January 15, 2016

The Honorable Debbie Matz
Chairman of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Dear Chairman Matz;

In anticipation of your release of the methodology for the calculation of the Overhead Transfer Rate at the January 2016 Board Meeting, and as a member of a federally insured state-chartered credit union, I would like to request that you and the staff make every effort to be completely transparent with the full details of all steps and decision points within the methodology. Specifically, I request that you pay special attention to, 1.) the practices and methods used to classify exam related rules and regulations and 2.) the entire methodology used to determine the “Imputed SSA Value Calculation.”

Classification of Exam Related Rules and Regulations

The complete version of the 2011 PwC OTR Review clearly states in the conclusion of Section 5, subsections, 5.1, 5.1.1 and 5.1.2:

“Based on PwC’s review, the OTR Methodology was considered lacking in terms of the extent to which the classification of NCUA’s activities between insurance and regulatory (upon which the methodology is fundamentally dependent) represents a consensual view on such a characterization in the industry. Further, there was found to be dissatisfaction within the industry with respect to NCUA’s efforts to communicate and explain the OTR Methodology in adequate detail.” (emphasis added)

My review of the available presentation materials used before and since 2011 by NCUA staff to explain the OTR are lacking any detailed explanation of the classification process mentioned in the 2011 PwC study, including the 2013 PwC Analysis of ETS Modifications.

Your explanation should include a complete disclosure of the methods used to identify the 252 rules and regulations considered to be “exam related” and itemized in your exam matrix. It should further define and fully disclose the methods, assumptions and characteristics used to differentiate the 161 exam related rules and regulations that are further defined as “insurance related” and the same for the remaining 91 rules and regulations further defined as “non-insurance and consumer regulatory related.” As PwC concluded, this initial step in the OTR methodology is “fundamental” to the entirety of the method and any presumptive results that must conclude with an accurate and fair transfer of expenses to state-chartered federally insured credit unions.

Imputed SSA Value Calculation

Section 5.2.4 of the 2011 PwC Study clearly states in the recommendations:

“The Imputed SSA Value is one of the most critical inputs to the OTR calculation and has an important bearing on how concerns related to equity between FCUs and FISCU are addressed (as explained under the relevant section on equity below).”
This is of particular importance given the regulatory obligation of NCUA under the Federal Credit Union Act, Subchapter II, Section (b) (1):

“to pay the reasonable cost of such examinations as the Board may deem necessary in connection with determining the eligibility of the applicant for insurance: provided, that examinations required under Subchapter I shall be so conducted that the information derived therefrom may be utilized for share insurance purposes, and examinations conducted by State regulatory agencies shall be utilized by the Board for such purposes to the maximum extent feasible;”

(emphasis added)

Your January disclosure of the OTR methodology should include a cogent justification of how the Imputed Value of SSA has been determined in the past and what changes you will be incorporating to more accurately identify those areas of duplicative work product resulting from the SSA exam and applicable to those NCUA exam items determined to be “insurance related.”

You should clearly disclose how, for example, if multiple FCU Act Sections (e.g. 701.21, 715, 723, etc.) are considered by the NCUA to be “insurance related” exam rules, and if the same or similar rules are part of state credit union acts and subject to examination review by the state regulator, then what exactly does the NCUA examiner do that doesn’t duplicate the efforts of the state? Is the state exam incomplete? Are there factors for consideration from the insurer’s point of view that differ from the state exam output? Does NCUA find the state examination methodologies lacking in completeness, competency or integrity?

You should be telling us this month, exactly what examination activities of the SSAs are used to calculate the SSA Insurance Work Imputed Value for oversight of Business Lending, Net Worth, Investment policies, Supervisory Committee Audits and Verifications, etc., and what activities and NCUA work hours are required to supplement the work already done by the State to meet the oversight requirements of the Federal Insurer. Your explanation of the OTR methodology needs to inform us how much of your work is duplicative, and how much of your work is unique.

The current method for estimating the value of SSA work based on the internal costs of the NCUA exam process may have been acceptable in the days of a lower OTR, but the steadily increasing OTR rate and the exorbitant annual increases in the total NCUA budget demands more accountability. It demands that NCUA create a better process to identify the metrics of SSA work. It requires that actual survey work be accumulated on the state exam process and that the NCUA fulfill its regulatory responsibility to both justify its work hours applied to the OTR and utilize the SSA work product to the “maximum extent feasible.”

I look forward to your January Board Meeting disclosure and discussion on the OTR and appreciate your consideration.

Sincerely,

Victor J. Pantea, President

CC: The Honorable Rick T. Metsger, Vice-Chairman

The Honorable Mark McWatters, Board Member