



# Final Regulation

## **National Credit Union Administration: Overhead Transfer Rate Methodology**

### **17-EF-14**

#### **NAFCU would like to highlight the following:**

- NCUA finalized changes to the Overhead Transfer Rate (OTR) methodology, which is used to calculate how much of the agency's operating budget is funded by the Share Insurance Fund.
- The final changes reduce the number of steps from eight to three, making the methodology simpler to administer.
- The new methodology presumes that examiners spend 50 percent of their time on insurance-related matters at federal credit unions, and 100 percent on insurance-related matters at federally-insured, state chartered credit unions.
- The new methodology results in a 2018 OTR of 61.5 percent, compared to 67.7 percent in 2017.
- With an OTR of 61.5 percent, federal credit unions will pay 15.7 percent more in operating fees, compared to 2017.

**Effective: November 16, 2017**

## **Summary**

At the November 16, 2017 Board Meeting, NCUA finalized changes to the Overhead Transfer Rate (OTR) methodology. The primary goal of the change is to reduce the complexity of the OTR methodology so that it is easier to understand and simpler for NCUA staff to administer. Among other principles, the new methodology presumes that examiners spend 50 percent of their time on insurance-related matters at federal credit unions (FCU), and 100 percent on insurance-related matters at federally-insured, state chartered credit unions (FISCU).

The new methodology results in a 2018 OTR of 61.5 percent, compared to 67.7 percent in 2017. With an OTR of 61.5 percent, federal credit unions will pay 15.7 percent more in operating fees, compared to 2017. The final methodology in its entirety can be found [here](#).

## **Background**

NCUA charters, regulates, and insures shares of, FCUs and insures shares and deposits in FISCU through the National Credit Union Share Insurance Fund (Share Insurance Fund or SIF). NCUA is responsible for ensuring that federally insured credit unions operate safely and soundly, and comply with all applicable laws and regulations within NCUA's jurisdiction. In so doing, the agency mitigates risk to the SIF and prevents taxpayer-funded bailouts.

To achieve its statutory mission, the agency incurs various expenses, including those involved in examining and supervising federally insured credit unions. The Board adopts an Operating Budget each year to fund the vast majority of these costs. The *Federal Credit Union Act* (the Act or FCUA) authorizes two primary sources to fund the Operating Budget: (1) requisitions from the Share Insurance Fund; and (2) Operating Fees charged to FCUs.

In 1972, the Government Accountability Office recommended NCUA adopt a method for properly allocating Operating Budget costs – that is the portion to be funded by requisitions from the Share Insurance Fund and the portion to be covered by Operating Fees paid by FCUs. NCUA has since used an allocation methodology, known as the OTR, to determine how much of the Operating Budget to fund with a requisition from the Share Insurance Fund. The OTR represents the formula NCUA uses to allocate insurance-related expenses to the Share Insurance Fund under Title II. NCUA has employed various allocation methods over the years, with the former methodology adopted in 2003.

NCUA requested comments on the former OTR methodology through a notice in the *Federal Register* published in January 2016, and once again in June 2017. Based on the comments and NCUA's internal assessment, the Board elected to change the OTR methodology. This document provides a summary of the new OTR methodology.

## Details of New OTR Methodology

NCUA has simplified the OTR formula in order to facilitate greater understanding of the methodology, which the agency asserts will decrease the resources necessary to administer the OTR. The methodology decreases the number of steps from the current level of eight to three.

According to NCUA, the simplified formula applies four underlying principles. First, the methodology assumes that time spent and examining FCUs is allocated as 50 percent insurance related, emulating a program where NCUA would alternate examinations between its insurance function and its prudential regulator function as if they were separate units within NCUA. Second, all time and costs NCUA spends supervising or evaluating the risks posed by FISCUs or other entities NCUA does not charter or regulate are allocated as 100 percent insurance related. Third, time and costs related to NCUA's role as charterer and enforcer of consumer protection and other non-insurance based laws governing the operation of credit unions are allocated as 0 percent insurance related. Finally, time and costs related to NCUA's role in administering federal share insurance and the Share Insurance Fund, such as liquidations of credit unions and insured share payouts, are allocated as 100 percent insurance related.

### Step 1 – Workload Program

Annually, NCUA develops a workload budget based on NCUA's examination and supervision program to carry out the agency's core mission, and the level of field staff needed to examine and supervise all federally insured credit unions.

Previously, the workload budget was calculated using Employee Time Surveys (ETS), which is designed to capture employee time spent on insurance related matters versus non-insurance related.

Under the new revision, NCUA no longer accounts for actual time spent on insurance or non-insurance, but rather assumes that only half the time spent at FCUs is insurance related, and 100 percent of the time spent at FISCUs is insurance related. Table 1 shows how the new methodology is applied using 2018's workload budget.

<b>Table 1 – Allocation of Workload Hours</b>					
LN	Workload Programs 2018 Data	(A) Budgeted Workload Hours	(B) Percent Insurance Related	(A) x (B) Insurance- Related Workload Hours	Allocation Basis
1	Federal Credit Union Examination	496,920	50%	248,460	Based on allocation principle 1 reflecting NCUA's roles as both prudential regulator and insurer
2	State Credit Union Examination & Supervision	191,873	100%	191,873	Based on allocation principle 2 reflecting NCUA's role as insurer

3	Consumer Compliance Reviews & Related Training	0	0%	0	Based on allocation principle 3 reflecting NCUA's role as prudential regulator
4	Field of Membership & Chartering	500	0%	0	Based on allocation principle 3 reflecting NCUA's role as prudential regulator
5	CUSO & Third-party Vendor Reviews	6,690	100%	6,690	Based on allocation principle 2 reflecting NCUA's role as insurer. Field staff time conducting reviews of CUSOs and third-party vendors – NCUA does not charter or regulate CUSOs and third-party vendors
6	<b>Total</b>	<b>695,983</b>	<b>N/A</b>	<b>447,023</b>	
7	<b>Total Insurance-Related Workload Hours to Total Workload Hours</b>			64.2%	Weighted average of field staff program time devoted to NCUA's role as insurer

## **Step 2 – Operating Budget**

While the first step was needed to determine the number of “hours costs” related to non-insurance work, the next step in the methodology is needed to determine the “dollar costs” of NCUA’s non-insurance activities. To do this, the weighted average calculated above (line 7 of Table 1) is the main allocation factor used in Step 2 for the costs of the field offices (the Regions, ONES, and other specific agency offices). NCUA explains that certain other agency offices are significantly distinct enough to warrant individual allocation factors, such as the Office of Consumer Financial Protection (OCFP). Table 2 reflects the application of the OTR allocation factors using the 2018 Financial Budget.

**Table 2 – Allocation of NCUA Financial Budget**

<b>LN</b>	<b>Cost Area (2018 data)</b>	<b>(A) Operating Budget \$Millions</b>	<b>(B) Percent Insurance Related</b>	<b>(A) x (B) Operating Cost to be Borne by the Share Insurance Fund \$Millions</b>
1	Regions and ONES	\$162.5	64.2%	\$104.4
2	Asset Management Assistance Center	\$4.4	100%	\$4.4
3	Office of Consumer Financial Protection	\$5.0	3.0%	\$0.1
4	Office of Credit Union Resources and Expansion	\$10.4	31.4%	\$3.3
5	<b>Subtotal</b>	<b>\$182.2</b>	<b>61.5%</b>	<b>\$112.1</b>
6	<b>All Other Offices</b>	<b>\$115.9</b>	<b>61.5%</b>	<b>\$71.3</b>

7	<b>Total</b>	<b>\$298.1</b>		<b>\$183.5</b>
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Regions and ONES

NCUA explains that the financial budget for the agency's five regional offices and ONES is allocated based on the weighted average of non-insurance and insurance-related activities calculated in Step 1. The Regions and ONES execute NCUA's examination programs; thus, the budgeted costs related to these offices should receive the same allocation basis as the programs themselves; i.e., 64.2 percent for insurance-related activities.

Asset Management and Assistance Center

NCUA conducts credit union liquidations and performs management and recovery of assets through the Asset Management and Assistance Center (AMAC). The purpose of AMAC is to manage and reduce costs to the Share Insurance Fund. Thus, OTR allocation is based on principle 4 as 100 percent insurance related.

Office of Consumer Financial Protection

The Office of Consumer Financial Protection (OCFP) is responsible for, among other things, consumer inquiries and complaints and fair lending examinations. Because a majority of OCFP's work is related to NCUA's role as prudential regulator and charterer of FCUs, principle 3 is applied to a majority of OCFP's work, and allocated as 0 percent insurance-related. However, some of OCFP's work involves FISCUs and insurance coverage matters, both of which fall under principle 4. After breaking up OCFP's work categories, NCUA has determined that 3 percent of full time equivalent staff conduct insurance related activities, as indicated in line 3 in Table 2.

Office of Credit Union Resources and Expansion

The Office of Credit Union Resources and Expansion (CURE) processes charter applications and field of membership expansion requests for FCUs, provides consulting and training services for both FCUs and FISCUs, and processes grants and loans. Principle 1 is applied to the office's work with FCUs and principle 2 is applied to the office's work with FISCUs. Principle 3 is applied to the office's work related to charting and field of membership.

All Other Offices

NCUA's remaining offices design or oversee the agency's mission and its related offices, or provide necessary support to mission offices or the entire agency. For these offices, NCUA allocates the same percentage of the weighted average of non-insurance time calculated in the subtotal (line 5) in Table 2 above, i.e., 61.5 percent.

**Step 3 – Calculate the OTR**

Using the results from Step 2, the total costs for NCUA's 2018 Operating Budget borne by the Share Insurance Fund under the new methodology is \$183.5 million, accounting for 61.5 percent of NCUA's total Operating Budget. The 2017 methodology resulted in a 67.7 percent OTR, with FCU's paying \$96.4 million in operating fees. Under the new methodology, FCUs have to pay \$112.5 million in operating fees, a 16 percent increase over 2017.

## **Other Changes**

In addition to the changes to the methodology, the Board formally adopted several other OTR related processes. First, NCUA will solicit through the *federal register* public comment on the OTR methodology at least every 3 years, and whenever NCUA seeks to change the OTR methodology.

Additionally, NCUA will maintain the staff delegation to administer the OTR methodology, but require public board briefings every year on the results of the calculation and to post all related material to NCUA's website.

***This document is intended for informational purposes only. It does not constitute legal advice. If such advice or a legal opinion is required, please consult with competent local counsel.***

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## NAFCU'S 2017 REGULATORY ALERTS

<b>Number</b>	<b>Topic</b>	<b>Date Issued</b>
17-EA-01	Treasury: Participation in the Automated Clearing House	1/3/2017
17-EA-02	CDFI Fund: RFI Regarding Policies and Procedures	1/18/2017
17-EA-03	NCUA: Alternative Capital ANPR	2/8/2017
17-EA-04	CFPB: Alternative Data	3/22/2017
17-EA-05	CFPB: Remittance Rule Assessment	4/5/2017
17-EA-06	CFPB: Amendments to HMDA Final Rule	5/2/2017
17-EA-07	CFPB: CARD Act Review	5/9/2017
17-EA-08	CFPB: Small Business Lending Information Collection RFI	5/17/2017
17-EA-09	NCUA: 2017 Regulation Review	5/19/2017
17-EA-10	NCUA: Exam Appeals	6/6/2017
17-EA-11	NCUA: Supervisory Review Committee	6/6/2017
17-EA-12	NCUA: Mergers	6/7/2017
17-EA-13	CFPB: Improving Language Access	6/9/2017
17-EA-14	CFPB: Mortgage Servicing Rules Assessment	6/9/2017
17-EA-15	Federal Reserve: Regulation CC – Forged or Altered Checks	6/28/2017
17-EA-16	CFPB: Amendments to Rules Concerning Prepaid Accounts	6/29/2017
17-EA-17	CFPB: ATR/QM Rule Assessment	6/30/2017
17-EA-18	NCUA: OTR Methodology	7/10/2017
17-EA-19	DOL: Fiduciary Rule and Prohibited Transaction Exemptions	7/10/2017
17-EA-20	NCUA: Corporate Credit Unions	7/14/2017
17-EA-21	NCUA: Merger of Stabilization Fund and SIF	7/28/2017
17-EA-22	NCUA: Share Insurance Fund Equity Distributions	7/28/2017
17-EA-23	NCUA: Emergency Mergers	8/28/2017
17-EA-24	NCUA: Regulatory Reform Agenda	8/29/2017
17-EA-25	DOL: Overtime	8/30/2017
17-EA-26	CFPB: TRID	9/11/2017
17-EA-27	NCUA: Accuracy of Advertising and Notice of Insured Status	10/16/2017
17-EA-28	NCUA: Capital Planning and Supervisory Stress Testing	10/30/2017
17-EA-29	NCUA: Electronic Data Collection RFI	11/6/2017

## NAFCU'S 2017 FINAL REGULATIONS

<b>Number</b>	<b>Topic</b>	<b>Date Issued</b>
17-EF-01	FHFA: Acquired Member Assets	1/12/2017
17-EF-02	FHFA: Duty to Serve Underserved Markets	1/18/2017
17-EF-03	FFIEC: CC Rating System	2/3/2017



17-EF-04	Federal Reserve: Availability of Funds and Collection of Checks	6/28/2017
17-EF-05	NCUA: Safe Harbor	7/13/2017
17-EF-06	CFPB: Arbitration Agreements	8/7/2017
17-EF-07	CFPB: TRID "Fix"	8/25/2017
17-EF-08	CFPB: Amendments to the 2015 HMDA Final Rule	9/29/2017
17-EF-09	Treasury: Federal Participation in Automated Clearing House	10/5/2017
17-EF-10	CFPB: Payday, Vehicle Title, and Certain High Cost Installment Loans	10/10/2017
17-EF-11	NCUA: Supervisory Review Committee, Procedures for Appealing Material Supervisory Determinations	10/26/2017
17-EF-12	NCUA: Appeals Procedures	10/26/2017
17-EF-13	CFPB: Amendments to Regulation B	10/27/2017
17-EF-14	NCUA: Overhead Transfer Rate Methodology	11/21/2017