Connex
CREDIT UNION

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Improving the Lives of Our Members...
One Member at a Time

April 25, 2016

Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Re: Overhead Transfer Rate (OTR)

Dear Mr. Poliquin:

Thank you for the opportunity to comment on the Overhead Transfer Rate (OTR) and indirectly on the Federal Credit Union (FCU) Operating Fee Schedule methodology.

By way of background information, I am the President and CEO of Connex Credit Union headquartered in North Haven CT; we currently serve over 45,000 members across a 4-county area. We recently celebrated our 75th anniversary, are a well-capitalized credit union with almost 12% capital and over $450M in assets, and have consistently scored high marks in our regulatory examinations.

While I appreciate the NCUA's effort to provide some amount of transparency into the OTR methodology as recommended by PwC back in 2011, there continues to be dissatisfaction within the industry with respect to the NCUA's efforts to communicate and explain the OTR methodology in adequate detail. I continue to be troubled in that this represents one more area where an increasing financial burden is placed on our credit union and other state-chartered federally insured credit unions, this one due to an ever-growing NCUA budget and the increases in the overhead transfer rate over the last several years. In the interest of transparency, I believe that the NCUA Board has a responsibility to publish and make public the precise calculations used to determine the OTR.

In its simplest form as I understand it, the OTR methodology is used to determine the requisitions from the NCUSIF to cover administrative and other expenses incurred in carrying out the "share insurance" responsibilities, while the FCU operating fee methodology is used to determine the aggregate amount of operating fees to charge federal credit unions to carry out its federal chartering responsibilities. Both amounts together make up the NCUA budget.

The NCUA's methodology appears to have substantively transferred the safety and soundness examination responsibility of its charter supervision responsibility for federal credit unions to its insurance duties for all credit union deposits it insures. The Federal Credit Union act under which it was established clearly stated that its responsibility as charter supervisor was to perform safety and soundness exams of FCUs. That responsibility is consistent with our State regulator that issued our charter, and which assesses us another fee. NCUA, under Title 1 of the FCUA, should be conducting safety and soundness exams on FCUs as part of its charter supervision. Then, under Title II of the FCUA, it should be relying on those safety and soundness exams for its insurance responsibilities. The funding for safety and soundness exams for FCUS should come fully from the FCU operating fees, not from the insurance fund. Under a similar premise, the NCUA is expected to accept safety and soundness reports made by state credit union regulators as a cost savings to the insurance fund. The OTR is meant to cover "insurance -related" costs, but it appears that the NCUA now includes all activities related to safety and soundness as "insurance related". Significant increases in the OTR over the past several years seem to have provided an unfair benefit to federally chartered credit unions.

As I understand it, the current methodology for determining OTR is based on advice from independent accounting firms. If this is the case, there should be no reason that the methodology should not be shared with those that actually bear the expense of the NCUA budget. It appears from some industry observers that even the advisory firm used to review the OTR methodology indicated that the methodology was lacking in differentiation between insurance and regulatory activities. Similarly, the use of the imputed SSA Value as one of the more critical inputs into the OTR calculation should be validated to ensure reliance on State regulatory agencies to the maximum extent feasible.

I believe the role of the NCUA Board with regard to OTR is to establish a methodology that is consistent and impartial, however increases in the OTR, which favor federally chartered credit unions, certainly create questions about the impartiality of these expense allocations. For some time now, there has been a noticeable decline in the number of federally charted credit unions, and yet fees assessed to federally chartered credit unions have been reduced, while the OTR has increased at a record rate.

This imbalance in the allocation between the insurance fund and the declining operating fees collected from FCUs has had a discriminatory effect on state charters that pay into the insurance fund. We pay our annual state operating assessment, we have our state regulators come in and examine our credit union annually, we now have the NCUA team join them on the examination (for an additional 200 hours according to your charts), we used to have the State regulators come in every 18 months, and now they are both in every 12 months, and because of the growing NCUA budget and the OTR increase, our "insurance" charge from the NCUA has increased as well. Notwithstanding those factors, we have continued to be layered with increased "other" regulatory burdens that have been placed on us since 2008. In addition, we contributed $2.5 million in assessments to cover "potential losses" to the industry, some portion of which will now not come back to us until 2021. During this time, Connex has continued to maintain its strong financial position and adherence to sound business practices, and has not seen a decline in CAMEL despite those pressures. As our regulatory administrator, you sure aren't making it easy for us, and we are one of the stronger credit unions out there.

I appreciate the NCUA's outward stance on modernization and regulatory relief, but that actually does have to translate into more efficiency, reduced budgets, risk focused examinations, and actual meaningful regulatory relief. While others may not outwardly criticize the growing NCUA's budget, as it may have been viewed a proper "reaction" to the crisis in 2008, it is also not surprising to hear from others that the NCUA's budget should have been reduced by now given the overall steadiness in the economy over the past several years. While that certainly is not the focus of this particular discussion on the OTR, the OTR certainly causes FISCUS another unnecessary shifted burden to bear.

For a number of reasons noted above, the announcement to delegate management of the OTR to the NCUA staff is also another troublesome aspect of the proposal. This action will decrease transparency that is sorely needed in the OTR process.

I would respectfully request that the NCUA consider the following:

1. Increase transparency and confidence by making available the detailed information for and justification for OTR determinations The current method for estimating the SSA work based on the internal costs of the NCUA exam process may have been acceptable in the days of lower OTR, but the steady increasing OTR rate and the exorbitant annual increases in the NCUA budget demands more accountability.
2. Rescind any action to delegate OTR determinations to NCUA Staff, and retain that authority at the NCUA Board level
3. Re-establish Reg-flex and move to an 18-month cycle for highly-rated institutions, thereby reducing continued time and burden placed on our business, and lowering the need for more assessments. I appreciate the efforts of NCUA Board Member McWatters in leading this effort.
4. Allow State Regulators to perform their functions and rely on their expertise – joint/dual exams with two sets of CAMEL ratings, with issues that seem to come from separate parties, and extend the length of examinations, strain human capital and physical resources even more, result in more "burden" with unnecessary recommendations.

I fully appreciate the opportunity to comment on the OTR methodology, and look forward to the agency's efforts on refining the OTR methodology and increasing transparency in this particular area.

Sincerely,

Frank Mancini

Frank Mancini
President and CEO
Connex Credit Union