



The National Association of State Credit Union Supervisors

November 7, 2025

Melane Conyers-Ausbrooks
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: NASCUS Comments on NCUA Staff Draft Budget Justification 2026 – 2027 (Docket number NCUA–2025–0543).

Dear Ms. Conyers-Ausbrooks:

On behalf of the National Association of State Credit Union Supervisors¹ (NASCUS), I respectfully submit the following comments in response to the National Credit Union Administration’s (NCUA) Staff Draft Budget Justification for 2026–2027 (Docket No. NCUA–2025–0543). NASCUS remains committed to working with the NCUA and other stakeholders to promote a balanced, efficient, and resilient regulatory framework that supports the continued growth and stability of the credit union dual charter system.

As the NCUA continues to evolve its supervisory approach and adjust to the agency’s new staffing levels—particularly through increased reliance on state examination programs and reports—it is imperative that the agency’s budget and expense allocations reflect the cost savings to NCUA and National Credit Union Share Insurance Fund (SIF) attributable to the regulatory and supervisory programs of state regulatory agencies with respect to federally insured state credit unions (FISCUs). While NASCUS defers to credit union stakeholders on matters of NCUA’s overall budget and its line items, we do offer the following comments and recommendations regarding structural and governance issues related to the administration of the SIF, the methodology and transparency of the Overhead Transfer Rate (OTR), and the need for equitable treatment of state and federal credit unions with respect to NCUA’s expense allocation.

Specifically, NASCUS’s comments address:

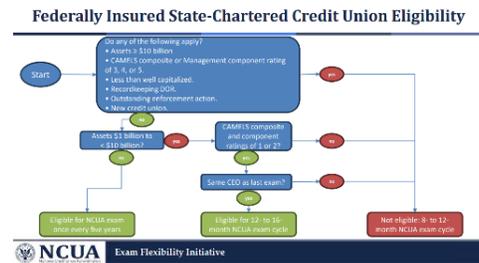
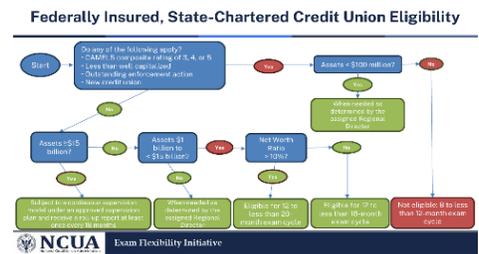
- NCUA’s Extension of the NCUA Exam Cycle for FISCUs is Made Possible by Robust State Supervision Funded by State Credit Unions,

¹ NASCUS is the professional association of the nation’s forty-six state and territorial credit union regulatory agencies that charter and supervise over 1800 state credit unions. NASCUS membership includes state regulatory agencies, state chartered and federally chartered credit unions, and other important stakeholders in the state system. State-chartered credit unions hold approximately half of the \$2.4 trillion assets in the credit union system and are proud to represent nearly half of the 144 million members. The remaining 5 states lack state-chartered credit unions.

- Misleading Characterization of Expenses Borne by FISCUs and FCUs,
- Risk that the OTR Methodology may Inequitably Subsidize FCU Regulatory Oversight at the Expense of the State Systems,
- Lack of Independent Review and Transparency of OTR Methodology Primary Inputs,
- Counterintuitive Aspects of the OTR Methodology, and
- Recommendations for Strengthening SIF Governance & OTR Transparency

NCUA’s Extension of the NCUA Exam Cycle for FISCUs is Made Possible by Robust State Supervision Funded by State Credit Unions

In February 2025, NCUA released Letter to Credit Unions 25-CU-03: Exam Scheduling Policy Changes², outlining changes to its exams scheduling policy related to both FISCUs and FCUs, approved at its December 2024 board meeting.³ In that letter, the NCUA extended the examination scheduling requirement to 16 months for certain qualifying FISCUs and maintained a required 5-year onsite review by NCUA of FISCUs. While these changes were initially made to the NCUA’s exam flexibility initiative workflow for FISCUs (see graphics to the right), additional changes were made sometime in April to those workflows without evident public notice. Since then, the NCUA FISCU exam flexibility workflow was updated to allow qualifying FISCUs to be scheduled up to 20 months between examinations and only require NCUA staff onsite contact for institutions greater than \$15 billion, or those over \$100 million and rated a CAMELS composite 3, 4 or 5, less than well capitalized, under an outstanding enforcement action or a de novo credit union. The significant loosening of the NCUA’s exam scheduling guidelines for FISCUs, specifically the lack of required onsite contact by NCUA at least once every 5 years for the majority of charters, is indicative of a significantly enhanced reliance by NCUA on state supervisory programs and state examination reports to ensure oversight of the SIF.



The overwhelming number of FISCUs are well managed, and that NCUA will further rely on the high-quality examination work of the states by reducing the federal on-site presence in these FISCUs will be welcome news to the state system as a reduction in supervisory burden. However, with respect to the NCUA budget it raises several issues. The first issue is how NCUA chooses to characterize the cost allocation borne by FCUs and FISCUs. The second is why an apparent reduction in SIF workload (in the form of reduced onsite presence in FISCUs) and the necessary cost savings that follow don’t appear to be reflected in the proposed OTR.

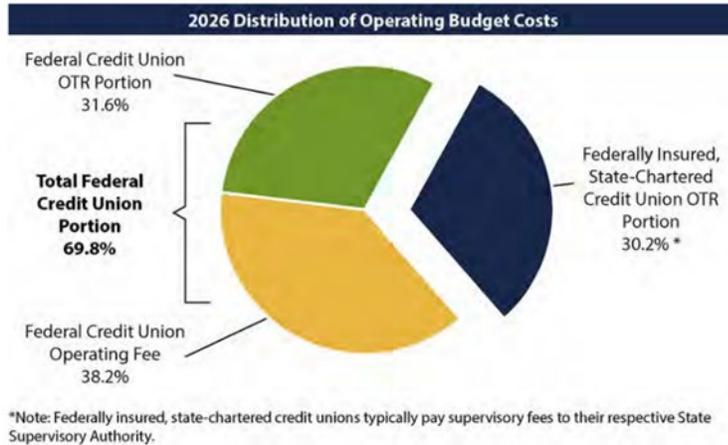
² Letter to Credit Union 25-CU-03 / February 2025

³ Available at <https://ncua.gov/newsroom/press-release/2024/ncua-board-approves-2025-2026-budget-succession-planning-final-rule>

Misleading Characterization of Expenses Borne by FISCUs and FCUS

On page 22 of the NCUA’s Staff Justification of the 2026/2027 budget NCUA continues to include the graphic noted below which outlines that FCUs contribute 69.8% of the NCUA’s budget while FISCUs contribute 30.2%. Presumably, NCUA includes this observation in anticipation of state system stakeholders questioning the equity of allocating such a large portion of FCU examination costs to the SIF, thereby increasing expenses paid for by FISCUs’ deposits with the SIF.

The following chart illustrates the share of the proposed 2026 Operating Budget that would be paid by federal credit unions (69.8%) and FISCUs (30.2%).



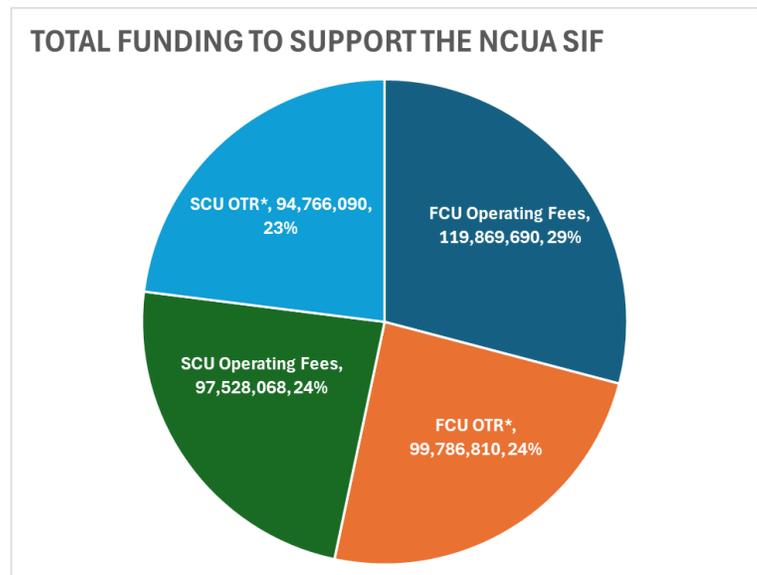
budget while FISCUs contribute 30.2%. Presumably, NCUA includes this observation in anticipation of state system stakeholders questioning the equity of allocating such a large portion of FCU examination costs to the SIF, thereby increasing expenses paid for by FISCUs’ deposits with the SIF.

This is misleading on two counts.

First, the total percentage of NCUA’s budget paid for by FISCUs is irrelevant. NCUA’s budget is

comprised of two major components: the agencies Title I expenses as the chartering authority of FCUs and its Title II administration of the SIF. The former has nothing to do with FISCUs, only the latter, the administration of the SIF is germane to the discussion.

Second, despite a note acknowledging FISCUs pay operating fees to their state prudential regulator and the immediately available operating fees paid by FISCUs and FCUs in the 5300 system, NCUA’s analysis continues to obscure the the funding provided by FISCUs to protect the SIF, the examination resources allocated by state supervisors and most importantly the examination reports utilized by NCUA to monitor the risk profile of the SIF.



Based on publicly available 5300 data FISCUs contributed \$97.5 million to fund state examination and supervision to provide over 313,000 examination hours and over 1,300 reports utilized by NCUA to monitor the condition of the 1,630 FISCUs active as of June 30, 2025. Relatively,

NCUA estimates FCUs will contribute \$119.9 million in operating fees in 2026. Using the NCUA’s current estimates of the OTR and the estimated 2026 FISCO operating fees based on 2024 fees, FISCUs are estimated to contribute \$192.3 million or 46.7% of the total funds contributed by state and federal credit unions to support the stability and adequacy of the

SIF. These FISCO funded efforts are safety and soundness supervision that benefits the SIF through NCUA reliance on examination reports and should be acknowledged. This is precisely what Congress envisioned when it directed the SIF to rely on examinations done by states under its Title I authority.

A plain reading of the Federal Credit Union Act clearly demonstrates that when establishing the SIF, Congress intended to maximize the funds available to cover losses by minimizing the SIF's operating expenses. Congress did this by directing the SIF to rely on examination work performed by the states (and paid for by state credit unions not from the SIF). As discussed above, this is exactly how the SIF operates with respect to FISCOs. Congress likewise statutorily directed the SIF to rely on examination work performed pursuant to Title I of the Federal Credit Union Act (paid for by FCU operating fees not from the SIF). In this manner, the operating expenses of the SIF would be minimized, preserving its resources for backstopping member deposits.

However, NCUA's OTR methodology flips this savings on its head. Rather than having the SIF rely on Title I exams as Congress directed, NCUA's methodology reduces Title I expenses by having the SIF perform examinations of FCUs that NCUA relies on as a chartering authority, passing the cost savings to NCUA as a chartering authority rather than to the SIF.

This is also important, because every dollar transferred from the SIF by the Overhead Transfer is one less dollar available to cover current losses, diminishes the SIF's future earnings potential and results in funds not distributed back to the credit unions. Diverting funds out of the SIF could be counterproductive, particularly when credit union income is under pressure. Inappropriate control of NCUA's SIF funded budget means performance of the fund is misrepresented, and funds are not returned by dividends to the industry. These dividends, when appropriate, can significantly impact credit union income statements and equity positions, particularly for more modest sized institutions.

To be clear, costs associated with administering the SIF should be allocated to the Fund. That is what Congress intended when it established the SIF. Whether driven by supervisory necessity or due diligence, the SIF must directly fund the examination of some federally insured credit unions. But the SIF's reliance on examinations funded directly by credit unions and the minimization of its expenses should also be formally acknowledged, documented and made part of a transparent OTR setting process.

Risk that the OTR Methodology may Inequitably Subsidize FCU Regulatory Oversight at the Expense of the State Systems

It can be easy to underappreciate the impact of the OTR on credit union resources as it does not result in an annual expense item carried by credit unions, but rather in lost opportunity, in both interest income and capital held.

However, the fact that the OTR is not accounted for as a direct charge to credit unions does not mean it does not represent a cost to FICUs to cover the OTR. Loss of earnings on SIF

related deposits by credit unions and capital exposure to loss of those deposits represents material impact on an institution’s earnings stream and a potential impact on capital.

NASCUS notes the OTR will increase 1 basis point to 61.8% in 2026. While the cost efficiencies of the current budget proposal are yet to be realized, it seems counterintuitive that with the evidence of greater reliance on the state credit unions system predicted in NCUA’s operating policies and budget proposal resulting in less NCUA resources allocated toward the state credit unions, that the internal survey outlining NCUA’s current estimate of allocation of resources between Title I and Title II responsibilities would result in an increase to insurance allocated activities. Given the Federal Credit Union Act (FCUA) mandate that the SIF rely on Title I examinations, we believe the OTR should be further reduced, and additional work remains to better calibrate the OTR methodology toward matching the proposed modern form of the NCUA and ensuring equitable management of the SIF for all charters.

Lack of Independent Review and Transparency of OTR Methodology Primary Inputs

As noted below, total assets and insured shares of state-chartered and federally chartered credit unions (federally insured) are equal, but the number of charters in each category is materially different:

	FCUs	FISCUs
Insured Shares	51.1%	48.9 %
Assets	51.3%	48.7%
Credit Unions	62.7%; 2,740 Units	37.3%; 1,630 Units

Sources: NCUA 2026 Draft Budget Justification and NCUA 2025 Q2 Call Report Data

In its insurance role, NCUA has over 1,000 more FCUs to monitor. Given the equal number of insured shares and assets between federal and state-chartered FICUs, one would expect NCUA’s insurance workload to be significantly higher for FCUs than that of SCUs. Further, one would expect the NCUA’s chartering related work for FCUs to be significantly higher than that of the state agencies related to FISCUs.

However, as the NCUA does not publish its OTR workload analysis, it is not possible to evaluate the intuitive perception that NCUA physically spends far more of its time on FCUs.

Understanding the primary drivers of the OTR is critical because these drivers reflect NCUA’s cost allocations and, more importantly, NCUA’s assumptions in completing its workload analysis. NCUA explains that its OTR “analysis starts with a field-level review of every federally insured credit union to estimate the number of workload hours needed for the current year⁴....The workload estimates are then refined by regional managers and submitted to the NCUA central office for the annual budget proposal.” However, NCUA’s explanation

⁴ NCUA Staff Draft: 2026 – 2027 Budget Justification, Page 21, available at <https://ncua.gov/files/publications/budget/budget-justification-proposed-2026-2027.pdf>

statements do not provide sufficient detail to enable validation of the assumptions that drive NCUA’s workload analysis.

NCUA’s cost allocation and OTR calculation processes remain too opaque for proper public evaluation of the allocation of costs to administration of the SIF and to the Title I chartering function. Greater transparency would enhance stakeholder confidence of an equitable balancing of the interests of the state and federal charter.

Counterintuitive Aspects of the OTR Methodology

NCUA’s Conflation of Principle 1 & Principle 2 with Respect to Monitoring Third Party and CUSO Risk

Principles 1 and 2 of the OTR formula read:

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

The 2025 Overhead Transfer Rate (OTR) Summary⁵ reads in footnote 1:

The 50 percent allocation mathematically emulates NCUA’s dual role on each examination (that of regulator and that of insurer). It reflects an equal sharing of supervisory responsibilities between NCUA’s roles as charterer/prudential regulator and insurer given both roles have a vested interest in the safety and soundness of federal credit unions. The NCUA’s resource budget reflects the total hours needed to provide the oversight responsibility of both its regulator and insurer roles.

Also, this assessment presumes that the prudential regulator and the deposit insurer functions necessitate the exact same activity levels to be effective in their respective oversight responsibilities. The appeal of the ease of application of a 50/50 split is understandable, and we concede the efficiency of maintaining the blended structure of NCUA’s Title I and Title II responsibilities. However, given the plain language of the Federal Credit Union Act and the importance of the dual chartering system, more granular calibrating of Title I and Title II cost allocations is warranted to acknowledge the significant utilization of the state examination programs by NCUA, in a manner equivalent to how Congress directed the SIF to rely on NCUA prudential regulatory exams in Section 1782(5)(b), to reduce operating costs to the SIF.

⁵ Available at <https://ncua.gov/news/budget-supplementary-materials/2025-overhead-transfer-rate-summary>

While NASCUS agrees that appropriate cost allocation is necessary given the lack of separation of NCUA’s regulatory and deposit insurance roles, we do not agree that reviews of CUSO’s or third-party vendors should be allocated 100% to the SIF. Given that NCUA’s supervisory interest in CUSOs and other third-party service providers would include both FISCU and FCU related safety and soundness concerns from a SIF perspective, we would agree that CUSO allocation would be heavily weighted to the SIF. However, to allocate 100% of this work to the SIF is not appropriate.

Put simply, to accept that all NCUA CUSO reviews of FCU CUSOs are strictly SIF related and hence 100 percent funded by the SIF is to assert that but for the SIF, NCUA as a chartering authority of FCUs has no interest in its charters’ investments into CUSOs subordinates, the associated operational and/or transactional risks nor FOM and other compliance risks.

Recommendations for Strengthening SIF Governance & OTR Transparency

Properly evaluating NCUA’s proposed 2026 budget necessitates an understanding of the underlying data applied to the methodology. In the shared interest of strengthening SIF governance and enhancing the transparency of NCUA’s overall budget process, NASCUS makes the following recommendations:

- Provide greater transparency to NCUA’s underlying workload analysis in the aggregate. Providing stake holders more information on the aggregate distribution of supervision hours as well as hours allocated among different agency offices would enhance stakeholder understanding of the respective Title I and Title II costs.
- Reconsider the November 19, 2015, NCUA Board decision to delegate calculation and administration of the OTR to a strictly formula administration. Given the potential for misbalancing the dual chartering system, the NCUA Board should evaluate the need for equity-based adjustments.
- Provide the documentation necessary to support all underlying assumptions utilized in the OTR methodology.
- Improve the NCUA OTR methodology process by amendment to match the modernized organization proposed by policy amendment and active seeking the state regulatory perspective on the current state of the industry, appropriate resource needs and allocation used in the development of the drivers of the OTR. Allow direct, independent review of NCUA input drivers by state regulators to utilize state regulatory experience and provide increased collaboration across all funding sources of industry supervisory programs.
- Amend NCUA Principles 1 and 2, as appropriate based on regular review of the supporting analytics, to assure that NCUA’s treatment of costs associated with FCU insurance activities and third-party vendor and CUSO risk reviews for FCUs is reasonably applied to the SIF.

Closing Remarks

Our comments herein are made in the spirit of State/Federal regulator collaboration and in support of our shared objectives to foster a vibrant dual charter system that increases consumer access to safe and sound cooperative financial institutions. NASCUS commends NCUA for the agency’s continued willingness to collaborate with stakeholders to better calibrate the agency’s budget and the OTR methodology.

Sincerely,

- signature redacted for electronic publication -

John J. Kolhoff
Senior Vice President,
Policy and Supervision
NASCUS