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National Credit Union Administration  
Division of Examination and Insurance

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SSIC 2160

**TO:** NCUA Board of Directors

**FROM:** Director Larry Fazio  
Office of Examination and Insurance

**SUBJ:** 2017 Overhead Transfer Rate Summary

**DATE:** November 17, 2016

**Summary:** The *Federal Credit Union Act* authorizes 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 the November 20, 2003, Board meeting, the NCUA Board approved a refined method for calculating the recommended OTR. The overhead transfer methodology incorporates the following key factors:

- The value to the Share Insurance Fund of the insurance-related work performed by state supervisory authorities (SSAs);
- The cost of NCUA resources and programs with different allocation factors from the examination and supervision program. (Allocation factors are reviewed annually.);
- The distribution of insured shares between federal credit unions and federally insured state-chartered credit unions;
- Operational costs charged directly to the Share Insurance Fund; and
- The results of the annual Examination Time Survey. The Examination Time Survey captures the time NCUA spends in federal credit unions carrying out its dual mission as an insurer and a regulator. NCUA primarily achieves its mission through the examination and supervision process, and examinations and supervision are the primary catalysts for other agency functions.<sup>1</sup>

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<sup>1</sup> In 2012, NCUA clarified the application of the insurance-related and non-insurance related definitions in the Examination Time Survey in response to feedback from stakeholders and examiners. Specifically, the NCUA rules and regulations were individually mapped to each Examination Time Survey category based on the extent to which a regulation was designed to protect the Share Insurance Fund (a new sub-category of insurance related labeled

### OTR Results for 2017

For the 2015-2016 Examination Time Survey results, examiners devoted an average of 87.4 percent of their exam time and 90.3 percent of their supervision time to insurance-related activities. This was an increase over the 2014-2015 Examination Time Survey results for insurance-related exam time of 0.5 percentage points and an increase for insurance-related supervision time of 3.1 percentage points.

Based on the current Board-approved methodology, the OTR for 2017 calculates as 67.7 percent. The OTR for 2016 was 73.1 percent. The primary driver of the decrease in the 2017 OTR was the reduction of state examination hours and the reassignment of 20,000 of these hours to compliance and training activities. This also results in more reliance on SSA examinations and supervision, which increased the SSA imputed value by \$10.2 million.

### Distribution of Operating Budget Costs

The OTR represents insurance-related costs in the NCUA Operating Budget to be paid for out of the Share Insurance Fund; thus, 67.7 percent of the total operating budget will be paid out of the Share Insurance Fund. The remaining 32.3 percent of the Operating Budget will be paid for through the federal credit union (FCU) Operating Fee.

Thus, the explicit and implicit distribution of total Operating Budget costs for FCUs and federally insured, state-chartered credit unions (FISCUs) is as follows:

<b>Portion of Operating Budget covered by:</b>	<b>FCUs</b>	<b>FISCUs</b>
FCU Operating Fee	32.3%	0.0%
OTR x Percent of Insured Shares	34.7% (67.7% x 51.3%)	33.0% (67.7% x 48.7%)
Total	67.0%	33.0%

### **ATTACHMENTS:**

(1) Calculation of the 2017 Overhead Transfer Rate

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“insurance-regulatory”) or to govern commerce and/or provide consumer protection (labeled “non-insurance or consumer regulatory”). The primary definitions did not change; the regulations were merely explicitly mapped based on the existing overarching definitions of insurance-related and non-insurance related. While examiners continue to use their judgment as to what exam procedures to perform during an examination or supervision contact based on the risks and product-service mix of the credit union, this clarification created more consistency as to where examiners recorded their time on the Examination Time Survey. In 2013, PricewaterhouseCoopers, LLP, reviewed the mapping of NCUA regulations to the categories on the Examination Time Survey. The PricewaterhouseCoopers, LLP review concluded: *“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.”*

**Attachment 1**

**Calculation of the 2017 Overhead Transfer Rate**

**STEP 1 – Workload Program (2017)**

Core Programs	2017 Workload Hours	Non-Insurance Percent	Non-Insurance Hours	Allocation Basis
Federal Examination	391,788	12.6%	49,444	Examination Time Survey.
Federal Supervision	66,967	9.7%	6,516	Examination Time Survey.
State Exam & Supv	153,627	0%	0	FISCU work is considered insurance-related.
State Exam Review	4,847	0%	0	FISCU work is insurance-related.
5300 Program - FCU	29,472	12.6%	3,719	FCU time uses Examination Time Survey.
5300 Program – FISCU	8,940	0%	0	FISCU portion considered insurance-related.
<b>Total Core Program</b>	<b>655,641</b>	<b>n/a</b>	<b>59,679</b>	
<b>Special Programs</b>				
Compliance & Training	20,000	100.0%	20,000	Regulatory program.
RLS	4,000	12.6%	504	Allocation based on % from Examination Time Surveys.
FOM & Chartering	500	100.0%	500	Regulatory program.
RCMS	3,460	0%	0	NCUSIF risk management program.
RISOs	2,472	12.6%	311	Allocation based on % from examiner time surveys.
Small Credit Unions	18,633	5.1%	950	Allocation based on types of assistance provided by time reporting categories.
CUSO Exams	5,176	0%	0	NCUSIF risk management program.
Vendor Reviews	400	0%	0	Insurance concerns drive this program. NCUA has no regulatory oversight of these corporations.
<b>Total Special Program</b>	<b>54,641</b>	<b>n/a</b>	<b>22,266</b>	
<b>Total Core &amp; Special Programs</b>	<b>710,282</b>	<b>n/a</b>	<b>81,945</b>	
Percent of Workload Programs devoted to NCUA's Non-Insurance Role			11.5%	

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

**STEP 2 – Financial Budget (2017)**

<b>Cost Area 2017 Financial Budget</b>	<b>Dollar Budget (\$M)</b>	<b>Non- Insurance Percent</b>	<b>Non- Insurance Cost (\$M)</b>
<b>All Regional Costs:</b> Based on regulatory related portion of core and special programs.	\$159.91	11.5%	\$18.45
<b>Office of Consumer Protection:</b> Primarily non-insurance (regulatory) function i.e. chartering/FOM - net of work related to share insurance coverage for members and FISCUs.	\$9.88	86.9%	\$8.59
<b>Asset Management Assistance Center and Assistance Program:</b> Manages liquidation payouts, assets acquired from liquidations and assistance programs, and recoveries for the NCUSIF.	\$7.38	0%	\$0
<b>Office of Small Credit Unions:</b> Ensures small credit unions operate in safe and sound manner through its consulting program. However, it also addresses consumer regulatory issues.	\$6.45	28.0%	\$1.80
<b>Office of National Examinations and Supervision:</b> NCUSIF risk management function other than chartering, FOM, and mergers.	10.97	10.4%	\$1.14
<b>Office of Minority and Women Inclusion</b>	\$3.37	87.0%	\$2.93
<b>Other Internal Offices:</b> Based on non-insurance percent.	\$100.20	11.5%	\$11.56
<b>Total 2017 NCUA Budget</b>	<b>\$298.16</b>		<b>\$44.47</b>

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

**STEP 3 – Calculate Share Insurance Fund Costs (2017)**

**Imputed Share Insurance Fund Costs**

	<b>Millions</b>
2017 Financial Budget	\$298.16
Non-Insurance Costs (see Step 2)	(\$44.47)
SSA Imputed Value	\$50.76
Direct Operational Charges to the Share Insurance Fund	\$1.56
<b>Total Share Insurance Fund Imputed Costs</b>	<b>\$306.02</b>

**STEP 4 – Allocation of Share Insurance Fund Costs (2017)**

**Insured Shares Allocation**

	<b>FCUs</b>	<b>FISCUs</b>
Total Cost of Providing Share Insurance	\$306.02	\$306.02
Times Proportional Allocation Basis (Percent of Insured Shares)	51.3%	48.7%
<b>Equals Allocated Insurance Costs</b>	<b>\$156.99</b>	<b>\$149.03</b>

**Net of Imputed SSA Value**

	<b>Millions</b>
Total Allocated Insurance Costs - FISCUs	\$149.03
Minus SSA Insurance Work Imputed Value	(\$50.76)
<b>Equals Net Cost of Share Insurance – FISCUs</b>	<b>\$98.27</b>

**Dollar Amount of OTR**

	<b>FISCUs</b>	<b>FCUs</b>	<b>Dollar Amt.</b>
Portion of NCUA Insurance Cost	\$98.27	\$103.51	\$201.78
Divided by Percentage of Insured Shares	48.7%	51.3%	

**OTR as a Percent of Budget**

Dollar Amount of OTR	\$201.78
Divided by NCUA Budget	\$298.16
<b>Equals OTR</b>	<b>67.68%</b>

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

**Imputed SSA Value Step 1 – 2017**

**Gross Workload**

**Table 1**

<b>Average FCU Exam Time (Hours) (2015)</b>	<b>Assets &lt; \$10M</b>	<b>\$10M - \$100M</b>	<b>\$100M - \$250M</b>	<b>\$250M - \$500M</b>	<b>&gt; \$500M</b>
<b>CAMEL 1</b>	43	81	160	224	389
<b>CAMEL 2</b>	45	90	191	271	417
<b>CAMEL 3</b>	50	102	231	324	381
<b>CAMEL 4</b>	72	156	283	373	286
<b>CAMEL 5</b>	110	0	0	0	0

**Table 2**

<b>FISCUs (#) in Each Category (as of December 31, 2015)</b>	<b>Assets &lt; \$10M</b>	<b>\$10M - \$100M</b>	<b>\$100M - \$250M</b>	<b>\$250M - \$500M</b>	<b>&gt; \$500M</b>
<b>CAMEL 1</b>	53	113	46	40	100
<b>CAMEL 2</b>	309	605	211	110	150
<b>CAMEL 3</b>	167	231	36	7	14
<b>CAMEL 4</b>	28	27	3	1	2
<b>CAMEL 5</b>	3	1	0	0	0

**Table 3**

<b>Total Hours (Table 1 cells x Table 2 cells)</b>	<b>Assets &lt; \$10M</b>	<b>\$10M - \$100M</b>	<b>\$100M - \$250M</b>	<b>\$250M - \$500M</b>	<b>&gt; \$500M</b>
<b>CAMEL 1</b>	2,288	9,138	7,377	8,959	38,888
<b>CAMEL 2</b>	13,928	54,688	40,259	29,810	62,594
<b>CAMEL 3</b>	8,273	23,536	8,308	2,271	5,339
<b>CAMEL 4</b>	2,027	4,202	848	373	571
<b>CAMEL 5</b>	330	0	0	0	0
<b>Total</b>	26,847	91,564	56,793	41,412	107,392
<b>Total Gross Exam Hours</b>					<b>324,007</b>

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

## Imputed SSA Value Step 2 - 2017

### Net Workload

#### Net of Insurance-Related Time

FISCUs	Hours
Gross FISCU Exam Hours	324,007
x Insurance Factor Based on Examination Time Survey	87.4%
(1) = Total Insurance Hours	283,117
2017 Budgeted State Exam Hours	121,924
x 2 (Assuming 50/50 Joint)	2
(2) = Total Calculated Annual FISCU Exam Insurance Hours	243,848

#### Net of NCUA Time in FISCUs

	Hours
Total FISCU Hours - Greater of (1) or (2) Above *	283,117
+ 2017 Budgeted Supervision Hours	31,703
- 2017 Budgeted Insurance Review Hours	121,924
<b>Total Additional FISCU Insurance Hours Needed</b>	<b>192,896</b>
Less State Exam Review Time (no need to perform)	4,847
<b>Net Additional FISCU Hours Needed</b>	<b>188,049</b>

\*Uses the greater of two calculations – current budgeted state exam insurance hours or projected FISCU exam insurance hours based on Examination Time Survey.

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

### Imputed SSA Value Step 3 - 2017

#### Additional Staff Needed

##### Examiner Productive Time

2017 Core and Special Workload Program Hours	710,282
/ Total 2017 Workload Program Hours	1,384,342
= Productivity Ratio	51.3%
Total Work Hours in a Year Per Full Time Equivalent (FTE)	2,080
x Productivity Ratio	51.3%
= Productive Hours per FTE Examiner	1,067

##### Number of Examiners Needed

Net Additional FISCO Hours Needed	188,049
/ Productive Hours per FTE Examiner	1,067
= Number of Additional FTE Examiners Needed	<b>176.2</b>

##### Total Additional Staff Needed

Additional Staff Needed	Ratio Examiners to Position	FTEs Per Position
Examiners	1/1	176.2
Supervisory Examiners	1/9	19.6
Analysts	1/15	11.7
Directors	1/25	7.0
Other Regional Staff	1/20	8.8
= Number of Additional FTEs Needed		<b>223.4</b>

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



**Imputed SSA Value Step 4 - 2017  
Imputed Cost**

**Gross Cost**

Total Cost of Regions (2017 Budget)	\$167.32M
/ FTEs in Regions (2017 Budget)	835.2
= Per Regional FTE Cost	\$200,337
x Number of Additional FTEs Needed	223.4
= Cost of Additional Regional Positions	<b>\$44.75M</b>

**Net Cost**

	<b>Millions</b>
Cost of Additional Regional Positions	\$44.75
+ Additional Central Office Costs	\$7.57
- SSA Training and Equipment Cost	(\$1.56)
= <b>Imputed SSA Value</b>	<b>\$50.76</b>

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