OVERHEAD TRANSFER RATE

History

The Overhead Transfer Rate, also known as the OTR, is one of the two funding sources for the National Credit Union Administration's budget. The other source of funding is the Operating Fee. These sources are described below:

- The Operating Fee is collected from federal credit unions and corporate federal credit unions.

- The OTR is a transfer of funds for insurance-related expenses from the National Credit Union Share Insurance Fund. These expenses are borne by federally insured credit unions, which includes both federal credit unions and federally insured, state-chartered credit unions.

The Federal Credit Union Act establishes the Share Insurance Fund as a "revolving fund for carrying out the purposes of [Title II]" of the act. The law also authorizes the NCUA Board to use monies in the Share Insurance Fund for "such administrative and other expenses incurred in carrying out the purpose of [Title II] as [the Board] may determine to be proper."[1] Therefore, the Board may transfer money from the Share Insurance Fund to cover insurance-related expenses (such as personnel and other examination-related costs) paid from the Operating Fund.

OTR Calculation

NCUA uses a survey process to calculate the amount of time spent conducting insurance-related work during an examination. In June 2002, NCUA automated the examination time survey process. In addition, the agency enhanced time survey guidance, training, and communications as recommended by our outside consultant, Deloitte and Touche. The survey is now conducted annually and uses a statistically valid sample size.

In terms of the evolution of the calculation methodology:

- From 1985 through 1994, annual surveys were conducted to determine an appropriate OTR. Although the survey results varied between 50.1 percent and 60.4 percent, the OTR was maintained at 50 percent. Following the 1994 survey, the Board approved surveys to be conducted every three years.

- The 1997 survey (49 percent) resulted in a continuance of the 50 percent rate through 1999, while the 2000 survey (66.7 percent) resulted in an increase of the OTR to 66.7 percent for 2001.

- The process was modified in 2002, resulting in setting the OTR at 62 percent based upon an analysis of projected program hours for 2002 that applied three different insurance factors to

[1] *See* 12 U.S.C. 1783(a).

“non-core” program hours (such as travel, office, and training). The analysis resulted in an OTR range of 62 to 70 percent.

At the November 20, 2003, Board meeting, the NCUA Board approved using a new methodology of calculating and setting the OTR annually. The refined method better accounts for:

- The value to the Share Insurance Fund of the insurance-related work performed by state regulators;
- The cost of NCUA resources and programs with different allocation factors from the examination and supervision program;
- The distribution of insured shares between federal credit unions and federally insured, state-chartered credit unions; and
- Operational costs charged directly to the Share Insurance Fund.

The Board then approved the annual OTR based on the refined methodology. The following table documents the results of the OTR calculation from 2004 through 2013.

OTR Year	OTR
2004	59.8%
2005	57.0%
2006	57.0%
2007	53.3%
2008	52.0%
2009	53.8%
2010	57.2%
2011	58.9%
2012	59.3%
2013	59.1%

In 2012, NCUA’s Office of Examination and Insurance clarified the application of the insurance-related and non-insurance related definitions in the exam time survey in response to stakeholder and examiner comments. NCUA’s rules and regulations were individually mapped to the proper exam time survey category based on the extent to which a regulation was designed to protect the Share Insurance Fund (a new sub-category of insurance related labeled “insurance-regulatory”) or to either govern commerce, provide consumer protection, or both govern commerce and provide protection (labeled “non-insurance or consumer regulatory”).

The primary definitions did not change; the regulations were merely explicitly mapped based on the overarching definitions. While examiners continue to use their judgment as to what exam procedures to perform during an examination or supervision contact based on the risks and product-service mix of the credit union, this clarification creates more consistency as to where examiners record the time on the exam time survey.

In 2013, the Office of Examination and Insurance contracted with PricewaterhouseCoopers, LLP, to review the mapping of NCUA's regulations to the categories on the exam time survey. This review concluded:

> *"The NCUA rules and regulations matrix aligns consistently with the insurance and regulatory activities and provides a documented basis supporting the allocation of examiner time between insurance and regulatory activities."*

The exam time survey for the period covering June 1, 2012, through May 31, 2013, implemented the new definitions resulting in a higher percentage of time in insurance-related activities. As a result, the calculation resulted in the following OTRs for 2014 through 2017.

OTR Year	OTR
2014	69.2%
2015	71.8%
2016	73.1%
2017	67.7%

At the November 19, 2015, meeting, the NCUA Board delegated to the Director of Examination and Insurance the authority to administer the Board-approved OTR methodology. The Director may set the OTR as calculated per the approved methodology, and validated by the Chief Financial Officer, each annual budget cycle beginning with the rate for 2016.

Request for Comment on the OTR

On January 21, 2016, the NCUA Board approved publishing in the *Federal Register* a request for comment on the methodology for determining the OTR. During the 90-day comment period, NCUA received 40 comment letters from state regulators, national credit union trade organizations, state credit union leagues, and credit unions.

NCUA staff have already summarized the comments. The received comments addressed a broad range of complex issues that necessitate additional research for a thorough response or clarification. Additionally, NCUA staff is exploring a variety of options for the NCUA Board to consider to improve the OTR methodology.

The issues raised by the commenters can be grouped into nine broad areas:

- The NCUA Board's legal authority and discretion to transfer money from the Share Insurance Fund to cover insurance-related expenses paid from the Operating Fund;
- Congressional intent of Title II of the Federal Credit Union Act;
- NCUA's dual role as charterer and insurer;
- Review of regulation mapping and the Administrative Procedure Act;
- Separation of NCUA into charterer versus insurer;

- Costs imputed to state regulators;
- Operational considerations;
- Compliance versus safety and soundness; and
- Other matters to consider relative to the OTR.

Because this issue is complex, sensitive, and has significant implications for how the agency's budget is funded and because it has a potential effect on state regulators, NCUA staff have been thoroughly, thoughtfully, and comprehensively approaching this matter. They plan to deliver the analyses of the above areas, and related options and any recommended changes, to the Board by the end of January 2017.