



BOARD ACTION MEMORANDUM

TO: NCUA Board **DATE:** December 8, 2014
FROM: Office of the Chief Financial Officer **SUBJ:** 2015 TCCUSF Budget

ACTION REQUESTED: Board approval of the 2015 Temporary Corporate Credit Union Stabilization Fund (TCCUSF) Oversight Budget

DATE ACTION REQUESTED: December 11, 2014

OTHER OFFICES CONSULTED: Office of Examination and Insurance, Asset Management and Assistance Center, and the Office of the General Counsel

VIEWS OF OTHER OFFICES CONSULTED: Concur

BUDGET IMPACT: \$4.1 million

SUBMITTED TO INSPECTOR GENERAL FOR REVIEW: Yes

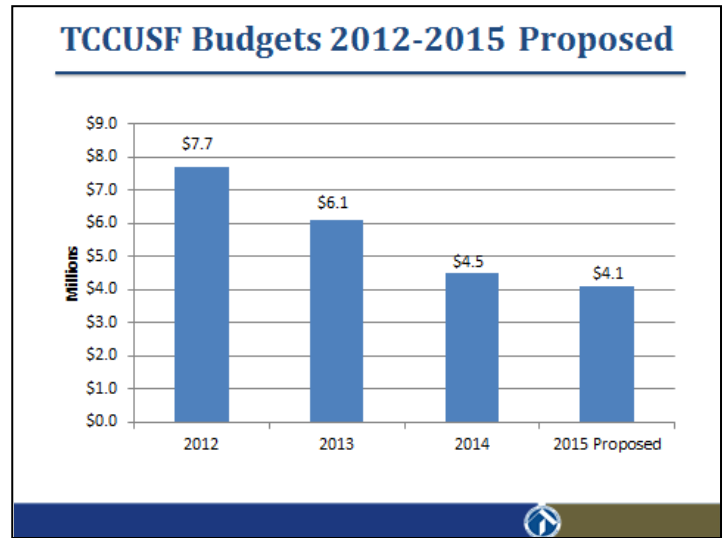
RESPONSIBLE STAFF MEMBERS: Chief Financial Officer Rendell Jones

AUTHORITY: Public Law 111-22, the Helping Families Save their Homes Act of 2009, created the Temporary Corporate Credit Union Stabilization Fund to accrue the losses of the corporate credit union system and, over time, assess the credit union system for the recovery of such losses. Pursuant to the Federal Credit Union Act (FCU Act), the NCUA Board administers the TCCUSF. 12 U.S.C. § 1790e(a)-(b). The Board must submit certifications and annual reports to Congress, and the TCCUSF's operations are subject to audit in accordance with generally accepted accounting principles. §§ 1789(b) & 1790e(b)(2), (g). The NCUA Board adopts an annual budget in connection with anticipated payments for administration of the TCCUSF under 12 U.S.C. § 1790e(a) and (b)(1).

BACKGROUND: This memorandum recommends that the NCUA Board approve the proposed 2015 TCCUSF budget of \$4,121,519, a decrease of 8.9 percent from the 2014 TCCUSF budget with no change in staffing. A portion of the 2015 TCCUSF budget will fund five full-time equivalents (FTEs) that were included as part of the staffing level approved in the November 20, 2014 Board Action Memorandum on the NCUA's 2015 Operating Fund budget. These costs will enable NCUA to manage and support approximately \$22 billion of complex securities over 13 separate trusts. The legacy assets included in these trusts consist of over 2,000 investment securities, secured by approximately 1.6 million residential mortgages, as well as commercial mortgages and other securitized assets.

SUMMARY: The TCCUSF budget includes the costs of the NCUA Guaranteed Notes (NGN) Securities Management and Oversight Committee as well as costs incurred by other NCUA offices in support of the Corporate System Resolution Program.

This action requests funding of \$4,121,519 as presented in Attachment 1, for the TCCUSF 2015 budget. The 2015 budget represents a decrease of 8.9 percent, or \$403,481, from the 2014 budget of \$4,525,000.



The budget will be funded from the TCCUSF and will have no impact on the 2015 NCUA Operating Fund budget that was approved at the open Board meeting on November 20, 2014.

The TCCUSF budget includes no net change in staffing.

Pay and Benefits:

The employee pay and benefits expense category is estimated to be \$1,038,079, which represents a net increase of \$76,579. This is 25 percent of the total TCCUSF budget and represents an eight percent increase compared to the 2014 budget. Four of the staff funded by the TCCUSF budget are part of NCUA’s Central Office, while one member is a part of the Asset Management and Assistance Center (AMAC). The financial analysts on the NGN team have specialized technical expertise to manage the \$22 billion of legacy assets.

A major driver of the increase is merit and locality pay increases, primarily due to NCUA’s Collective Bargaining Agreement. In addition, the U.S. Office of Personnel Management (OPM) has revised the economic assumptions used for actuarial valuation of the Federal Employees Retirement System (FERS). Under the new methodology, all federal agencies must contribute 13.2 percent of FERS employees’ salary to the retirement system, which will increase agencies’ cost of benefits. OPM also announced the government’s portion of the Federal Employees Health Benefits program will increase an average of three percent in 2015.

The employee pay and benefits category includes other mandatory employer contributions such as social security, retirement, transportation subsidies and worker’s compensation.

Travel:

The estimated travel cost of \$73,440 is 1.8 percent of the overall 2015 TCCUSF budget and increases by 18.0 percent from last year’s budget estimate. These costs cover all of the travel expenses for the five FTEs that manage and support the NGN program. Two of the five staff are

remote employees and are expected to travel routinely to the Central Office and AMAC. The travel also includes trips to review and perform oversight over the contract management of the NGN portfolio. Travel costs reflect the increased requirement for travel associated with NCUA staff performing more direct oversight and analysis of the NGN program and receiving less assistance from consultants.

Administrative (Training):

Training expenses, which represent less than one percent of the budget, are estimated to be \$11,000, a decrease of 63 percent from the 2014 budget.

Contracts:

Contract costs, which represent 73 percent of the budget, are estimated to be \$3.0 million, which is 13.6 percent less than fiscal year 2014. Funding is needed to fulfill Corporate System Resolution Program needs to include outside professional services such as external valuation experts, tax consultants, financial specialists, and accountants. These experts are needed to assist NCUA with the following types of services:

- 1) Valuation Services: The amount requested represents the base cost of \$1,050,000 for the 2015 calendar year per the five-year contract, plus \$200,000 to fund additional valuation analyses. As supported by the NGN Oversight Committee, additional resources are needed to run special analyses. In addition to running valuation analysis that changes the model's discount rate from the "funding rate" to a "market rate," additional analyses may be required. Examples of additional analysis include:
 - a) Disposition strategies for maturing NGN deals. Within the next 18 months, some deals will mature, freeing over \$1 billion in legacy assets for active management. Valuation analyses will be needed to model different disposition strategies (e.g., hold, sell, re-securitize) in order to maximize value to the asset management estates.
 - b) Updated valuation of legacy assets. An updated valuation could be required if significant macroeconomic changes occur that materially impact the current valuation.
- 2) Consulting Services in the amount of \$992,000 will support two central offices in NCUA: Examination and Insurance and the Chief Financial Officer. Support services will include the quarterly due diligence process on contract valuations as well as analyses on emerging issues. Support for the annual financial audit process and emerging issues will also be provided by contractors. Some of the tasks include supporting complex accounting and financial requirements for settlements, sale of legacy assets, parity payments, changing valuation model assumptions, and disposition planning such as re-securitization. Other accounting services include performing internal control assessments and providing accounting services in support of the annual financial statement audit.

- 3) Software and Data Subscription Services in the amount of \$757,000 will support standard tools that provide waterfall models, calculations, and metrics for the structured investment products underlying the NGN portfolio. The service provides coverage of all relevant asset classes, waterfall models that are seasoned and tested throughout the industry, and a broad array of calculations and metrics. Financial analytics data play a critical role in the surveillance, modeling, and pricing of the legacy assets that comprise the NGN Trusts, as well as supporting the due diligence NCUA performs on the cash flow projections provided by its contract support.

Other annual subscriptions provide important services related to surveillance of the portfolio of corporate bonds and mortgage-related bonds with monoline insurer exposure in the NGN Trusts. Independent credit research services include fundamental capital structure research, credit analyses for surveillance of corporate bond portfolio and monoline insurer exposure, and direct access to various industry experts for discussion on specific credits.

RECOMMENDED ACTION: It is recommended that the NCUA Board approve the following action:

The 2015 budget of \$4,121,519, as presented in Attachment 1, for oversight of the Temporary Corporate Credit Union Stabilization Fund as required by the Corporate System Resolution Program.

Attachment