Illinois Department of Financial and Professional Regulation

Office of the Secretary

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Governor

BRYAN A. SCHNEIDER
Secretary

April 26, 2016

VIA ELECTRONIC SUBMISSION
BOARDCOMMENTS@NCUA.GOV
Gerald Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314

Re: Comments on Overhead Transfer Rate and Federal Credit Union Operating Fee Schedule Methodologies

Dear Mr. Poliquin:

Thank you for the opportunity to comment on issues involving the Overhead Transfer Rate (OTR) and the Federal Credit Union Operating Fee Schedule (FCUOFS) methodologies.

As you know, Illinois has a mutually respectful working relationship with the National Credit Union Administration (NCUA) and this Department fully appreciates the efforts of the NCUA in overseeing and maintaining a sound credit union system at the national and state levels.

As of December 31, 2015, the State of Illinois leads the nation with 202 Federally Insured State Chartered Credit Unions (FISCUs), representing $30.8 billion in assets under supervision.

The monies collected for the National Credit Union Share Insurance Fund (NCUSIF), paid by both federally and most state-chartered institutions, and the FCUOFS, paid exclusively by federally chartered credit unions, together fund the NCUA budget. The OTR methodology, in turn, is used to determine the requisitions from the insurance fund to cover expenses used in carrying out NCUA's insurance responsibilities under Title II of the Federal Credit Union Act (FCUA). In contrast, the methodology used in determining the FCUOFS is used to set the fees necessary to carry out the NCUA's chartering responsibilities under Title I of the FCUA.

The OTR is meant to cover the costs of administering the NCUSIF, which is clearly part of the NCUA's insurer responsibilities. While those administrative costs include certain safety and soundness concerns, it appears that NCUA has transferred all or nearly all its safety and soundness costs to the insurance fund, thus blurring what are supposed to be separate and distinct responsibilities that are clearly and separately delineated in the FCUA.

Indeed, over time, there has been a troubling increase in the OTR – from approximately 50% to more that 70% of NCUA's budget in the last 15 years – and a corresponding decrease in operating fees collected from federal credit unions. This is a surprising, if not implausible, result in light of the increased safety and soundness concerns and related increases in safety and soundness examination times over the same period. Taken together, the increased OTR allocation and the declining fees collected from federally chartered credit unions has had a discriminatory effect on state-chartered credit unions that pay premiums to the NCUSIF in addition to fees and assessments to their state chartering authorities. Finally, the fact that these changes to allocation methodologies have occurred in a less than transparent way, with limited explanation as to how and why the assumptions have changed, has led to understandable frustration by many state-chartered credit unions and their chartering authorities which, in the end, undermines our country's unique dual-chartering system for financial institutions.

I urge, therefore, that NCUA, in an open and transparent manner, revise the FCU operating fee methodology to fully fund the safety and soundness examination of FCUs and revise the OTR methodology to rely on the safety and soundness exams of FCUs and FISCUs to the greatest extent possible. You have my commitment that this Department will constantly improve the process by which we undertake safety and soundness examinations of our Illinois-chartered credit unions, the reports of which NCUA is entitled to rely upon for insurance purposes to the maximum extent feasible. Working together I am confident we can ensure a vibrant nationwide network of credit unions, each reflecting its own localized choice concerning the charter and insurance best suited for its members.

Very truly yours,

Bryan A. Schneider

Bryan A. Schneider
Secretary