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

- Strategic Context
- Key 2020 Accomplishments

- The NCUA’s Draft 2021 – 2022 Budget
  - Looking Ahead & Key Themes
  - 2021 – 2022 NCUA Resources
  - Budget Trends
  - Operating Budget & Use of Unspent 2020 Funds
  - Capital Budget
  - Share Insurance Fund Administrative Budget
  - Financing the NCUA Programs

- Conclusion
Three strategic goals from the NCUA's 2018 – 2022 Strategic Plan underlie the funding proposed in the 2021 – 2022 Budget:

• **Goal 1: Ensure a safe and sound credit union system**
  – Aligns resources to strategic priorities, including initiatives that address changes within the credit union system and other emerging issues.
  – Proposes training investments to ensure the NCUA staff develop and can utilize advanced skills and tools. In 2021, 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.
Key 2020 Accomplishments

- **Operational changes in response to COVID-19 pandemic:**
  - The NCUA has been operating in a mandatory off-site posture since March 2020. This includes a nearly universal off-site examinations posture.
  - The NCUA responded to the pandemic by offering increased flexibilities for staff, amending regulations to provide increased flexibilities to credit unions, and issuing agency guidance on pandemic-related issues.
  - The NCUA quickly set priorities to respond to the pandemic and its potential impact on credit unions, credit union operations, and the Share Insurance Fund. Guidance was developed and issued to the credit union industry and NCUA staff. The NCUA updated the 2020 Supervisory Priorities Letter to Credit Unions and the Examiner’s Guide, including updated review procedures for assessing the safety and soundness of credit unions during the pandemic.
  - The NCUA addressed regulatory and supervisory barriers for credit unions to respond to the crisis. The NCUA issued numerous Regulatory and Risk alerts to Credit Unions in response to rapidly changing conditions created by the pandemic, including:
    - Guidance about working with borrowers affected by the COVID-19 pandemic.
    - Risk alert about the potential for cybersecurity fraud during the COVID-19 pandemic.
  - A full list of all the guidance can be found at [https://www.ncua.gov/coronavirus](https://www.ncua.gov/coronavirus).
Key 2020 Accomplishments

• Regulatory relief in response to COVID-19 pandemic:
  • Regulatory changes were made that assist in responding to issues raised by the pandemic, including:
    • A streamlined process for Prompt Corrective Action due to excessive share growth and adjustments for total assets relating to Paycheck Protection Program loans along with the use of the Federal Reserve’s Liquidity Facility.
    • An interim final rule that temporarily defers real estate-related appraisals and evaluations under the agency’s appraisal regulations because the pandemic and social distancing directives
    • An interim final rule to enhance the agency’s Central Liquidity Facility regulations by promulgating the legislative changes included in the Coronavirus Aid, Relief, and Economic Security (CARES) Act.
  
• In addition, the NCUA made progress on its key 2020 performance goal to promulgate efficient, targeted regulation tailored to offer meaningful relief without undermining safety and soundness.
• The Operating Budget decreases slightly between 2020 and 2021 largely as a result of one-time offsets from 2020 savings and is projected to increase in 2022.
• The Capital Budget decreases between 2020 and 2021 due to initial completion of MERIT development in 2020. MERIT will be fully deployed in 2021.
• The Share Insurance Fund Administrative Budget increases between 2020 and 2021 largely due to the costs of in-house stress test validation tools.
2021 Pandemic Risks

• The overriding issue for 2021 will continue to be the impacts of the pandemic on credit unions, their financial condition and risk to the SIF, and NCUA operations. In addition to preparation and response already mentioned:
  • Filling positions in the examination workforce to be fully staffed as we enter 2021.
  • Preparing contingency contracts for use by the Asset Management Assistance Center to assist with liquidations and conservatorships.
  • Continuing to use and adapt risk management tools and procedures to help analyze credit union financials to ensure we are proactive in working with credit unions.
  • Continuing to work closely with other federal and state agencies to ensure consistent guidance and ensure open lines of communication.

• While the nominal funding level in the draft 2021 budget is lower due to carryover funding, the NCUA is prepared to respond to an uncertain economic outlook and has contingency plans that cover a range of scenarios.
  • Also, much of NCUA’s management of failed credit unions is funded through the asset management estates (and the SIF).
Other Themes in the 2021-2022 Budget

• **Financial Inclusion**
  - New Agency Priority: Advancing Communities through Credit, Education, Stability, and Support (ACCESS).

• **Virtual Examination Project**
  - Increased use of off-site examinations work and data analytics.

• **ESM and Deployment of MERIT**
  - Full operational roll-out in 2021; COVID-19 pandemic resulted in delays scheduling nationwide training.

• **Regulatory Reform Initiatives**

• **Updated Operating Fee Methodology**
  - Exclusion of PPP loans and use of four-quarter average total assets.
  - Treatment of capital projects budget and miscellaneous revenue.
Total 2021 Budget growth is consistent with recent trends and below the historic average:

2010 - 2021 Budget Trends

- Operating Budget
- Capital Budget
- SIF Admin
- FTE
Budget Trends

- 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))
NCUA Workforce

- As shown on the previous slide, the 2021 budget supports 1,191 full-time equivalent (FTE) positions for 2021, an increase of five FTE from the 2020 authorized level of 1,186:
  - One new consumer compliance officer within OCFP.
  - One new financial literacy specialist within OCFP.
  - One new senior credit specialist within E&I.
  - Two new executive positions to support emerging priorities.

- Within this staffing level, the NCUA will also adjust its internal allocations by eight positions to address other emergent issues:
  - Five new positions within ONES to support the additional large credit unions that will come under ONES supervision.
  - Two new positions within OCIO to support the increasing complexity of the agency’s IT systems, networks, and applications.
  - One new position within E&I to support additional risk management actions.

- Like any government agency, the NCUA manages its changing workload within its overall authorized budgetary and FTE resource levels.
## 2021 Operating Budget

<table>
<thead>
<tr>
<th>($ millions)</th>
<th>2020 Board Approved Budget</th>
<th>2021 Draft Budget</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget</td>
<td>$315.9</td>
<td>$315.6</td>
<td>-$0.3</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Positions</td>
<td>1,185</td>
<td>1,191</td>
<td>5</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

### 2021 Operating Budget (in Millions of Dollars)

- **Employee Pay & Benefits**: 76.3% ($240.9 million)
- **Travel**: 4.3% ($13.5 million)
- **Rent/Communications/Utilities**: 2.3% ($7.2 million)
- **Administrative**: 2.0% ($6.2 million)
- **Contracted Services**: 15.1% ($47.8 million)
Operating Budget: Pay and Benefits

<table>
<thead>
<tr>
<th>($ millions)</th>
<th>2020</th>
<th>2021</th>
<th>Change 2020 to 2021</th>
<th>% Change 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$162.5</td>
<td>$168.0</td>
<td>$5.5</td>
<td>3.4%</td>
</tr>
<tr>
<td>Benefits</td>
<td>68.8</td>
<td>72.9</td>
<td>4.1</td>
<td>6.0%</td>
</tr>
<tr>
<td>Total</td>
<td>$231.3</td>
<td>$240.9</td>
<td>$9.6</td>
<td>4.1%</td>
</tr>
</tbody>
</table>

- Pay and benefits costs account for over 76 percent of the NCUA budget.
- Increases in required federal retirement fund contributions account for approximately $2.3 million, or 0.7 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 3.4 percent, reflecting the combined effect of merit and locality pay increases.
Operating Budget: Travel

<table>
<thead>
<tr>
<th>($ millions)</th>
<th>2020</th>
<th>2021</th>
<th>Change 2020 to 2021</th>
<th>% Change 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget</td>
<td>$27.4</td>
<td>$13.5</td>
<td>-$13.9</td>
<td>-50.7%</td>
</tr>
</tbody>
</table>

- 2021 Travel is lower than 2020 in anticipation of extended pandemic-related travel restrictions.
- 2021 Travel spending will be supplemented by unspent 2020 travel funds.
- In 2021 all NCUA examiners – who make up two thirds of the agency workforce – will be trained to use the new MERIT examination system.
Operating Budget: Rent, Communications, Utilities

<table>
<thead>
<tr>
<th>($ millions)</th>
<th>2020</th>
<th>2021</th>
<th>Change 2020 to 2021</th>
<th>% Change 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget</td>
<td>$8.2</td>
<td>$7.2</td>
<td>-$1.0</td>
<td>-12.6%</td>
</tr>
</tbody>
</table>

- The Rent, Communications, and Utilities budget pays for the cost of the NCUA’s infrastructure and business operations. Major categories include:
  - Telecommunications (phone, networks, internet)
  - Office utilities and postage
  - Space rental for:
    - Western Regional Office in Tempe, AZ
    - Temporary spaces for large meetings and conferences
Operating Budget: Administrative Services

<table>
<thead>
<tr>
<th>($ millions)</th>
<th>2020</th>
<th>2021</th>
<th>Change 2020 to 2021</th>
<th>% Change 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget</td>
<td>$5.6</td>
<td>$6.2</td>
<td>$0.6</td>
<td>9.8%</td>
</tr>
</tbody>
</table>

- The Administrative Services budget pays for costs of ongoing operations such as supplies, recruitment and advertising, shipping, printing, Federal Financial Institutions Examination Council (FFIEC) fees, and employee relocations.

- The budget increases largely because employee relocations in 2020 were paid for using unspent funds from prior year budgets. The 2021 budget includes $750,000 for employee relocations next year.
## Operating Budget: Contracted Services

<table>
<thead>
<tr>
<th>($ millions)</th>
<th>2020</th>
<th>2021</th>
<th>Change 2020 to 2021</th>
<th>% Change 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget</td>
<td>$43.3</td>
<td>$47.8</td>
<td>$4.5</td>
<td>10.3%</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
  - On-going examiner training requirements
  - Shared service agreements for accounting, human resources, and travel systems
  - Human capital support
  - Building physical security and IT information security program
Operating Budget: Contracted Services

2021 Contracted Services Budget by Category (in Millions of Dollars)

- Training: 7.1% ($3.4)
- Administrative/Other: 13.1% ($6.2)
- Information Technology Security: 9.4% ($4.5)
- Building Operations, Maintenance and Security: 8.4% ($4.0)
- Audit and Financial Management Support: 4.3% ($2.1)
- Information Technology Operations and Maintenance: 48.1% ($23.0)
- Accounting, Procurement, Payroll and HR Systems and Services: 9.6% ($4.6)
Major programs within the Contracted Services budget include:

- **Information Technology (IT) Operations and Maintenance (48 percent):** the NCUA contracts for IT network support, help desk services, and other systems support.

- **Administrative Support and Other Services (13 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 (8 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 (4 percent):** The NCUA Office of Inspector General contracts with an accounting firm to conduct the annual audit of the agency’s four permanent funds.
The NCUA projects that at least $18.3 million budgeted for 2020 travel and operating expenses will not be spent as planned.

Through November, approximately $7.9 million was used for:

- COVID-19 related expenses ($3.1 million)
- Central Office renovations ($2.6 million)
- Accrued employee leave payout ($2.2 million)

The remaining $10.4 million will be used to offset 2021 needs:

- Travel costs not included in the 2021 Operating Budget ($5.8 million)
- Retire the Central Office note in 2020 ($3.7 million)
- Anticipated 2021 COVID-19 related expenses ($0.9 million)
## 2021 Capital Budget

<table>
<thead>
<tr>
<th>($ thousands)</th>
<th>2020</th>
<th>2021</th>
<th>Change 2020 to 2021</th>
<th>% Change 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Technology Software development</td>
<td>$20,902</td>
<td>$11,968</td>
<td>-$8,934</td>
<td>-42.7%</td>
</tr>
<tr>
<td>Other Information Technology Investments</td>
<td>2,650</td>
<td>5,627</td>
<td>2,977</td>
<td>112.3%</td>
</tr>
<tr>
<td>Capital Building Improvements and Repairs</td>
<td>1,524</td>
<td>1,250</td>
<td>-274</td>
<td>-18.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$25,076</strong></td>
<td><strong>$18,845</strong></td>
<td><strong>-$6,321</strong></td>
<td><strong>-24.8%</strong></td>
</tr>
</tbody>
</table>

- **Information Technology investments**
  - The agency’s Information Technology Policy Council oversees the recommended IT software development investments.

- **NCUA-owned facility investments**
  - Central Office HVAC replacement and Southern Regional Office improvements.
  - The NCUA board approved using unspent 2020 travel funds to pay for Central Office renovations, reducing the 2021 capital budget by $3 million.
2021 Capital Budget

- The capital budget includes $18.8 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>2021 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Examination and Supervision Solution and Infrastructure Hosting (MERIT)</td>
<td>$7,388,000</td>
</tr>
<tr>
<td>Enterprise Central Data Repository</td>
<td>1,626,000</td>
</tr>
<tr>
<td>Enterprise Data Program</td>
<td>350,000</td>
</tr>
<tr>
<td>NCUA Website Development</td>
<td>100,000</td>
</tr>
<tr>
<td>Performance Management System Replacement</td>
<td>154,000</td>
</tr>
<tr>
<td>Continuous Diagnostic Mitigation (CDM)</td>
<td>900,000</td>
</tr>
<tr>
<td>Microsoft Office M365 Implementation</td>
<td>1,450,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other Information technology investments</th>
<th>2021 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise Laptop Lease</td>
<td>807,000</td>
</tr>
<tr>
<td>IT Infrastructure, Platform and Security Refresh</td>
<td>3,870,000</td>
</tr>
<tr>
<td>Refresh VoIP Phone System</td>
<td>950,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capital building improvements and repairs</th>
<th>2021 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Office HVAC System Replacement</td>
<td>500,000</td>
</tr>
<tr>
<td>Austin, TX Office Building Improvements</td>
<td>750,000</td>
</tr>
</tbody>
</table>

| Grand Total, Capital Projects            | $18,845,000 |

- More detailed descriptions are available in the budget justification.
## 2021 Share Insurance Fund Administrative Budget

<table>
<thead>
<tr>
<th>($ millions)</th>
<th>2020</th>
<th>2021</th>
<th>Change 2020 to 2021</th>
<th>% Change 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget*</td>
<td>$6.5</td>
<td>$8.1</td>
<td>$1.6</td>
<td>24.6%</td>
</tr>
<tr>
<td>Positions</td>
<td>5</td>
<td>5</td>
<td>---</td>
<td>---%</td>
</tr>
</tbody>
</table>

- Funds the direct costs of Share Insurance Fund (SIF) administration and management.
- Supports the NCUA Guarantee Notes (NGN) program and the Corporate System Resolution Program (CSRP).

* 2021 technical assumptions for cost growth (e.g., salary and benefits inflation, travel, etc.) are identical to the Operating Budget. In 2021, the NCUA will conduct its own analyses of large credit unions stress test results.
## 2021 Share Insurance Fund Administrative Budget

<table>
<thead>
<tr>
<th>Category ($ thousands)</th>
<th>2020</th>
<th>2021</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and Benefits</td>
<td>$1,470</td>
<td>$1,500</td>
<td>$30</td>
<td>2.0%</td>
</tr>
<tr>
<td>Travel and Training</td>
<td>79</td>
<td>79</td>
<td>---</td>
<td>0.0%</td>
</tr>
<tr>
<td>NGN support</td>
<td>2,689</td>
<td>2,484</td>
<td>-205</td>
<td>-7.6%</td>
</tr>
<tr>
<td>SIF Direct Expenses</td>
<td>2,212</td>
<td>4,035</td>
<td>1,823</td>
<td>82.4%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$6,450</td>
<td>$8,098</td>
<td>$1,648</td>
<td>25.6%</td>
</tr>
</tbody>
</table>
In July, the NCUA Board proposed changes to how the agency calculated the Operating Fee charged to Federal Credit Unions:

- Exclude PPP loans from total assets.
- Compute total assets as an average of the previous four quarters’ Call Report data.
- Include the budget for capital projects and miscellaneous revenues in the total amount subject to the OTR.
- Make various other technical and conforming adjustments.

The 2021 Operating Fee will be based on the Board’s final decision about the changes after considering comments from the public.
Financing the NCUA Programs

2021 Distribution of Operating Budget Costs

- FCU OTR Portion: 31.3%
- Total FCU Portion: 69.0%
- FISCU OTR Portion: 31.0%
- FCU Operating Fee: 37.7%

<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>37.7%</td>
<td>0.0%</td>
</tr>
<tr>
<td>OTR x Percent of Insured Shares</td>
<td>31.3%</td>
<td>31.0%</td>
</tr>
<tr>
<td>(62.3% x 0.3%)</td>
<td>(62.3% x 9.7%)</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>69.0%</td>
<td>31.0%</td>
</tr>
</tbody>
</table>
Key NCUA Budget and Supplementary Materials:
https://www.ncua.gov/about/budget-strategic-planning/budget-supplementary-materials

- Budget Proposals and Presentations
- Budget Justifications
- Line Item Budget Detail
- Budget FAQs
- Operating Fees
- Overhead Transfer Rate analyses
- Budget-related Board Action Memoranda
As required by law, the draft Budget Justification was published in the *Federal Register* on November 19, 2020:

- The public may submit written comments on the draft Budget Justification by emailing: BudgetComments@ncua.gov
  Include on the subject line: “Comments on the NCUA Draft 2021-2022 Budget Justification.”

- Due date for written comments is Friday, December 11, 2020.
Please contact my office with questions or comments.

Eugene Schied
Chief Financial Officer
eschied@ncua.gov
(703) 518-1631

APPENDIX
## 2021 Operating Budget Categories

<table>
<thead>
<tr>
<th>Budget Category ($ Thousands)</th>
<th>2020 Board Approved Budget</th>
<th>2021 Recommendation</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Pay</td>
<td>$162,513</td>
<td>$167,978</td>
<td>$5,465</td>
<td>3.4%</td>
</tr>
<tr>
<td>Employee Benefits</td>
<td>68,798</td>
<td>72,916</td>
<td>4,118</td>
<td>6.0%</td>
</tr>
<tr>
<td>Total Compensation</td>
<td>231,311</td>
<td>240,894</td>
<td>9,583</td>
<td>4.1%</td>
</tr>
<tr>
<td>Travel</td>
<td>27,379</td>
<td>13,490</td>
<td>-13,889</td>
<td>-50.7%</td>
</tr>
<tr>
<td>Rent/Comm./Utilities</td>
<td>8,232</td>
<td>7,194</td>
<td>-1,038</td>
<td>-12.6%</td>
</tr>
<tr>
<td>Administrative</td>
<td>5,630</td>
<td>6,182</td>
<td>552</td>
<td>9.8%</td>
</tr>
<tr>
<td>Contracted Services</td>
<td>43,331</td>
<td>47,807</td>
<td>4,476</td>
<td>10.3%</td>
</tr>
<tr>
<td><strong>Total, Operating Budget</strong></td>
<td><strong>$315,883</strong></td>
<td><strong>$315,567</strong></td>
<td><strong>-$316</strong></td>
<td><strong>-0.1%</strong></td>
</tr>
</tbody>
</table>
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 Board proposed changing the basis for calculating the Operating Fee to a four-quarter average of total assets.
  - The NCUA Share Insurance Fund 1% deposit assessments are based on previous December 31 year-end balance of insured shares

• **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 2021 President’s Budget Appendix:

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