

BOARD ACTION MEMORANDUM

TO: NCUA Board

DATE: November 15, 2012

FROM: Office of Examination & Insurance

SUBJ: Overhead Transfer Rate 2013

ACTION REQUESTED: Approve the recommended overhead transfer rate for 2013

DATE ACTION REQUESTED: November 15, 2012.

OTHER OFFICES CONSULTED: Office of the Chief Financial Officer.

VIEWS OF OTHER OFFICES CONSULTED: Concur.

BUDGET IMPACT, IF ANY: None. The overhead transfer rate is one of the funding sources for the budget, but does not affect the amount of the budget. The NCUA Board approves the budget separately and without regard to the overhead transfer rate. The overhead transfer rate is applied to actual expenses incurred each month.

SUBMITTED TO INSPECTOR GENERAL FOR REVIEW: N/A

RESPONSIBLE STAFF MEMBERS: JeanMarie Komyathy, Office of Examination and Insurance's Director of Risk Management and Loss/Risk Analysis Officer Debra Pockat.

SUMMARY: The *Federal Credit Union Act* authorizes NCUA to expend funds from the National Credit Union Share Insurance Fund (NCUSIF) for administrative and other expenses related to federal share insurance (12 U.S.C. §1783). An overhead transfer from the NCUSIF covers the expenses associated with insurance-related functions of NCUA's operations. The NCUA Board approved the current overhead transfer rate of 59.3 percent for fiscal year 2012 in November 2011.

At the November 20, 2003 board meeting, the NCUA Board approved a refined method for calculating the recommended overhead transfer rate.

One of the factors considered in calculating the overhead transfer rate is the annual completion of the Examination Time Survey. The Examination Time Survey is considered appropriate due to the following:

- NCUA carries out its mission as an insurer and as a federal credit union regulator primarily through the examination and supervision process; and
- Examinations and supervision are the primary catalysts for other agency functions.

In addition to results from the Examination Time Survey, which is collected on a twelve month survey cycle, we include additional factors in the methodology:

- The value to the NCUSIF of the insurance-related work performed by state supervisory authorities (SSAs).
- The cost of NCUA resources and programs with different allocation factors from the examination and supervision program. Allocation factors are reviewed annually.
- The distribution of insured shares between federal credit unions and federally insured state-chartered credit unions.
- Operational costs charged directly to the NCUSIF.

The Office of Examination and Insurance (E&I) contracted PricewaterhouseCoopers, an expert firm, to conduct an independent review of the methodology used to calculate the overhead transfer rate in 2009. The purpose of the review was to evaluate the appropriateness of NCUA's calculation. The expert firm found that the overhead transfer rate methodology was reasonable and did not favor one type of credit union (i.e. federal versus state chartered) over another.

PricewaterhouseCoopers recommended enhancements documenting the allocation factors tied to insurance related activities. In response, we required each office to develop procedures for monitoring activity as it relates to 'insurance' related activities versus 'regulatory' related activities and incorporated the results. In addition, NCUA plans to further evaluate the definitions for insurance versus regulatory related activities. The agency will consult with an independent expert firm to review staff's analysis of the definitions. While there is currently no specific time table, it is possible this work could be completed in time to inform the Board's decision making when it sets the next annual overhead transfer rate.

As detailed in the attachment, we applied the overhead transfer rate methodology to the 12-month survey data and 2013 budget. This resulted in a decrease in the 2013 overhead transfer rate from 59.3 percent to 59.1 percent. The following factors contributed to the decrease in the overhead transfer rate:

- Modification of the SSA Imputed Value calculation to include costs associated with the Office of the Chief Financial Officer and other central office costs to represent fixed costs of the SSAs.
- The 2013 workload budget for federal examination and supervision was reduced by over 1,794 hours.
- The 2013 workload budget for state examination and supervision increased by over 8,191 hours.
- Examiners reported spending 67.3 percent of their examination and supervision time on insurance related procedures for the time survey ending in 2012, compared to 65.1 percent in the previous survey cycle.
- The 2013 budget of \$251.4 million for the cost of NCUA resources and programs increased over the previous year's budget of \$236.9 million.

The factors listed above resulted in the decreased overhead transfer rate.

RECOMMENDED ACTION: Authorize an overhead transfer rate annually based on the NCUA Board approved methodology which results in a 59.1 percent overhead transfer rate for 2013.

ATTACHMENT: Calculation of 2013 overhead transfer rate.

Attachment

Calculation of the 2013 Overhead Transfer Rate

STEP 1 – Workload Program (2013)

Core Programs	2013 Workload Hours	Non- Insurance Percent	Non- Insurance Hours	Allocation Basis
Federal Examination	450,266	37%	165,698	Examiner time survey.
Federal Supervision	81,283	22%	17,720	Examiner time survey.
State Exam & Supv	190,949	0%	0	FISCU work is insurance-related.
State Exam Review	7,091	0%	0	FISCU work is insurance-related.
5300 Program - FCU	35,103	37%	12,918	FCU time uses examiner time survey.
5300 Program – FISCU	10,477	0%	0	FISCU portion considered insurance-related.
Total Core Program	775,169	n/a	196,335	
Special Programs				
Fair Lending Exams	2,500	100%	2,500	Regulatory program now completed by OCP.
RLS	3,590	37%	1,321	Based on insurance but includes a portion of regulatory.
FOM & Chartering	710	100%	710	Regulatory program.
RCMS	2,695	0%	0	NCUSIF risk management program.
RISOs	1,185	37%	436	Allocation based on % from time surveys.
Small Credit Unions	16,360	22%	4,254	Allocation based on types of assistance provided by Time Reporting categories.
CUSO Exams	5,370	0%	0	NCUSIF risk management program.
Total Special Program	29,910	n/a	9,221	
Total Core & Special Programs	807,579	n/a	205,556	
Percent of Workload Programs devoted to NCUA's Non-Insurance Role			25%	

NOTE: The totals may not reconcile due to the results of rounding.

STEP 2 – Financial Budget (2013)

Cost Area 2013 Financial Budget	Dollar Budget (\$M)	Non- Insurance Percent	Non- Insurance Cost (\$M)
Office of Consumer Protection Divisions of Insurance: Primarily non-insurance (regulatory) function i.e. chartering/FOM - net of work related to share insurance coverage for members and FISCUs.	\$7.2	77%	\$5.6
All Other Region Costs: Based on regulatory related portion of core and special programs.	\$142.7	25%	\$36.3
Asset Management Assistance Center and Assistance Program: Manages liquidation payouts, assets acquired from liquidations and assistance programs, and recoveries for the NCUSIF.	\$5.6	0%	\$0
Office of Small Credit Unions: Primarily regulatory related function to facilitate the expansion of credit union services. However, 10% FISCU participation rate.	\$5.7	26%	\$1.5
Office of Corporate Credit Unions: NCUSIF risk management function other than chartering, FOM, and mergers.	\$9.0	29%	\$2.6
Other Internal Offices: Based on non-insurance percent. (OHR, OCIO, OCFO)	\$42.5	20%	\$8.5
All Other Costs: Based on non-insurance portion of core and special workload programs. Includes NCUA board, Office of Inspector General, etc.	\$38.7	25%	\$9.8
Total 2013 NCUA Budget	\$251.4		\$64.3

STEP 3 – Calculate NCUSIF Costs (2013)

Imputed NCUSIF Costs

	Millions
2013 Financial Budget	\$251.4
Non-Insurance Costs (see Step 2)	- \$64.3
SSA imputed Value	+ \$34.0
Direct Operational Charges to NCUSIF	+ \$1.5
Total NCUSIF Imputed Costs	= \$222.7

STEP 4 – Allocation of NCUSIF Costs (2013)

Insured Shares Allocation

	FCU	FISCU
Total Cost of Providing NCUSIF Insurance	\$188.6	\$188.6
Times Proportional Allocation Basis	54.1%	45.9%
Equals Allocated Insurance Costs	\$102.0	\$86.6

Net of Imputed SSA Value

	Millions
Total Allocated Insurance Costs - FISCUs	\$102.2
Minus SSA Insurance Work Imputed Value	\$34.0
Equals Net Cost of NCUSIF Insurance – FISCUs	\$68.2

Dollar Amount of OTR

	FISCUs	FCUs	Dollar Amt
FISCU Portion of NCUA Insurance Cost	\$68.2	\$80.3	\$148.5
Divided by Percentage of Insured Shares	45.9%	54.1%	

OTR as a Percent of Budget

Dollar Amount of OTR	\$148.5 M
Divided by NCUA Budget	\$251.4 M
Equals OTR	59.07%

Imputed SSA Value Step 1 – 2013

Gross Workload

Table 1

Average Exam Time (Hours) FCU (Dec. 2010)	Assets < \$10M	\$10M - \$100M	\$100M - \$250M	\$250M - \$500M	> \$500M
CAMEL 1	48	77	152	192	322
CAMEL 2	51	89	174	227	333
CAMEL 3	58	108	212	254	420
CAMEL 4	67	141	285	320	373
CAMEL 5	209	379	293	0	0

Table 2

FISCUs (#) in Each Category (as of Dec 2010)	Assets < \$10M	\$10M - \$100M	\$100M - \$250M	\$250M - \$500M	> \$500M
CAMEL 1	79	138	47	34	61
CAMEL 2	469	706	178	85	108
CAMEL 3	222	273	54	22	20
CAMEL 4	60	48	15	2	10
CAMEL 5	6	7	1	1	0

Table 3

Total Hours (Table 1 cells x Table 2 cells)	Assets < \$10M	\$10M - \$100M	\$100M - \$250M	\$250M - \$500M	> \$500M
CAMEL 1	3,792	10,626	7,144	6,528	19,642
CAMEL 2	23,919	62,834	30,972	19,295	35,964
CAMEL 3	12,876	29,484	11,448	5,588	8,400
CAMEL 4	4,020	6,768	4,275	640	3,730
CAMEL 5	1,254	2,653	293	0	0
Total	45,861	112,365	54,132	32,051	67,736
Total Gross Exam Hours				312,145	

Imputed SSA Value Step 2 - 2013

Net Workload

Net of Insurance-Related Time

FISCUs	Hours
Gross FISCU Exam Hours	312,145
x Insurance Factor Based on Exam Time Survey	63.2%
= Total Insurance Hours w/out Risk-Based Scheduling	197,276

Net of NCUA Time in FISCUs

	Hours
Total FISCU Hours	273,956
+ 2013 Budgeted Supervision Hours	53,971
- 2013 Budgeted Insurance Review Hours	136,978
Total Additional FISCU Insurance Hours Needed	190,949

*Uses the larger of two calculations – current budgeted state exam insurance hours or projected FISCU exam insurance hours based on ETS.

Imputed SSA Value Step 3 - 2013

Additional Staff Needed

Examiner Productive Time

2013 Core and Special Workload Program Hours	807,579
/ Total 2013 Workload Program Hours	1,488,447
= Productivity Ratio	54.3%
Total Work Hours in a Year Per Full Time Equivalent (FTE)	2,080
x Productivity Ratio	54.3%
= Productive Hours per FTE Examiner	1,129

Number of Examiners Needed

Net Additional FISCO Hours Needed	183,858
/ Productive Hours per FTE Examiner	1,129
= Number of Additional FTE Examiners Needed	162.9

Total Additional Staff Needed

Additional Staff Needed	Ratio Examiners to Position	FTEs Per Position
Examiners	1/1	162.9
Supervisory Examiners	1/9	18.1
Analysts	1/15	10.9
Directors	1/25	6.5
Other Regional Staff	1/20	8.1
= Number of Additional FTEs Needed		206.5

Imputed SSA Value Step 4 - 2013

Imputed Cost

Gross Cost

Total Cost of Regions (2013 Budget)	\$142,592,809
/ FTEs in Regions (2013 Budget)	880.6
= Per Regional FTE Cost	\$161,927
x Number of Additional FTEs Needed	206.5
= Cost of Additional Regional Positions	\$34

Net Cost

	Millions
Cost of Additional Regional Positions	\$33.44
+ Additional OHR Costs (15.3% budget)	\$2.2
- SSA Training and Equipment Cost	\$1.55
= Imputed SSA Value	\$34