



National Credit Union Administration
Office of Examination and Insurance

OEI/SJW:sjw
SSIC 2160

TO: NCUA Board of Directors
FROM: Director Kelly Lay
SUBJ: 2024 Overhead Transfer Rate (OTR) Summary
DATE: December 14, 2023

Summary: The *Federal Credit Union Act* authorizes the NCUA to expend funds from the National Credit Union Share Insurance Fund (Share Insurance Fund) for administrative and other expenses related to federal share insurance (12 U.S.C. §1783). An overhead transfer from the Share Insurance Fund covers the expenses associated with insurance-related functions of NCUA's operations.

At its November 16, 2017, Board meeting, the NCUA Board approved a simplified principles-based methodology for calculating the OTR. The OTR formula is based on the following underlying principles to allocate agency operating costs:

1. Time spent examining and supervising federal credit unions is allocated as 50 percent insurance related.¹
2. All time and costs NCUA spend supervising or evaluating the risks posed by federally insured state-chartered credit unions or other entities the NCUA does not charter or regulate (for example, third-party vendors and CUSOs) is allocated as 100 percent insurance related.²

¹ The 50 percent allocation mathematically emulates an examination and supervision program design where NCUA would alternate examinations, and/or conduct joint examinations, between its insurance function and its prudential regulator function if they were separate units within NCUA. It reflects an equal sharing of supervisory responsibilities between NCUA's dual roles as charterer/prudential regulator and insurer given both roles have a vested interest in the safety and soundness of federal credit unions. It is consistent with the alternating examinations FDIC and state regulators conduct for insured state-chartered banks as mandated by Congress. Further, it reflects NCUA is responsible for managing risk to the Share Insurance Fund and therefore should not rely solely on examinations and supervision conducted by the prudential regulator.

² NCUA does not charter state-chartered credit unions nor serve as their prudential regulator. NCUA's role with respect to federally insured state-chartered credit unions is as insurer. Therefore, all examination and supervision work and other agency costs attributable to insured state-chartered credit unions is allocated as 100 percent insurance related.

3. Time and costs related to the NCUA’s role as charterer and enforcer of consumer protection and other non-insurance-based laws governing the operation of credit unions (like field of membership requirements) are allocated as 0 percent insurance related.³
4. Time and costs related to the NCUA’s role in administering federal share insurance and the Share Insurance Fund are allocated as 100 percent insurance related.⁴

These four principles are applied to the activities and costs of the agency to arrive at the portion of the agency’s Operating and Capital Budget to be charged to the Share Insurance Fund.

OTR Results for 2024

Based on the Board-approved methodology, the OTR for 2024 calculates as 61.7 percent. The OTR for 2023 was 62.4 percent. The primary driver of the decline in the 2024 OTR is the decline in budgeted hours for the examination and supervision of federally insured state-chartered credit unions (FISCUs), resulting in the weighted allocation applied to the Regional Offices and ONES to also decline. While the operating budget increased from 2023 to 2024, the slightly lower weighted allocation resulted in a nominal increase in insurance-related costs associated with the central offices (the largest component of Step 2 in the calculation) and an overall decline in the OTR.

Distribution of Operating and Capital Budget Costs

The OTR represents insurance-related costs in the NCUA Operating and Capital Budget to be paid from the Share Insurance Fund; thus, 61.7 percent of the total Operating and Capital Budget will be paid from the Share Insurance Fund. The remaining 38.3 percent of the Operating and Capital Budget will be paid for through the FCU Operating Fee.

Thus, the explicit and implicit distribution of total Operating and Capital Budget costs for FCUs and FISCUs is as follows:

Portion of Operating Budget covered by:	FCUs	FISCUs
FCU Operating Fee	38.3%	0.0%
OTR x Percent of Insured Shares	30.94% (61.7% x 50.1%)	30.76% (61.7% x 49.9%)
Total⁵	69.2%	30.8%

³ As the federal agency with the responsibility to charter federal credit unions and enforce non-insurance related laws governing how credit unions operate in the marketplace, NCUA resources allocated to these functions are properly assigned to its role as charterer/prudential regulator.

⁴ NCUA conducts liquidations of credit unions, insured share payouts, and other resolution activities in its role as insurer. Also, activities related to share insurance, such as answering consumer inquiries about insurance coverage, are a function of NCUA’s role as insurer.

⁵ Totals may not reconcile due to rounding.

ATTACHMENTS:

(1) Calculation of the 2024 Overhead Transfer Rate

cc: OCFO Mail
Chief Financial Officer Eugene Schied
All Risk Officers
OEAC Mail – for posting to www.ncua.gov

Attachment 1**Calculation of the 2024 Overhead Transfer Rate****STEP 1 – Workload Program (2024)**

Allocation of Workload Hours				
Workload Programs	(A)	(B)	(A) x (B)	Allocation Basis
2024 Data	Budgeted Workload Hours	Percent Insurance-Related	Insurance-Related Workload Hours	
Federal Credit Union Examination and Supervision	514,875	50%	257,438	Based on allocation principle 1 reflecting the NCUA's roles as both prudential regulator and insurer.
State Credit Union Exam & Supervision	226,041	100%	226,041	Based on allocation principle 2 reflecting the NCUA's role as insurer.
Consumer Compliance Reviews & Related Training	0	0%	0	Based on allocation principle 3 reflecting the NCUA's role as prudential regulator.
Field of Membership & Chartering	0	0%	0	Based on allocation principle 3 reflecting the NCUA's role as charterer.
CUSO and Third-party Vendor Reviews	4,901	100%	4,901	Based on allocation principle 2 reflecting the NCUA's role as insurer. Field staff time conducting reviews of CUSOs and third-party vendors – NCUA does not charter or regulate CUSOs and third-party vendors.
Total	745,817	N/A	488,379	
Total Insurance-Related Workload Hours to Total Workload Hours			65.5%	Weighted average of field staff program time devoted to the NCUA's role as insurer.

NOTE: The totals may not reconcile exactly due to rounding.

STEP 2 – Financial Budget (2024)

Allocation of NCUA Operating and Capital Budgets			
Cost Area	(A) Operating Budget \$Millions	(B) Percent Insurance- Related	(A) x (B) Operating Cost to be Borne by the Share Insurance Fund \$Millions
<p>Regions and ONES The financial budget for the agency’s five regional offices and ONES is allocated based on the weighted average of insurance-related activities calculated from the workload budget using principles 1, 2, and 3 in Step 1. Resources in the regions and ONES execute the NCUA’s examination program. Thus, the budgeted costs related to these programs should receive the same allocation basis as the programs themselves.</p>	\$183.2	65.5%	\$119.9
<p>Asset Management Assistance Center Manages liquidation payouts and assets acquired from liquidations on behalf of the Share Insurance Fund. Thus, the OTR allocation factor is based on principle 4 and allocated at 100 percent insurance related.</p>	\$6.4	100.0%	\$6.4
<p>Office of Consumer Financial Protection This office is responsible for all functions related to consumer compliance, financial protection, and member education. These activities are allocated based on principle 3 as 0 percent insurance related. The office does some work with respect to federally insured state-chartered credit unions, including share insurance coverage matters, in the NCUA’s role as insurer; these activities are allocated based on principle 4 as 100 percent insurance-related. The net of this combined activity results in an OTR allocation factor of 2.7 percent insurance related.</p>	\$8.3	2.7%	\$0.2

<p>Office of Credit Union Resources and Expansion Processes charter applications and field of membership expansion requests. Provides consulting and training services for both federal credit unions and federally insured state-chartered credit unions. Also processes grants and loans for federally insured credit unions. Principle 1 is applied to the office's work with federal credit unions and principle 2 is applied to the office's work with federally insured state-chartered credit unions. Principle 3 is applied to the office's work related to chartering and field of membership. The net of this combined activity results in an OTR allocation factor of 24.3 percent insurance related.</p>	\$12.0	24.3%	\$2.9
<p>Subtotal The 61.7 percent subtotal factor represents the dollar-weighted average of the above four cost centers (Regions and Ones, Asset Management Assistance Center, Office of Consumer Financial Protection, and Office of Credit Union Resources and Expansion) representing specific aspects of the NCUA's mission.</p>	\$209.9	61.7%	\$129.5
<p>All Other Offices This category includes the offices that design or oversee the agency's mission and its related offices or provide necessary support to mission offices or the entire agency. As such, the proportion of insurance-related activities for these offices correspond to that of the mission offices. Therefore, these office costs are allocated based on the weighted average of insurance-related activities calculated in the subtotal above.</p>	\$171.1	61.7%	\$105.6
<p>Total</p>	\$381.0		\$235.1

NOTE: Numbers may not reconcile exactly due to rounding.

STEP 3 – Calculate the OTR

OTR Calculation	
Operating Costs to be Borne by the Share Insurance Fund	\$235.1
÷ Total Operating Budget	\$381.0
= OTR	61.7%