



National Credit Union Administration  
Office of the Chief Financial Officer

**BOARD ACTION MEMORANDUM**

**TO:** NCUA Board **DATE:** December 11, 2019  
**FROM:** Chief Financial Officer **SUBJ:** 2020 – 2021 Budget

**ACTION REQUESTED:** Board approval of the 2020 – 2021 Operating Budget, Capital Budget, and Share Insurance Fund Administrative Budget.

**DATE ACTION REQUESTED:** December 12, 2019

**OTHER OFFICES CONSULTED:** All Regional and Central Offices

**VIEWS OF OTHER OFFICES CONSULTED:** Concur

**SUBMITTED TO INSPECTOR GENERAL FOR REVIEW:** Yes

**RESPONSIBLE STAFF MEMBERS:** Rendell L. Jones, Chief Financial Officer

**AUTHORITY:**

Pursuant to the Federal Credit Union Act, authority for management of the National Credit Union Administration (NCUA) is vested in the NCUA Board (the Board). It is the Board's responsibility to determine the resources necessary to carry out the NCUA's responsibilities under the Act.<sup>1</sup> The Board is authorized to expend such funds and perform such other functions or acts as it deems necessary or appropriate in accordance with the rules, regulations, or policies it establishes.<sup>2</sup>

Upon determination of the budgeted annual expenses for the agency's operations, the Board determines a fee schedule to assess federal credit unions. The Board gives consideration to the ability of federal credit unions to pay such a fee, and the necessity of the expenses the NCUA will incur in carrying out its responsibilities in connection with federal credit unions.<sup>3</sup> Pursuant to the law, fees collected are deposited in the agency's Operating Fund at the Treasury of the United States, and those fees are expended by the Board to defray the cost of carrying out the agency's operations, including the examination and supervision of federal credit unions.<sup>4</sup>

In accordance with its authority<sup>5</sup> to use the National Credit Union Share Insurance Fund to carry out a portion of its responsibilities, the Board approved an Overhead Transfer Rate methodology,

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<sup>1</sup> See 12 U.S.C. 1752a(a).

<sup>2</sup> See 12 U.S.C. 1766(i)(2).

<sup>3</sup> See 12 U.S.C. 1755(a)-(b).

<sup>4</sup> See 12 U.S.C. 1755(d).

<sup>5</sup> See 12 U.S.C. 1783(a).

and authorized the Office of the Chief Financial Officer to transfer resources from the Share Insurance Fund to the Operating Fund to account for insurance-related expenses.

At the end of the calendar year, NCUA's financial transactions are subject to audit in accordance with Generally Accepted Accounting Principles.<sup>6</sup>

**SUMMARY:**

The 2020 – 2021 Budget Justification, which is included as Attachment 1, has been updated to respond to relevant comments from the public. The staff draft was posted to the NCUA website on October 29, 2019, and an identical version was published in the *Federal Register* on November 1, 2019. A number of revisions were made to the staff draft to provide more information about the NCUA's programs and to support the agency's multi-year effort to improve the transparency of its budgets and programs. These revisions are described in more detail, below.

The updated Budget Justification includes information about the NCUA's Operating Budget, Share Insurance Fund Administrative Budget, and Capital Budget. The draft 2020 and 2021 Capital and Share Insurance Fund Administrative Budgets were not substantially changed in the updated Budget Justification.

The funding levels in the 2020 Operating Budget were reduced by \$330,000, for a revised total of \$315,883,000, which is 3.8 percent more than the Board-approved 2019 Operating Budget. Specifically, reductions were made to the draft budgeted amounts for the annual payment to Federal Financial Institutions Examinations Council and other modest adjustments for employee compensation. The draft 2021 Operating Budget estimates were adjusted upward by \$2 million to reflect increases in employee retirement contributions based on new estimates provided by the Office of Personnel Management, which results in total annual growth of 3.8 percent between 2020 and 2021.

Total 2020 funding presented in the updated Budget Justification is \$347.4 million, an increase of one percent from the 2020 level approved by the Board in November 2018 and 3.8 percent from the Board-approved 2019 level.

In addition to funds presented in the updated Budget Justification, staff within the Office of the Chief Financial Officer estimate that approximately \$2 million in funding made available for expenditure in prior years will not be obligated before the end of 2019. These funds can be used in 2020 to offset expenses.

As required by the Economic Growth, Regulatory Relief, and Consumer Protection Act (P.L. 115-174), the NCUA held a hearing on November 20, 2019 to discuss the draft budget, which was open to the public and streamed live on the NCUA website. At that meeting, representatives from three independent national associations presented their views on the draft budget. The

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<sup>6</sup> See 12 U.S.C. 1783(b) and 12 U.S.C. 1789.

NCUA also received 28 written statements from 26 different organizations. Of this total, 10 submissions were general comments and suggestions about how to improve the NCUA's budget presentation, while the remaining 18 submissions were provided specifically in response to Board Member Harper's proposal to create a dedicated consumer compliance examination program for large credit unions. All written submissions were collected and posted to the NCUA website (see: <https://www.ncua.gov/about-ncua/budget-strategic-planning/budget-comments-2020>).

### Comments from the Public

A majority of the general comments received from the public about the 2020 – 2021 Budget relate to NCUA operations and program execution. The Office of the Chief Financial Officer will provide these comments directly to the appropriate NCUA senior executives responsible for the relevant offices discussed. Several comments noted on-going improvements in NCUA's presentation of its draft budget materials and praised the agency's commitment to transparency in its budget formulation process.

One commenter recommended that the NCUA use cost-benefit analysis to make budget decisions, and include the results of such analyses in future budget documents. Cost-benefit analysis is a useful tool for evaluating many policy decisions that impact the public directly, and the NCUA already conducts detailed cost-benefit analyses of rulemakings that have a significant economic impact. As explained in the updated discussion on pages 25 and 26 of the Budget Justification, the NCUA uses an Enterprise Risk Management (ERM) approach to evaluate its responses to risks and opportunities, and the budget includes several investments made as a result of ERM reviews conducted in 2019. The Office of the Chief Financial Officer plans to brief the NCUA Board in 2020 about the agency's ERM approach and program.

Another commenter asked for more detailed explanation of underlying dynamics that result in the 2020 increase in the Overhead Transfer Rate (OTR). The Office of the Chief Financial Officer worked closely with the Office of Examination and Insurance to update the discussion on pages 59 to 62, which now provides a more detailed explanation of the variables and dynamics that drive changes in the OTR.

Several commenters noted that the Budget Justification should provide more description and justification of growth in the Contracted Services portion of the budget. The Office of the Chief Financial Officer plans to provide the public with additional information about the agency's competitive contracting process on the Budget and Strategy page of the NCUA website.

One commenter asked the NCUA to present additional expenditure data in budget tables and to include the annual count of Credit Unions on charts presented in the Budget Justification. On the Budget and Strategy page of the NCUA website, the Office of the Chief Financial Officer already publishes monthly reports on actual expenses from the NCUA's various funds, which is a more timely and accurate presentation of the agency's spending and financial position. Within these monthly reports, expenses are generally presented in the same cost categories as the Budget Justification. In addition, the Chief Financial Officer makes an annual presentation at the July

open meeting of the NCUA Board, providing an analysis of expenses incurred through the first half of the year and updating budgetary projections for the remainder of the year. As discussed on page 8 of the Budget Justification, the NCUA considers its budget levels relative to total assets in the credit union system, which it believes is a better indicator of system complexity than the count of credit unions.

One commenter asked why State Examiner computer lease costs increase in the 2021 budget for Share Insurance Fund Administrative Expenses. The Budget Justification was updated on page 55 to explain how the NCUA expects to solicit for and award a new contract in 2021 for a laptop computer lease, and how most of the costs of the program are expected to be paid in the first year of the contract.

### Financing the NCUA Programs

The NCUA's expenses are funded primarily through fees paid by federal credit unions and transfers from the Share Insurance Fund using the Overhead Transfer Rate (OTR). As the annual budget is developed for Board review and approval, the approved methodologies for calculating the OTR and Operating Fees are applied to determine the amount of the budget that will be financed by each. The Board delegated authority to the Chief Financial Officer to administer the approved methodology for calculating the Operating Fees, and to set the fee schedule. There is no change to the underlying methodology for the OTR or the Operating Fee calculations for 2020; rather, the change in assessments results from a re-estimated OTR and from indexing the fee schedule to projected asset growth, consistent with the Board-approved methodology.

To promote transparency about how the NCUA finances its programs, pages 57 through 61 of the updated Budget Justification include a discussion of the methodology for calculating the OTR and the Operating Fee. Worksheets that show the specific steps used to determine the Operating Fee and the scale for rates charged to different sized credit unions are included on pages 63 and 64.

The OTR estimates presented in the updated Budget Justification have not changed. The final 2020 Overhead Transfer Rate remains at 61.3 percent. This is an increase of 80 basis points from the 60.5 percent rate calculated for the 2019 budget. The residual 38.7 percent of the 2020 budget will be collected through the Operating Fee.

Based on the lower total operating budget for 2020, the Operating Fee charged to federal credit unions will increase 1.13 percent compared to 2019, an 8 basis point reduction from estimate presented in the draft budget. The Operating Fee will be assessed on federal credit unions based on a projection of their year-end assets. Based on the June 30, 2019 Call Report data, annual asset growth is projected to be 5.6 percent at year-end.

As shown on page 61 of the updated Budget Justification, federal credit unions cover 70 percent of the costs of the NCUA's operations, while federally insured state-chartered credit unions pay 30 percent. Federal credit unions with assets less than \$1 million are not assessed an operating fee. For federal credit unions with assets greater than \$1 million, the NCUA establishes a three-

tiered scale to compute the fee charged, also known as the assessment scale. The dividing points on the assessment scale are adjusted upward on an annual basis by the projected asset growth rate. The dividing points are indexed annually to preserve the same relative relationship of the scale to the applicable asset base.

To illustrate the average rate impact for smaller federal credit unions, the final fee rate applied to assets under \$1.5 billion increases from \$269 per one million dollars of assets, to \$272 per one million dollars of assets, an increase of \$3 per million, or 1.13 percent when compared to the 2019 budget. Federal credit union assets between \$1.5 billion and \$4.5 billion would be assessed at a rate of \$79 per million, and assets above \$4.8 billion would be assessed at \$27 per million, both of which are also 1.13 percent higher than the comparable 2019 levels. The fees estimated for 2020 are approximately the same as the levels presented to the Board in the draft Budget Justification.

**RECOMMENDED ACTIONS:** It is recommended that the NCUA Board approve:

1. The 2020 Operating Budget of \$315,883,000 and 1,180 FTEs, the 2021 Operating Budget of \$327,973,000 and 1,180 FTEs, and that \$2,000,000 from unspent, prior-year balances, of which \$1,750,000 will be reallocated from past years' Capital Budgets, is available for expenditure from the Operating Fund in 2020.
2. The 2020 Capital Budget of \$25,076,000 and the 2021 Capital Budget of \$25,205,000.
3. The 2020 Share Insurance Fund Administrative Budget of \$6,450,000 and five FTEs and the 2021 Share Insurance Fund Administrative Budget of \$6,932,000 and five FTEs.

**ATTACHMENTS:**

2020 – 2021 Budget Justification