



**TO:** NCUA Board

**DATE:** July 30, 2020

**FROM:** Office of Examination and Insurance  
Office of the Chief Financial Officer

**SUBJ:** Overhead Transfer Rate  
Methodology – Request for  
Comment; Operating Fee Schedule  
Methodology –Request for Comment

**ACTION REQUESTED:** Board approval to issue the attached notice and request for comment on the existing Overhead Transfer Rate (OTR) methodology and the Operating Fee Schedule methodology.

**DATE ACTION REQUESTED:** July 30, 2020.

**OTHER OFFICES CONSULTED:** OGC

**VIEWS OF OTHER OFFICES CONSULTED:** Concur.

**BUDGET IMPACT, IF ANY:** None.

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

**RESPONSIBLE STAFF MEMBERS:** Myra Toeppe, Acting Director, Office of Examination and Insurance; Scott Neat, Associate Director, Office of Examination and Insurance; Victoria Nahrwold, Director of Risk Management, Office of Examinations and Insurance; Eugene Schied, Chief Financial Officer; James Holm, Supervisory Budget Analyst, Office of Chief Financial Officer; Kevin Tuininga, Associate General Counsel, and John Brolin, Senior Staff Attorney, Office of General Counsel.

**SUMMARY:** The Offices of Examination and Insurance and the Chief Financial Officer are requesting the NCUA Board approve the issuance of a notice and request for comment on two matters:

1. the existing principles-based Overhead Transfer Rate (OTR) methodology adopted in 2017. NCUA does not propose any changes to the existing methodology at this time; however, the NCUA Board committed to requesting public comment on the OTR methodology every three years and in the event it proposes a change to one or more of the principles, and
2. proposed clarifications to and questions about the methodology it uses to determine how it apportions operating fees charged to federal credit unions (FCUs). The Board uses operating fees to fund part of the NCUA's annual budget.

**BACKGROUND:** In 2017, the NCUA published in the Federal Register a request for comment regarding a revised OTR methodology based on the Board's internal assessment and comments received from a 2016 request for comment. The primary goal of the proposed changes to the OTR methodology at that time was to simplify the methodology and reduce the resources needed

to administer the OTR. The existing OTR methodology focuses on assigning a percentage share of work to insurance costs in four categories of activities:

1. 50 percent insurance related - Time spent examining and supervising FCUs.
2. 100 percent insurance related - All time and costs the NCUA spends supervising or evaluating the risks posed by FISCUs or other entities the NCUA does not charter or regulate (e.g. third-party vendors and credit union service organizations).
3. Zero percent insurance related - Time and costs related to the NCUA's role as charterer and enforcer of consumer protection and other noninsurance based laws governing the operation of credit unions, for example, field of membership requirements.
4. 100 percent insurance related - Time and costs related to the NCUA's role in administering federal share insurance and the Share Insurance Fund.

The principles-based OTR methodology has streamlined the process for calculating the OTR, reduced administrative costs and resources, and provided consistency in the calculated OTR each year.

In 2016, the Board published in the Federal Register a request for comment on its methodology for determining its Operating Fee Schedule. The Board made no changes in response to comments received about its methodology and delegated authority to the NCUA Chief Financial Officer to apply the published methodology. Since that time, the Chief Financial Officer has applied the published Operating Fee methodology and explained its application in the NCUA's annual budget documents.

In the notice and request for comment, the Board would clarify how it expects to treat capital project budgets and miscellaneous revenues when calculating future operating fees, and would make other conforming changes to how it calculates annual inflationary adjustments to operating fee rate tier thresholds for consistency with proposed changes to its regulation governing assessment of the annual operating fee. The request for comment also seeks views about how or whether the Board should modify the current three-tier Operating Fee Schedule, how or whether the Board should increase the asset threshold below which FCUs are assessed no operating fee, and what incentives the Board might provide to encourage credit union participation in the annual voluntary diversity self-assessment.

**RECOMMENDED ACTION:** Board approval to issue a request for comment on the existing OTR methodology and the NCUA Operating Fee Schedule methodology.

**ATTACHMENT:** Notice and request for comment regarding NCUA's Overhead Transfer Rate methodology and Operating Fee Schedule methodology.

**cc:** Executive Director Larry Fazio  
Acting General Counsel Frank Kressman  
Associate General Counsel Kevin Tuininga  
Senior Staff Attorney John Brolin  
Acting Director Myra Toeppe  
Associate Director Scott Neat  
DRM Director Victoria Nahrwold  
All Risk Officers  
Chief Financial Officer Eugene Schied  
Supervisor Budget Analyst James Holm