



Introduction to the Overhead Transfer Rate

What is the Overhead Transfer Rate?

The Federal Credit Union Act (§ 1783) authorizes the NCUA board to expend funds from the Share Insurance Fund for the “*administration and other expenses*” related to federal share insurance. The percentage of NCUA’s operating budget, which comes from this transfer, is the Overhead Transfer Rate.

What is the Overhead Transfer Rate?

Due to NCUA's dual role as a supervisor/regulator of Federal Credit Unions and an insurer of all Federally Insured Credit Unions, the Overhead Transfer Rate is necessary to determine the proper distribution of costs between the agency's "regulator" function and its "insurer" function.

NCUA receives funding for its operating budget from two sources:

1. Operating Fees collected from Federal and Corporate Credit Unions
2. A transfer of funds from the Share Insurance Fund to cover insurance-related expenses which are paid by both Federal Credit Unions and Federally Insured State Credit Unions. This is the Overhead Transfer Rate

What is the Overhead Transfer Rate?

The Overhead Transfer Rate is determined, annually, through an analysis of:

1. An Examination Time Survey
2. The workload budget (hours)
3. The operating budget (dollars)
4. The imputed value of the state supervisory authority work

History of the Overhead Transfer Rate

1970: Share Insurance Fund was established.

1972 – General Accounting Office audit recommends NCUA adopt method of allocating costs between NCUA and newly formed Share Insurance Fund.

1973-1980: Various allocation methods were employed, including direct charges to the Share Insurance Fund for insurance expenses (cost of closing institutions, liquidation and merger costs, etc.), and examiner time spent supervising (as opposed to examining) institutions.

1981-1984: The Overhead Transfer Rate ranged between 30 and 34%.

1985-1994: Annual examination surveys were conducted requiring the completion of 1,000 to 1,200 survey forms. Survey results varied between 50.1% and 60.4%; however, the Overhead Transfer Rate was maintained at 50%.

History of the Overhead Transfer Rate

1994: Survey results of 55.96% insurance-related. Overhead Transfer Rate maintained at 50% rate for 1995 through 1997. The Board approved conducting surveys once every 3 years.

1997: Survey results of 50% insurance-related. Overhead Transfer Rate maintained at 50% rate for 1998 through 2000.

2000: Annual Surveys begin. Survey results of 66.72% resulted in an increase of the Overhead Transfer Rate to 66.72% for 2001 and the NCUA Board's decision to hire an independent party to assess the process.

2001: Deloitte and Touche auditors conducted a review of the Overhead Transfer Rate process, found the process to be reasonable, and made some minor recommendations to enhance the process.

History of the Overhead Transfer Rate

2002: Overhead Transfer Rate set at 62%. An analysis based on surveys resulted in an Overhead Transfer Rate range of 62 to 70%. NCUA's Office of Examination and Insurance implemented Deloitte & Touche's recommendations to automate the survey collection process, enhance guidance and training for examiners, collect surveys on an ongoing basis (beginning in June 2002), and establish a help-line and public folders to better communicate issues. Automated survey collection began in June 2002.

2012: The definitions used in the Examination Time Survey were modified in 2012 to more accurately reflect the work of our exam staff, the office of Examination and Insurance.

2013: PricewaterhouseCoopers, LLC completed an independent analysis of proposed changes to the NCUA's Examination Time Survey. PricewaterhouseCoopers' recommendations were incorporated.

Validation of the Overhead Transfer Rate Methodology

The current Overhead Transfer Rate methodology, adopted by the NCUA Board in 2003, was reviewed in 2010 by PricewaterhouseCoopers, LLP.

While PricewaterhouseCoopers made recommendations to improve the process, overall they determined that the Overhead Transfer Rate methodology was sound and reasonable.

The modifications to the Examination Time Survey were reviewed by PwC in October of 2013.

1. The Examination Time Survey

NCUA is both a regulator and an insurer. To properly and fairly separate and allocate the costs associated with these roles, it is necessary to determine a cost driver for regulatory and non-regulatory activities.

NCUA spends resources via its “Core” and “Special” examination/supervision programs conducted by field staff. These programs enable NCUA to fulfill both its regulatory and Share Insurance Fund due diligence related responsibilities.

One of the components needed to calculate the cost driver for NCUA’s regulatory role is the regulatory (non-insurance) related percentage of time spent on federal examination and supervision contacts. That cost driver is determined through an automated, annual Examination Time Survey.

1. The Examination Time Survey

This survey is completed by principal examiners in each region, selected by Supervisory Examiner group, on a rotating basis. The examiners are trained and then asked to allocate their time (and that of any exam participants) on each examination or supervision contact they complete during the survey year (June through May) into the one of the following categories:

1. **Insurance related** - examination procedures that address safety and soundness issues.
2. **Insurance Regulatory related** - procedures that address compliance with regulations not designed to protect consumers, but those regulations that primarily address safety and soundness.
3. **Consumer Regulatory related** - procedures address compliance with consumer regulations.

1. The Examination Time Survey

To assist the examiners in properly classifying their time, the Office of Examination and Insurance created a matrix which mapped the applicable NCUA regulations:

NCUA Regulation	Part	Insurance Regulatory Related	Non- Insurance and Consumer Regulatory Related	Description
§Part 701 – Organization and Operations of FCUs	.1 –Federal credit union chartering, field of membership modifications, and conversions.		X	This part addresses the location of NCUA’s chartering and field of membership policies.
	.2 –Federal Credit Union Bylaws		X	Requires FCU’s to operate in accordance with their approved bylaws.
	.3 –Member inspection of credit union books, records, and minutes.		X	This part grants a group of members the right to inspect the books and records of an FCU.

1. The Examination Time Survey

Since the definitions used in the Examination Time Survey were modified in 2012 to more accurately reflect the work of our exam staff, the Office of Examination and Insurance contracted PricewaterhouseCoopers, LLP to review those modifications in April of 2013. PricewaterhouseCoopers delivered their report in October 2013.

There were some minor recommendations to improve the training for the Examination Time Survey, but they had no issues with our revised definitions, and found:

“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.”

What are the results of the ETS?

The results of the 2012-2013 Examination Time Survey (306 total surveys) show that the majority of our examination staff's time, 60.53% Insurance and 27.63% Insurance-Regulatory (88.16% overall), is spent focusing on "Insurance-Related" work with only 11.84% of their time spent on "Non-Insurance" tasks.

HOME PAGE		Exam Time Survey Report							Contact Type : All			
		National Summary Report							Period : 6/1/2012 To 5/31/2013			
Region	No. of Surveys	Insurance Total Hours	% of Insurance Total Hours	Average of Insurance Hours Charged	Insurance Regulatory Total Hours	% of Insurance Regulatory Total Hours	Consumer Regulatory Total Hours	% of Consumer Regulatory Total Hours	Non-Insurance Total Hours	% of Non-Insurance Total Hours	Average of Non-Insurance Hours Charged	Total Hours Charged
1	77	3925.4	49.42 %	51.0	2606.9	32.82 %	1411.2	17.77 %	4018.1	50.58 %	52.2	7943.5
2	59	2733.0	53.72 %	46.3	1847.5	36.31 %	507.0	9.97 %	2354.5	46.28 %	39.9	5087.5
3	106	4805.7	72.46 %	45.3	1216.0	18.34 %	610.2	9.20 %	1826.2	27.54 %	17.2	6631.9
4	26	396.0	61.02 %	15.2	196.5	30.28 %	56.5	8.71 %	253.0	38.98 %	9.7	649.0
5	38	3457.0	69.22 %	91.0	1125.6	22.54 %	411.5	8.24 %	1537.1	30.78 %	40.5	4994.1
Totals :	306	15317.1	60.53 %	248.8	6992.5	27.63 %	2996.4	11.84 %	9988.9	39.47 %	159.5	25306.0

This table shows the results for all contacts. Code 10 exams reported 12.80% of time in Non-Insurance tasks, and Code 22 contacts reported 7.63%.

2. Workload Hours Budget

The results of the Examination Time Survey are applied to the workload budget for “Core” programs, such as Federal Credit Union exams, supervision, state examination and supervision, and other examination related activity in order to develop the “Non-Insurance” hours in the program portion of the workload budget.

Core Program	2014 Workload Hours	Non-Insurance Percent	Non-Insurance Hours	Allocation Basis
Federal Examination	440,480	12.80%	56,381	Examiner Time Survey
Federal Supervision	73,629	7.63%	5,618	Examiner Time Survey
State Exam	144,333	0.00%	0	Federally Insured State Credit Union work is Insurance-related.
State Supervision	62,360	0.00%	0	Federally Insured State Credit Union work is Insurance-related.
State Exam Review	5,418	0.00%	0	Federally Insured State Credit Union work is Insurance-related.
5300 Program - Federal Credit Union	27,746	12.80%	3,551	Federal Credit Union time uses examiner time survey
5300 Program - Federally Insured State Credit Union	16,296	0.00%	0	Federally Insured State Credit Union portion considered insurance-related.
Total Core Program	770,262		65,551	

2. Workload Hours Budget

The workload hours for the “Special” examination programs (Regional Information Systems Officer, Information Systems Officers, Regional Capital Market Specialists, CUSO reviews, etc.) are separated and the Examination Time Study results are applied.

Special Programs	2014 Workload Hours	Non-Insurance Percent	Non-Insurance Hours	Allocation Basis
Fair Lending Exams	0	0.00%	0	Regulatory program now completed by Office of Consumer Protection.
Regional Lending Specialists	4,326	12.80%	554	Based on insurance but includes a portion of regulatory.
Field Of Membership & Chartering	430	100.00%	430	Regulatory program.
Regional Capital Markets Specialists	5,044	0.00%	0	NCUSOF risk management program.
Regional Information System Officers	2,436	12.80%	312	Allocation based on % from time surveys.
Small Credit Unions	16,802	4.00%	672	Allocation based on type s of assistance based on time reporting categories.
Credit Union Service Organization Exams	6,617	0.00%	0	NCUSIF risk management program.
Total Special Programs	35,655		1,968	

2. Workload Hours Budget

The combination of “Non-Insurance” workload hours for “Core” and “Special” programs is compared to the overall workload budget for those programs, to develop the overall weighted average of all programs.

	2014 Workload Hours	Non- Insurance Percent	Non- Insurance Hours	
Total Core Program	770,262	n/a	65,551	
Total Special Programs	35,655	n/a	1,968	
Total Core & Special Programs	805,917	n/a	67,518	
Percent of NCUA's field examination and supervision related programs based on NCUA's regulatory role.			8.4%	

3. Operating Budget

The “Non-Insurance” percentage is then applied to the operating budget, by department, to determine the “Non-Insurance Cost”.

NCUA’s non-regional program offices (Office of National Exam and Supervision, Office of Small Credit Union Initiatives, Office of Consumer Protection, etc.) provide data on the amount of time their program staff spend on “Insurance” versus “Non-Insurance” matters, which is used to develop the “Non-Insurance” percentages for those offices.

The weighted average, previously determined, is applied to all other cost centers (Examination and Insurance, Office of Human Resources, etc.) as these are overhead functions that support the agency’s mission.

3. Operating Budget

Cost Area 2014 Financial Budget	Dollar Budget (\$M)	Non-Insurance Percent	Non-Insurance Cost (\$M)
Regional Office Costs:	\$25.49	8.4%	\$2.14
Field Costs:	\$121.85	8.4%	\$10.21
Office of National Examinations and Supervision:	\$8.93	0.0%	\$0.00
Office of Small Credit Unions Initiatives:	\$5.88	4.0%	\$0.24
Asset Management Assistance Center and Assistance Program:	\$6.21	0.0%	\$0.00
Office of Consumer Protection	\$9.37	82.3%	\$7.71
Office Of Minority and Women Inclusion	\$2.50	100.0%	\$2.50
All Other Costs:	\$88.06	8.4%	\$7.38
Total 2014 NCUA Budget	\$268.29		\$30.16

\$30.16M of NCUA's operating budget is directly attributed to "Non-Insurance" cost.

3. Operating Budget

The non-insurance cost is subtracted from the total operating budget, and the direct charges to the Share Insurance Fund (to provide state supervisory authorities with computers and training which is borne by all Federally Insured Credit Unions), are added to get the total “Insurance” cost of operating the NCUSIF.

	Millions
2014 Financial Budget	\$268.29
Non-Insurance Costs (see Step 2)	- \$30.16
Direct Operational Charges to NCUSIF	+ \$1.44
NCUSIF Insurance Costs	= \$239.57

3. Operating Budget

Because the state supervisory authorities provide “value” to the Share Insurance Fund, the imputed value of the state supervisory authorities’ work (discussed later) is added to the total cost to manage the fund. This amount is allocated between Federal Credit Unions and Federally Insured State Credit Unions, based on the percentage of insured shares.

	Millions	
NCUSIF Imputed Costs	\$239.57	
Plus State Supervisory Authority Imputed Value	+\$46.12	
Total NCUSIF Insurance Costs	= \$285.69	
	Federal Credit Union	Federally Insured State Credit Union
Total Cost of Providing NCUSIF Insurance	\$285.69	\$285.69
Times Proportional Allocation Basis (Insured Shares)	53.90%	46.10%
Equals Allocated Insurance Costs	\$153.99	\$131.70

\$131.70M is the cost to manage the fund for Federally Insured State Credit Unions.

3. Operating Budget

The imputed value of the state supervisory authority work is subtracted from the Federally Insured Credit Union cost, to get the actual net cost to NCUA for managing the Share Insurance Fund for Federally Insured State Credit Unions, expressed as a dollar amount of the budget. This is the amount that Federally Insured State Credit Unions would absorb through the Overhead Transfer Rate.

	Millions
Total Allocated Insurance Costs – Federally Insured State Credit Unions	\$131.70
Minus State Supervisory Authority Insurance Work Imputed Value	(\$46.12)
Equals Net Cost of NCUSIF Insurance – Federally Insured State Credit Unions	\$85.58

3. Operating Budget

The dollar cost to be absorbed by Federally Insured State Credit Unions divided by the percentage of total insured shares and deposits held by Federally Insured State Credit Unions (their proportional cost basis), results in the total dollar cost to be absorbed by all insured credit unions through the Overhead Transfer Rate.

	Federally Insured State Credit Unions
Federally Insured State Credit Union Portion of NCUA Insurance Cost	\$85.58
Divided by Percentage of Insured Shares	46.1%
Equals the Dollar Amount of the Overhead Transfer Rate	\$185.65

Overhead Transfer Rate

Now that we have calculated the dollar amount of the NCUA budget to be covered by the overhead transfer, we can calculate the Overhead Transfer Rate as a percentage of the budget.

The dollar amount of the Overhead Transfer Rate divided by the NCUA budget results in a percentage, which is what has long been called the Overhead Transfer Rate.

Dollar Amount of Overhead Transfer Rate		\$185.65
Divided by NCUA Budget		\$268.29
Equals Overhead Transfer Rate		69.20%

Operating Fee

The remainder of NCUA's budget must be funded by "other" sources, which primarily consists of the Federal Credit Union Operating Fee. The dollar amount of the Overhead Transfer Rate is subtracted from the NCUA budget to arrive at the amount to be funded by the Federal Credit Union Operating Fee.

Dollar amount of NCUA Budget	\$268.29 M
Less dollar amount of Overhead Transfer Rate	(\$185.65 M)
Equals Cost to be Funded by Other Sources (primarily federal credit union operating fees)	\$82.64 M

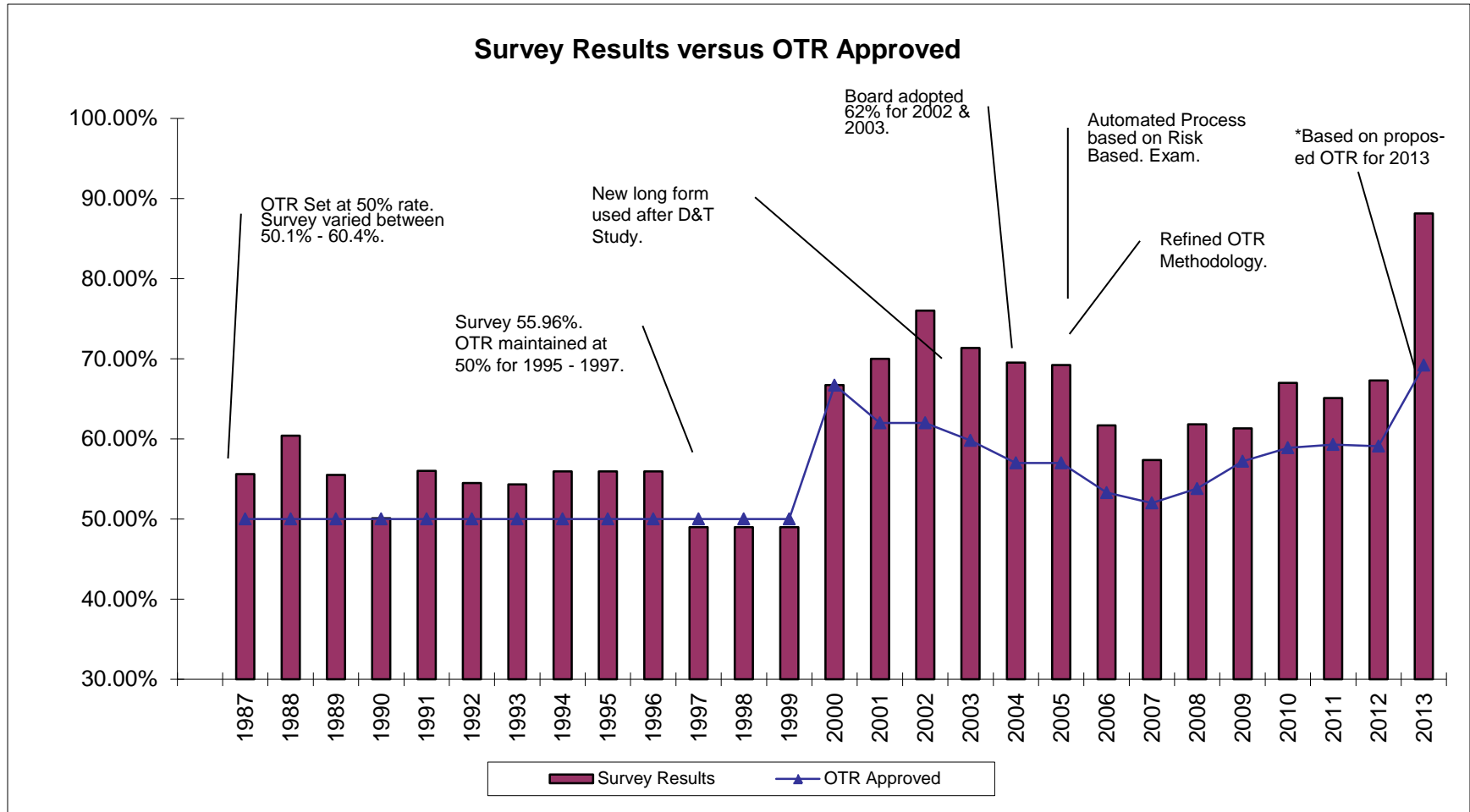
4. What is the State Supervisory Authority Imputed Value?

To develop an Overhead Transfer Rate that accurately reflects the total cost to insured credit unions of providing NCUSIF insurance, it is necessary to factor in the value to the NCUSIF of the insurance related supervision provided by state supervisory authorities and relied upon by NCUA in managing the NCUSIF.

To do that the Office of Examination and Insurance developed a four step process which determines:

1. How many additional exam hours NCUA staff would need to complete the state supervisory authorities' work themselves.
2. How many additional examiners, and support staff (Supervisory Examiners, Directors, OHR personnel) the agency would have to hire.
3. The agency's current cost for each of those positions.
4. The total additional cost the agency would incur if we did all the work ourselves.

Historical Overhead Transfer Rate



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