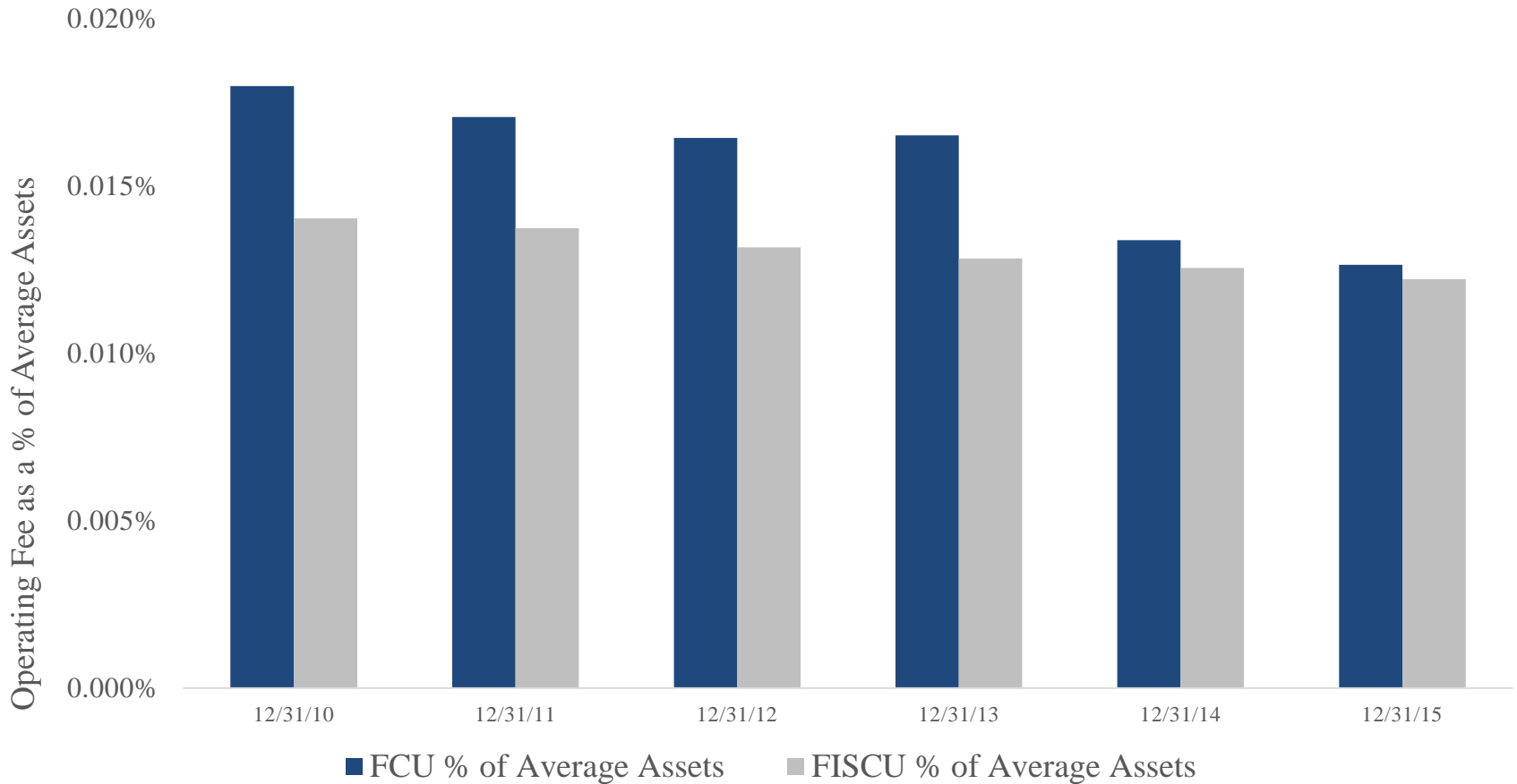
- **January 27, 2016 - Federal Register notice**
 - Request for comment on the OTR methodology
 - 90-day comment period

- **40 comment letters received**
 - Staff reviewed the comments for input and explored options for improving the methodology

Current Methodology Comments

- **Legal authority**
- **Formula driven or set at the discretion of the NCUA Board**
- **Delegation of OTR calculation to NCUA staff**
- **Transparency**
- **Definition of insurance-related activities**
- **State regulator costs**
- **Regulation mapping**
- **Miscellaneous**

Operating Fee Comparison



Proposed Changes to OTR Methodology

- **Simplified approach - facilitates greater understanding.**
 - Remains formula driven (albeit simpler) – sufficiently comprehensive and ensure fair and equitable
 - Decreased resources for administration of the OTR.
- **Reflects that safety and soundness is not sole domain of insurer**

Proposed Changes to OTR Methodology

Underlying Allocation Principles

Principle	Allocation Basis
1	Time spent examining and supervising federal credit unions is allocated as 50 percent insurance related. The allocation emulates an examination and supervision program where NCUA would alternate examinations, and/or conduct joint examinations, between its insurance function and its prudential regulator function as if separate units within NCUA.
2	Time and cost supervising the risks posed by federally insured state-chartered credit unions or other entities not regulated by NCUA are allocated as 100 percent insurance related. NCUA's only role with respect to federally insured state-chartered credit unions and other entities not regulated by NCUA is as insurer.
3	Time and costs related to NCUA's role as charterer and enforcer of consumer protection rules are allocated as 0 percent insurance related. NCUA resources that are allocated to these functions are properly assigned to its role as charterer/prudential regulator.
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. In its role as insurer, NCUA performs activities such as liquidations of credit unions, insured payouts, other resolution activities and answers consumer inquiries about insurance coverage.

Methodology Simplification

- **Reduces the number of steps in the calculation from 8 to 3.**
 - **Includes not needing to conduct 4 step calculation of SSA Imputed Value.**
 - **Reduces categories in steps 1 and 2 from 15 to 5 and from 8 to 6 respectively.**
 - **Reduces the number of data points by 83 percent.**

- **Eliminates the Examination Time Survey.**
 - **Includes not needing to conduct related regulatory mapping.**

Step 1

Workload Program

Workload Programs (2017 Data)	Budgeted Hours	Percent Insurance Related	Insurance Related Hours	Allocation Principle
Federal Credit Union Examination & Supervision	498,159	50%	249,080	1
State Credit Union Examination & Supervision	167,414	100%	167,414	2
Consumer Compliance Reviews & Related Training	20,000	0%	0	3
Field of Membership & Chartering	500	0%	0	3
CUSO & 3 rd Party Vendor Reviews	5,576	100%	5,576	2
Total	691,649	N/A	422,070	
Total Insurance Related Workload Hours to Total Workload Hours			61%	

Step 2

Operating Budget

Cost Area (2017 Data)	Operating Budget \$Millions	Percent Insurance Related	Operating Cost Borne by NCUSIF \$Millions	Allocation Basis
Regions & ONES	\$170.9	61%	\$104.3	Principles 1, 2, 3 (Step 1 Result)
Asset Management Assistance Center	\$7.4	100%	\$7.4	Principle 4
Office of Consumer Financial Protection & Access	\$9.9	13%	\$1.3	Principles 3 & 4
Office of Small Credit Union Initiatives	\$6.5	60%	\$3.9	Principles 1 & 2
Subtotal	\$194.6	60%	\$116.8	
All Other Offices	\$103.6	60%	\$62.2	Weighted Average of Cost Centers Above
Total	\$298.2		\$179.0	

Step 3

Calculate the OTR

Operating Costs to be Borne by the Share Insurance Fund (from Step 2)	\$179.0
÷ Total Operating Budget	\$298.2
= OTR	60.0%

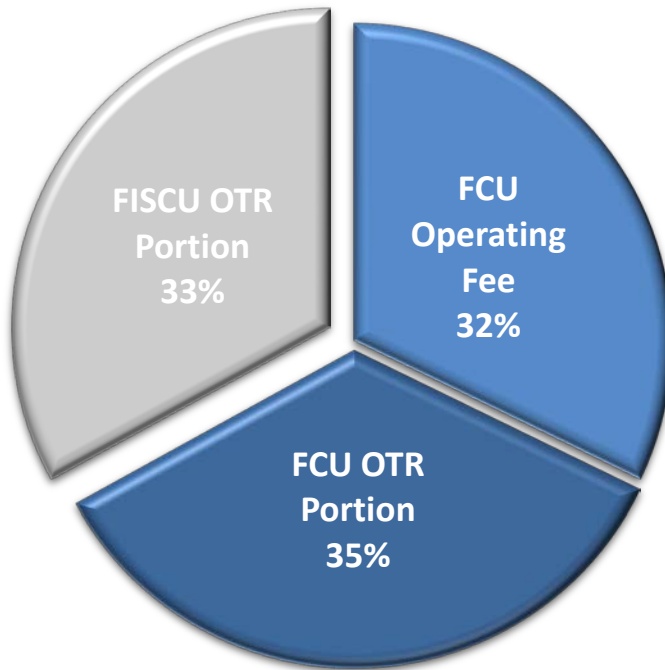
Current and Proposed Methodology Results Comparison

2017	Current Methodology	Proposed Methodology	Change
OTR Percent	67.7%	60.0%	-7.70%
OTR \$Millions	\$201.8	\$179.0	-\$22.8

If the proposed method had been applied to 2017, it would result in the annual Operating Fee paid by federal credit unions increasing by about 24% - an increase of \$22.8 million from \$96.4 million to \$119.2 million.

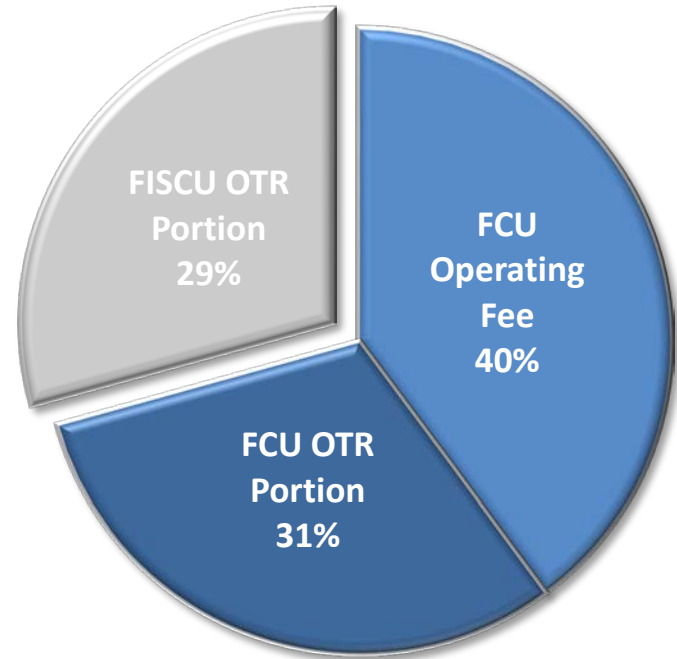
2017 Distribution of Costs Comparison

Current Methodology



Total FCU Portion =
67%

Proposed Methodology



Total FCU Portion =
71%

Next Steps

- Publish request for comment with 60 day comment period.
- November 2017 NCUA Board meeting present final OTR methodology for approval and implementation.