



BOARD ACTION MEMORANDUM

TO: NCUA Board **DATE:** November 14, 2017
FROM: Office of the Chief Financial Officer **SUBJ:** FY 2018 - 2019 Budget

ACTION REQUESTED: Board approval of the 2018 - 2019 Operating Fund Budget, Capital Budget, and Share Insurance Fund Administrative Budget.

DATE ACTION REQUESTED: November 16, 2016

OTHER OFFICES CONSULTED: All Regional and Central Offices

VIEWS OF OTHER OFFICES CONSULTED: Concur

SUBMITTED TO INSPECTOR GENERAL FOR REVIEW: Yes

RESPONSIBLE STAFF MEMBERS: Chief Financial Officer Rendell L. Jones

AUTHORITY: Per the Federal Credit Union Act, the management of the Administration is vested in the National Credit Union Administration Board. It is the Board's responsibility to determine the expenses necessary to carry out its responsibilities under the Act. The Board is authorized to expend such funds and perform such other functions or acts as it may deem necessary or appropriate in accordance with the rules and regulations or policies established by the Board. § 1766(i)(2)

Upon determination of the budgeted expenses, using a Board-approved methodology, the Chief Financial Officer calculates a fee schedule with respect to federal credit unions. This schedule gives consideration to the expenses of the Administration in carrying out its responsibilities in connection with federal credit unions and the ability of federal credit unions to pay a fee. § 1755(a)-(b). Fees collected are required to be deposited with the Treasurer of the United States for the account of the Administration, and expended by the Board to defray the expenses incurred in carrying out the agency's operations, including the examination and supervision of federal credit unions. § 1755(d). On a monthly basis, funds from the National Credit Union Share Insurance Fund are transferred to the Operating Fund to account for budgeted expenses related both to federal credit unions and federally insured, state-chartered credit unions, in accordance with its authority to use the Share Insurance Fund to carry out its responsibilities. § 1783(a).

At the end of the calendar year, NCUA's financial transactions are subject to audit in accordance with Generally Accepted Accounting Principles. §§ 1783(b) & 1789(b). 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, the NCUA Board administers the Stabilization Fund. Effective September 30, 2017 the Stabilization Fund was closed into the Share Insurance Fund.

SUMMARY: The 2018 Budget was prepared to support the draft *NCUA [2018 - 2022 Strategic Plan](#)* and its stated **goals**. The Strategic Plan integrates the agency’s mission to “provide through regulation and supervision, a safe and sound credit union system, which promotes confidence in the national system of cooperative credit” with clear goals and objectives for the next five years.

The 2018 Budget is provided in Attachment 1 to provide a comprehensive justification of NCUA’s Operating Fund Budget, Share Insurance Fund Administrative Budget, and Capital Budget. These three budgets collectively represent flat growth from the prior year. The combined total \$320.9 million for 2018, is less than one percent over the comparable 2017 budget total, which is less than the rate of inflation. The 2018 Operating Budget is \$298.1 million and 1,183 full-time equivalents (FTE), and the 2019 Operating Budget is \$302.7 million and 1,169 FTEs. The 2018 Capital Budget is \$15.4 million and the 2019 Capital Budget is \$21.1 million. The 2018 Share Insurance Fund Administrative Budget is \$7.4 million and five FTE, and the 2019 budget is \$7.5 million and unchanged with five FTE.

The recommendations from the NCUA Reform Plan have been integrated in the budget estimates for 2018 and 2019. If the budget is approved, beginning January 1, 2018, NCUA will focus on core mission improvements that include:

- Create the Office of Credit Union Resources and Expansion to serve as the focal point for all Credit Union development interactions;
- Transition the small credit union consulting program to an online platform;
- Redefine the Office of Consumer Financial Protection to focus exclusively on consumer and member functions; and
- Reform the Asset Management and Assistance Center to include changes to the servicing business model realigning functional staff to their central office counterparts provide.

The Agency Reform Plan will also implement actions in both 2018 and 2019 that include:

- Consolidate from five regions to three, and eliminate regional office staff;
- Increase the ratio of supervisory examiners to examiners from 1:8 to 1:10 over two years through attrition; and
- Initiate actions that will enable an 80 percent reduction in leased office space by 2020 and continue to reduce agency travel and training expenses without adversely impacting the mission.

The NCUA held a public budget briefing on October 18, 2017 to provide greater budget transparency to stakeholders and the public. Comments received from seven different stakeholders have been posted on [NCUA’s website](#) along with statements from the four presentations. As a result of public feedback, the Budget Justification document has been further enhanced with several additional items:

- An improved description of new Credit Union Resource and Expansion Office and the planned support to small credit unions is provided on page 10.
- Additional information related to enhanced virtual examination review program is included on p 11.
- An additional budget growth chart is provided on page 19 with inflation adjusted information to demonstrate how NCUA's resource growth is less than inflation.
- A detailed breakout of actual on board credit union examiner positions from 2012 to 2016 is provided on page 26. The 2017 data is effective as of September 30.
- Additional information related to variations in personnel compensation by office, regional locations, and experience level is provided on page 30.

As the new regional state boundaries are redefined, and final results of employee workforce reductions are available, there will likely be adjustments to the final personnel allocations primarily among the regional offices.

In addition, other budget and program topics will be addressed with *Frequently Asked Questions* and posted on NCUA.gov. In addition, OCFO will continue to expand the information available in prospective budget documents as we seek to enhance the quality of public information published concerning The NCUA's budget.

2018 Operating Fee

As discussed under the "Authority", the NCUA budgets are funded primarily through fees paid by federal credit unions and transfers from the National Credit Union Share Insurance Fund (i.e. the Overhead Transfer Rate, or OTR). Once the budget is approved by the Board, the approved methodologies for calculating the OTR and the Operating Fees are applied, to determine the amount of the budget that will be financed through the OTR and through the Operating Fees. The Board delegated authority to the Chief Financial Officer to administer the methodology approved by the Board for calculating the Operating Fees, and to set the fee schedule as calculated per the approved methodology outlined in Attachment 3. There is no change to the underlying approved Operating Fee methodology for 2018; the change in the assessments is due to changes in the OTR and to indexing the fee schedule for projected asset growth.

For 2018, based on the proposed OTR methodology, the resulting share of the budget funded from the Operating Fee is \$128.9 million. This equates to 0.018 percent of the estimated federal credit union assets as of December 2017. The overall increase for the operating fee is an average rate of 15.7 percent over 2017. The OTR—the amount drawn from the Share Insurance Fund—is reduced in 2018, placing an resulting in an increase for financing the budget on Operating Fees.

The Operating Fee will be assessed to federal credit unions based on estimated year-end assets. Credit unions with assets less than \$1 million will not be assessed an Operating Fee. To set the assessment scale for 2018, federal credit union asset growth is projected to December 31, 2017. Based on the June 30, 2017, 5300 data, annual growth is projected to be 6.4 percent at year end.

The asset level dividing points will be increased by this same projected growth rate. Assets are indexed annually to preserve the same relative relationship of the scale to applicable asset base.

To establish the rate applicable to each asset level, the factors outlined in Attachment 2 result in an average Operating Fee rate increase of 15.7 percent for natural person federal credit unions. The corporate federal credit union rate scale remains unchanged from prior years. Attachment 2 shows the proposed Operating Fee scale.

To illustrate the average rate impact for smaller federal credit union, the fee rate applied to assets under \$1.4 billion increases from \$228 per one million dollars of assets, to \$264 per one million dollars of assets. This is an increase of \$37 per million, or 15.7 percent.

Federal credit union assets between \$1.4 billion and \$4.3 billion would be assessed at a rate of \$76.98 per million, and assets above \$4.3 billion would be assessed at \$25.71 per million. As noted above, these tiers were indexed to the 6.4 percent projected asset growth, and the rates are increased by 15.7 percent.

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

1. The 2018 Operating Budget of \$298.1 million and 1,183 FTEs, and the 2019 Operating Budget of \$302.7 million and 1,169 FTEs; The 2018 Capital Budget of \$15.4 million and the 2019 Capital Budget of \$21.1 million; and the 2018 Share Insurance Fund Administrative Budget budget of \$7.4 million and five FTE and the 2019 budget of \$7.5 million and five FTE.

ATTACHMENTS:

1. 2018 - 2019 Budget Justification
2. Operating Fee Schedule and Rate Scale
3. Operating Fee Methodology