

## NATIONAL CREDIT UNION ADMINISTRATION

### Request for Comment Regarding Overhead Transfer Rate Methodology

**AGENCY:** National Credit Union Administration (NCUA).

**ACTION:** Request for comment.

**SUMMARY:** The NCUA Operating Budget has two primary funding mechanisms: (1) An Overhead Transfer, which is funded by federal credit unions (FCUs) and federally insured state-chartered credit unions (FISCU); and (2) annual Operating Fees, which are charged only to FCUs. In a voluntary effort to invite input from stakeholders representing federal and state-chartered credit unions, the NCUA Board (Board) is simultaneously requesting comments on the methodologies for both funding mechanisms in separate notices in the **Federal Register**.

This request for comments focuses on the methodology NCUA uses to determine the Overhead Transfer Rate (OTR). To facilitate comments, the Board is also assembling and describing its existing OTR methodologies and processes, which are also available on NCUA's Web site. The Board applies the OTR to NCUA's Operating Budget to determine the portion of the budget that will be funded from the National Credit Union Share Insurance Fund (NCUSIF). The Board invites comments on all aspects of the OTR methodology and any alternatives commenters may offer. Areas the Board specifically seeks comments on include:

- Whether the OTR should continue to be determined using a formula-driven approach, or instead be set largely at the discretion of the Board;
- The definition NCUA uses for insurance-related activities;
- Adjustments or changes to the current calculation; and
- Alternate methodologies to arrive at an accurate and fair allocation of costs.

To be most instructive to the Board, commenters are encouraged to provide the specific basis for their comments and recommendations, as well as documentation to support their proposed adjustments or alternatives.

**DATES:** Comments must be received on or before April 26, 2016 to be assured of consideration.

**ADDRESSES:** You may submit comments by any of the following methods (Please send comments by one method only):

- **NCUA Web Site:** <https://www.ncua.gov/about/pages/board-comments.aspx>. Follow the instructions for submitting comments.

- **Email:** Address to [boardcomments@ncua.gov](mailto:boardcomments@ncua.gov). Include "[Your name]—Comments on OTR Methodology" in the email subject line.

- **Fax:** (703) 518-6319. Include your name and the following subject line: "Comments on OTR Methodology."

- **Mail:** Address to Gerard Poliquin, Secretary of the Board, National Credit Union Administration, 1775 Duke Street, Alexandria, Virginia 22314-3428.

- **Hand Delivery/Courier:** Same as mail address.

**Public Inspection:** You can view all public comments on NCUA's Web site at <https://www.ncua.gov/about/pages/board-comments.aspx> as submitted, except for those we cannot post for technical reasons. NCUA will not edit or remove any identifying or contact information from the public comments submitted. You may inspect paper copies of comments at NCUA's headquarters at 1775 Duke Street, Alexandria, Virginia 22314, by appointment weekdays between 9 a.m. and 3 p.m. To make an appointment, call (703) 518-6360 or send an e-mail to [EIMail@ncua.gov](mailto:EIMail@ncua.gov).

**FOR FURTHER INFORMATION CONTACT:** Russell Moore, Loss/Risk Analysis Officer, Office of Examination and Insurance, National Credit Union Administration, 1775 Duke Street, Alexandria, Virginia 22314-3428 or telephone: (703) 518-6383.

**Authority:** 12 U.S.C. 1783(a); 1766(j)(3).

**SUPPLEMENTARY INFORMATION:** NCUA charters, regulates and insures deposits in federal credit unions (FCUs) and insures deposits in state-chartered credit unions that have their shares insured through the NCUSIF. To cover expenses related to its statutory mission, the Board adopts an Operating Budget in the fall of each year. The Federal Credit Union Act (FCU Act) authorizes two primary sources to fund the Operating Budget: (1) Requisitions from the NCUSIF "for such administrative and other expenses incurred in carrying out the purposes of [Title II of the FCU Act] as [the Board] may determine to be proper";<sup>1</sup> and (2) "fees and assessments (including income earned on insurance deposits) levied on insured credit unions under [the FCU Act]."<sup>2</sup> Among the fees levied under the FCU Act are annual Operating Fees, which are required for FCUs under 12 U.S.C. 1755 "and may be expended by the Board to defray the expenses incurred in carrying

out the provisions of [the FCU Act.] including the examination and supervision of [FCUs]." Taken together, these dual funding authorities effectively require the Board to determine which expenses are appropriately paid from each source, though these two provisions give the Board broad discretion in this.

To determine an appropriate division of expenses between these two funding sources, the Board uses the OTR methodology described in this publication. This version of the OTR methodology was first adopted by the Board in 2003 and refined in 2013. The OTR represents the allocation formula the Board uses to determine which expenses are properly characterized as insurance related and charged to the NCUSIF under Title II, rather than collected through annual Operating Fees.<sup>3</sup> Only two statutory provisions limit the Board's discretion with respect to NCUSIF requisitions for NCUA's Operating Budget and, hence, the OTR. First, expenses funded from the NCUSIF must carry out the purposes of Title II of the FCU Act, which relate to share insurance.<sup>4</sup> Second, NCUA must fund at least some part of its Operating Budget through fees charged pursuant to 12 U.S.C. 1766(j)(3).<sup>5</sup> NCUA has not imposed any additional policy or regulatory limitations on its discretion for determining the OTR.

Third, while not a legal requirement, the current Board policy is to use a cost-accounting methodology that by design is both neutral and equitable with respect to credit union charter types.

The methodology satisfies the two legal requirements identified above. First, the funds transferred from the NCUSIF must relate to NCUA's insurance functions. The Board notes the breadth of that category, and each expense funded from the OTR in accordance with the formula explained herein, reasonably relates to insurance for purposes of 12 U.S.C. 1783(a). NCUA's definition of "insurance related examination procedures" that fall under Title II includes "examination or supervision contact procedures [that]

<sup>3</sup> Annual Operating Fees must "be determined according to a schedule, or schedules, or other method determined by the NCUA Board to be appropriate, which gives due consideration to the expenses of the [NCUA] in carrying out its responsibilities under the [FCU Act] and to the ability of [FCUs] to pay the fee." 1755(b). The NCUA Board's methodology for determining the aggregate amount of Operating Fees is discussed in a separate **Federal Register** publication.

<sup>4</sup> 12 U.S.C. 1783(a).

<sup>5</sup> *Accord* 12 U.S.C. 1755(a) ("In accordance with rules prescribed by the Board, each [FCU] shall pay to the [NCUA] an annual operating fee which may be composed of one or more charges identified as to the function or functions for which assessed.").

<sup>1</sup> 12 U.S.C. 1783(a).

<sup>2</sup> 12 U.S.C. 1766(j)(3). Other sources of income for the Operating Budget include interest income, funds from publication sales, parking fee income, and rental income.

address safety and soundness issues.” Safety and soundness terminology is sprinkled throughout Title II of the FCU Act with respect to NCUA’s insurance-related responsibilities.<sup>6</sup> As such, this definition is contained within the broad swath of 12 U.S.C. 1783(a), which simply requires that an expense be “incurred in carrying out the purposes of [Title II]” on share insurance to be eligible for OTR coverage. Similarly, “insurance regulatory related examination procedures” are defined in the OTR methodology as those that assess compliance with regulations that “address safety and soundness issues.” This secondary definition expressly excludes procedures that assess compliance with regulations “designed to protect consumers directly.” Therefore, this supplemental definition narrows, rather than expands, the procedures that the OTR methodology includes under Title II, since some consumer protection regulations may also be directed at safety and soundness. Further, neither the activities the OTR methodology identifies as examples of examination or supervision procedures that address safety and soundness, nor any of the NCUA-specific regulations classified as “insurance regulatory” related in the regulation mapping in Appendix A, fall outside of this definition.

Second, at least some part of the Operating Budget comes from fees charged to insured credit unions under 12 U.S.C. 1755. The imposition of the annual Operating Fees on FCUs and their use to pay expenses in the Operating Budget is sufficient evidence of the proper exercise of the Board’s discretion under these two limitations. Within these broad statutory bounds, the Board is seeking additional public input on its OTR methodology through Federal Register processes.

Since its inception, NCUA has taken the position that the OTR is not a legislative rule under the Administrative Procedure Act (APA) and is, therefore, exempt from notice

<sup>6</sup> See, e.g., 12 U.S.C. 1781(c)(2) (referencing “unsafe and unsound” financial condition and policies in connection with applications for insurance); 1782(a)(6)(b) (referencing the phrase “unsafe and unsound” in connection with a failure to obtain an outside, independent audit); 1786 (addressing “unsafe or unsound practices” or “safety and soundness” in connection with termination of insurance, orders to cease and desist, prohibition and removal orders, civil money penalties, and delay in publication of final orders); 1787(b)(2)(D) (authorizing the Board to take actions as conservator to put an insured credit union “in a sound and solvent condition”); 1790d(h)(1) (referencing “safety and soundness” in relation to prompt corrective action and reclassification of a credit union’s net worth category).

and comment rulemaking processes.<sup>7</sup> As such, NCUA has never used notice and comment rulemaking to establish either an individual determination of the OTR or the general methodology used to calculate the OTR. However, the OTR has been explained, discussed, and reviewed in various public records, including in annual Board Action Memorandums related to budget matters, independent evaluations, and other documents available in public records and on NCUA’s Web site.<sup>8</sup> Beyond its APA obligations, the Board has chosen to solicit public comments on the OTR processes and methodologies through this **Federal Register** publication.

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## I. Overview

NCUA is the independent federal agency created by the U.S. Congress to regulate, charter and supervise FCUs. With the backing of the full faith and credit of the United States, NCUA also operates and manages the NCUSIF. Congress enacted Title II of the FCU Act on October 19, 1970.<sup>9</sup> Title II established the NCUSIF, requiring all federal credit unions to immediately apply for insurance and permitting the Board to insure accounts in state-chartered credit unions. After enactment of Title II, the Board established an

<sup>7</sup> NCUA’s legal analysis with respect to the OTR and APA process is available at the following Web page: <https://www.ncua.gov/Legal/Documents/Opinion/OL2015-0818.pdf>. Note that even where not subject to notice and comment procedures, the APA provides that “[a]gency action made reviewable by statute and final agency action for which there is no other adequate remedy in a court are subject to judicial review.” 5 U.S.C. 704. The scope of such a review is set forth in 5 U.S.C. 706.

<sup>8</sup> Materials related to the OTR can be found at the following NCUA Web page: <https://www.ncua.gov/About/Pages/budget-strategic-planning/supplementary-materials.aspx>.

<sup>9</sup> Section 1783(a) of the FCU Act created the NCUSIF and authorized the NCUA Board to use the fund to pay for “such administrative and other expenses incurred in carrying out the purposes of [Title II] as it may determine to be proper”.

allocation formula, the Overhead Transfer Rate, to determine the amount of the Operating Budget that it would requisition from the NCUSIF for insurance-related expenses. Over time, the Board has refined the OTR process to ensure the equitable allocation of costs between NCUA’s dual roles of insurer (insurance related activities) and regulator that charters federal credit unions (non-insurance related activities).

NCUA’s current methodology, in place since 2003 and refined in 2013, determines the OTR using the results of an examiner time survey (ETS). The ETS captures the time NCUA spends examining and supervising FCUs, carrying out its dual mission as insurer of federally insured credit unions (FICUs), and the chartering authority for federal credit unions. The OTR methodology also factors in the following:

- The value to the NCUSIF 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.
- The distribution of insured shares between FCUs and federally insured state-chartered credit unions (FISCUs).
- Operational costs charged directly to the NCUSIF.

The goal of the methodology is to create a comprehensive and equitable calculation and allocation of costs to set the OTR annually within a framework that can be administered at minimal cost.

## II. Context for the OTR

There is a distinct overlap between the historical role of a regulator, concerned with enforcing laws and implementing public policy, and that of an insurer. Though not motivated by the associated financial liability that comes with the role of insurer, regulators address threats to the viability of their financial institutions to protect consumers and their jurisdiction’s economy. This focus on viability benefits the insurer. The primary roles of an insurer are to protect depositors and the taxpayer, and contribute to the stability of the financial system.

Before the advent of federal deposit insurance, federal financial institution regulators were concerned with protecting the stability of the financial system by “regulating” it. Thus, financial institution examinations focused on ensuring (1) statutes and regulations were followed to protect consumers, and (2) institutions were viable to protect consumer deposits,

preserve access to financial services, and safeguard the stability of the economy.<sup>10</sup>

NCUA has a unique dual role in that it serves as both the regulator of FCUs and the insurer of FCUs and FISCUs. Given this dual role, it is appropriate to allocate examination and supervision costs between the NCUSIF and Operating Fees charged to FCUs. The policy rationale for this allocation is supported by various provisions of the FCU Act.

In Title II of the FCU Act, Congress established the NCUSIF and housed it within NCUA for administration by the NCUA Board.<sup>11</sup> Congress envisioned efficiencies from this arrangement, as well as NCUA's partnership with state regulators. Evidence of this intent to streamline can be found in 12 U.S.C. 1782(a)(5), which requires reports FCUs must file under Title I of the FCU Act to be prepared so "that they can be used for share insurance purposes." Similarly, this provision requires NCUA to use the reports filed by FISCUs with their state regulators "for share insurance purposes . . . [t]o the maximum extent feasible. . . ." <sup>12</sup>

Congress also recognized that, in addition to losses related to credit union failures, the NCUSIF would incur expenses related to its administration, including examination staff and other employees. Title II empowers the NCUA Board to determine the proper allocation of "administrative and other expenses incurred" under Title II that

<sup>10</sup> The Office of the Comptroller of the Currency (OCC) charters, regulates, and supervises all national banks and federal savings associations as well as federal branches and agencies of foreign banks. On its Web site, the OCC lists its mission as ensuring that national banks and federal savings associations operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations. Similarly, the Board of Governors of the Federal Reserve System has supervisory and regulatory authority over a wide range of financial institutions, including state-chartered banks that are members of the Federal Reserve System, bank holding companies, thrift holding companies and foreign banking organizations that have a branch, agency, a commercial lending company subsidiary or a bank subsidiary in the United States. On its Web site, The Federal Reserve states its mission is to provide the nation with a safer, more flexible, and more stable monetary and financial system. One of its four stated general duties is supervising and regulating banking institutions to ensure the safety and soundness of the nation's banking and financial system and to protect the credit rights of consumers. On its Web site, the Federal Deposit Insurance Corporation states its mission is to maintain stability and public confidence in the nation's financial system by insuring deposits, examining and supervising financial institutions for safety and soundness and consumer protection, making large and complex financial institutions resolvable, and managing receiverships.

<sup>11</sup> 12 U.S.C. 1783.

<sup>12</sup> 12 U.S.C. 1782(a)(5).

may be funded by direct requisitions from the NCUSIF.<sup>13</sup> Title II further subjects the resources expended for "insurance purposes" to the Board's discretion by empowering the Board to "appoint examiners who shall have power, on its behalf, to examine any insured credit union, any credit union making application for insurance of its member accounts, or any closed insured credit union *whenever in the judgment of the Board an examination is necessary to determine the condition of any such credit union.* . . ." <sup>14</sup> Title I confirms this design by requiring that salaries and expenses of the Board and NCUA employees "be paid from fees and assessments (including income earned on insurance deposits) levied on *insured credit unions* under [the FCU Act]." <sup>15</sup> In addition to assessments charged to all insured credit unions simply by nature of their NCUSIF insurance, Title I requires an annual Operating Fee charged to FCUs in recognition of the additional duties required of NCUA under Title I with respect to FCUs.<sup>16</sup>

NCUA also has the authority to promulgate rules and regulations to carry out the provisions of Title II.<sup>17</sup> Accordingly, the NCUA Board has approved rules and regulations that specifically address safety and soundness and protect the NCUSIF.<sup>18</sup>

Under the discretion vested in it under the FCU Act, the NCUA Board's primary motivation for the agency's regulations and examination program has been managing risk to the NCUSIF posed by all insured credit unions, whether state chartered or federal. The Board notes that NCUA's role as insurer is best fulfilled by a proactive approach to preventing losses, in addition to paying the post-failure obligations that NCUSIF insurance coverage requires. Since the implementation of federal share insurance in 1970, the NCUA Board has instituted a much more proactive examination and supervision program geared toward safety and soundness, which focuses on insurance related issues. In 2002, the NCUA Board strengthened its commitment to fulfilling NCUA's role as insurer by implementing the Risk-Focused

<sup>13</sup> 12 U.S.C. 1783(a).

<sup>14</sup> 12 U.S.C. 1784(a) (emphasis added); *see also* 1789(a)(7).

<sup>15</sup> § 1766(j)(3) (emphasis added).

<sup>16</sup> § 1755.

<sup>17</sup> § 1789(a).

<sup>18</sup> NCUA staff have mapped all examination related rules and regulations to one of two categories: insurance regulatory related, or non-insurance and consumer regulatory related. This regulatory mapping provides the key basis for determining how examination time is measured for purposes of the budgetary Overhead Transfer Rate.

Examination Program. This program bases examination scope and timing to a large extent on the risks an institution poses to the NCUSIF. The OTR's portion of NCUA's Operating Budget, including its changes over time, reflects the Board's fulfillment of its insurance responsibilities under the FCU Act under evolving economic and legislative circumstances.

### III. History

The NCUSIF was established in 1970 through an amendment to the FCU Act. Section 203(a) of the FCU Act, 12 U.S.C. 1783(a), created the NCUSIF and authorized the Board to use it to pay for "such administrative and other expenses incurred in carrying out the purposes of [the FCU Act] as it may determine to be proper."

In 1972, a Government Accountability Office (GAO) audit <sup>19</sup> recommended NCUA adopt a method of allocating costs between NCUA and the newly formed NCUSIF. Between 1973 and 1980, various cost allocation methods were employed, including direct charges to the NCUSIF for insurance expenses, including costs to close institutions, liquidation and merger costs, and, examiner time spent supervising—as opposed to examining—institutions. Starting in 1981, the OTR ranged between 30 and 34 percent, and stayed in that range through 1984.

From 1985 through 1994, NCUA's Office of Examination and Insurance (E&I) coordinated an annual ETS to determine an appropriate factor for apportioning the agency's total operating expenses. Examiners completed 1,000 to 1,200 survey forms each year. The survey results supported a transfer rate between 50.1 percent and 60.4 percent for insurance related activities; however, the NCUA Board maintained the OTR at 50 percent.

In 1994, and again in 1997, the NCUA Board approved conducting examiner time surveys once every three years. Three-year surveys covered fiscal years 1995 through 1997 and fiscal years 1998 through 2000. During that period, the OTR remained at 50 percent through 2000.

The NCUA Board then voted to resume annual examiner time surveys in 2000 and expanded the survey to include more examiners, as well as central and regional office staff. The fiscal year 2000 survey results supported a transfer rate of 66.72 percent. After 15 years of holding the transfer rate at 50 percent, the NCUA

<sup>19</sup> <http://www.gao.gov/assets/210/203181.pdf>.

Board increased the transfer rate to 66.72 percent for fiscal year 2001.

The Board also decided to hire an independent party to assess the OTR process. Deloitte & Touche's review of the OTR process was issued on September 5, 2001 and included several recommendations to improve the OTR process.<sup>20</sup> These recommendations were implemented in 2002.

In 2002, as a result of the Deloitte & Touche review, NCUA automated the examiner time survey<sup>21</sup> and enhanced examiner training and guidance. The agency also initiated a task force to conduct a comprehensive review of the OTR, in part to better define insurance-related activities. In October 2003, GAO issued report GAO-04-91<sup>22</sup> recommending continuous improvement of the process for and documentation of the OTR, updating the rate annually, and completing the examiner time surveys with full representation. Noting the task force review, NCUA agreed to set the rate annually, improve the methodology and documentation, and ensure examiner time survey sampling was statistically valid.

The agency task force completed its review of the OTR in 2003 and recommended a revised, comprehensive methodology for calculating the OTR annually.<sup>23</sup> The NCUA Board received comments from credit union trade groups<sup>24</sup> on the proposed revised methodology and ultimately approved adoption of the revised methodology and an OTR of 59.8 percent for fiscal year 2004 at the November 20, 2003, open Board meeting.<sup>25</sup>

Using the revised methodology approved in 2003, the OTR approved annually by the NCUA Board ranged between 52.0 percent and 57.2 percent for fiscal years 2005 through 2010. The NCUA Board approved funding for an independent review of the OTR at the November 2009 open Board meeting. PricewaterhouseCoopers issued its first

of two reports to NCUA in January 2011.<sup>26</sup> Based on the 2011 PricewaterhouseCoopers report, the definitions used in the examiner time survey were clarified over the next two ETS cycles.

The 2010–2011 ETS cycle defined insurance-related and non-insurance related activities as follows:<sup>27</sup>

*Insurance Related Examination Procedures*—Insurance Related examination or supervision contact procedures address safety and soundness issues. On the time survey forms, respondents should classify the time used to evaluate safety and soundness as “insurance related.” “Insurance Related” time is

- Evaluating financial trends and Call Report data
- Determining the credit union's solvency position
- Evaluating risks, and potential costs, the credit union presents to the NCUSIF (when appropriate)
- Assessing management's efforts to protect earnings and net worth by identifying, evaluating, controlling, and monitoring internal and external risks
- Assessing management's abilities to develop strong policies and a reliable internal control structure

*Non-Insurance Related Examination Procedures*—Non-Insurance Related examination or supervision contact procedures address compliance with the laws and regulations that NCUA enforces. On the survey forms, respondents should classify the time used to evaluate issues not related to safety and soundness

- Compliance with consumer protection laws, NCUA Rules and Regulations, the FCU Act, and Bylaws
- Review of previously cited regulatory violations, areas of concern, and corrective actions taken
- Call report accuracy and timeliness

After the issuance of the PricewaterhouseCoopers report in January 2011, NCUA improved the ETS Instruction definitions for insurance and non-insurance related activities for the 2011–2012 ETS cycle. Specifically, new categories were established to help examiners distinguish between regulations established to protect the NCUSIF, labeled “insurance regulatory”, from regulations established to provide consumer protection or otherwise govern how federal credit unions operate, labeled “consumer regulatory.” This resulted in a more accurate assessment of insurance related activities (including insurance-regulatory) and consumer regulatory or non-insurance related activities. NCUA

solicited comments from representatives of key stakeholders on the proposed changes to the definitions of the agency's activities as they related to the OTR methodology.<sup>28</sup> The 2011–2012 ETS Instructions contained the following definitions:

*Insurance Related Examination Procedures*—No change from 2010–2011 ETS Instruction definition stated above.

*Insurance Regulatory Related Examination Procedures*—Insurance Regulatory related examination or supervision contact procedures address regulations that are not designed to protect consumers directly. This includes assessing compliance with all regulations outside of consumer oriented regulations—see listing of consumer regulations in the following section—Consumer Regulatory examination procedures. Insurance Regulatory related regulations include those regulations that address safety and soundness issues. Examples include (this is not all inclusive):

- 701.21—Loans to Members and Lines of Credit to Members
  - Includes total loan limit to one individual, limitation on maturity, rate of interest, and security.
- 702—Prompt Corrective Action
  - Establishes net worth categories and mandatory and discretionary supervisory actions
- 703—Investments and Deposit Activities
  - Establishes permissible investments and requires credit analysis prior to purchase and requires ongoing monitoring of securities
- 712—Credit Union Service Organizations
  - Establishes investment and loan limits as well as outlines permissible activities
- 713—Fidelity Bond and Insurance Coverage
  - Requires minimum bond coverage
- 715—Supervisory Committee Audits and Verifications
  - 722—Appraisals
    - Establishes minimum appraisal standards based on loan size
  - 723—Member Business Loans
    - Establishes prohibited activities, requires specific policies and sets overall loan limits as well as limits to one member or group of associated members

*Consumer Regulatory Related Examination Procedures*—Consumer Regulatory Related examination or supervision contact procedures address compliance with consumer regulations. The regulations include:

- Reg. B—Equal Credit Opportunity Act
- BSA—Bank Secrecy Act
- Reg. C—Home Mortgage Disclosure Act
- Reg. CC—Expedited Funds Availability
- COPPA—Children's Online Privacy Protection Act
  - Reg. D—Reserve Requirements
  - Reg. E—Electronic Funds Transfer Act

<sup>20</sup> The full independent report from Deloitte is available on NCUA's Web site: <https://www.ncua.gov/About/Documents/Budget/Misc%20Documents/2001DeloitteReportonOTRProcess.pdf>.

<sup>21</sup> The examiner time survey process is discussed in detail later in this document.

<sup>22</sup> <http://www.gao.gov/new.items/d0491.pdf>.

<sup>23</sup> The pre-decisional staff proposal is available on NCUA's Web site: <https://www.ncua.gov/About/Documents/Budget/Misc%20Documents/Additional%20Documents/2003%20Task%20Force%20Proposal.pdf>.

<sup>24</sup> A summary of the comments received is available on NCUA's Web site: <https://www.ncua.gov/About/Documents/Budget/Misc%20Documents/Additional%20Documents/2003%20Summary%20of%20Pre-Adoption%20OTR%20Stakeholder%20Meeting%20Comments.pdf>.

<sup>25</sup> <https://www.ncua.gov/About/Documents/Budget/Misc%20Documents/2003OTRBAM.pdf>.

<sup>26</sup> <https://www.ncua.gov/About/Documents/Budget/Misc%20Documents/2011PwCOTRReview.pdf>.

<sup>27</sup> As described in the ETS section, the ETS cycle runs from June 1, Year 1 to May 31, Year 2. The PricewaterhouseCoopers report was issued mid-cycle, January 2011.

<sup>28</sup> This included the Credit Union National Association, the National Association of Federal Credit Unions, the National Association of State Credit Union Supervisors, and the National Federation of Community Development Credit Unions.

- FACTA—Fair and Accurate Credit Transactions Act
- FCPR—Fair Credit Practice Rule
- FCRA—Fair Credit Reporting Act
- FDCPA—Fair Debt Collections Practices Act
- FDPA—Flood Disaster Protection Act
- FHA—Fair Housing Act
- GLBA—Gramm-Leach Bliley Act
- HOEPA—Home Ownership and Equity Protection Act
- HOPA—Home Owner’s Protection Act
- Reg. M—Consumer Leasing
- OFAC—Office of Foreign Asset Control
- PCFI—Privacy of Consumer Financial Information
- RFPA—Right to Financial Privacy Act
- SCRA—Service Members Civil Relief Act
- Reg.—X Real Estate Settlement Procedures Act
- Credit Card Act
- Unlawful Internet Gaming Enforcement Act
- SAFE Act—Secure and Fair Enforcement for Mortgage Licensing Act
- Reg.—Z Truth in Lending

- Rules and Regulations Part 706—Credit Practices
- Rules and Regulations Part 707—Truth in Savings
- Rules and Regulations Part 717—Fair Credit Reporting

In 2012, the Office of Examination and Insurance (E&I) further clarified the application of the insurance-related and non-insurance related definitions in the ETS. Specifically, all relevant NCUA regulations were explicitly mapped to the survey classifications to provide more uniformity and consistency of reporting. This breakdown and mapping of regulations was consistent with the existing overall definitions of insurance-related and non-insurance related activities. The primary definitions did not change; the regulations were merely explicitly mapped based on the overarching definitions. This clarification resulted in more

consistency by respondents on the ETS. Appendix A contains the mapping provided to ETS participants. In 2013, NCUA also obtained an independent review of the mapping of the regulations from PricewaterhouseCoopers.<sup>29</sup> The mapping of NCUA’s regulations outlined in the PricewaterhouseCoopers October 2, 2013 report, is available on NCUA’s Web site.

Based on the validated mapping of NCUA regulations to guide examiners in completing the annual time survey, the average survey results for insurance related activities increased from 67 percent to 88 percent of examiner time. This resulted in an OTR for 2014 of 69.2 percent, which was approved at the November 2013 open NCUA Board meeting. The OTR rose to 71.8 percent for 2015 and to 73.1 percent for 2016. Figure 1 shows the trends in the OTR since 2004.<sup>30</sup>

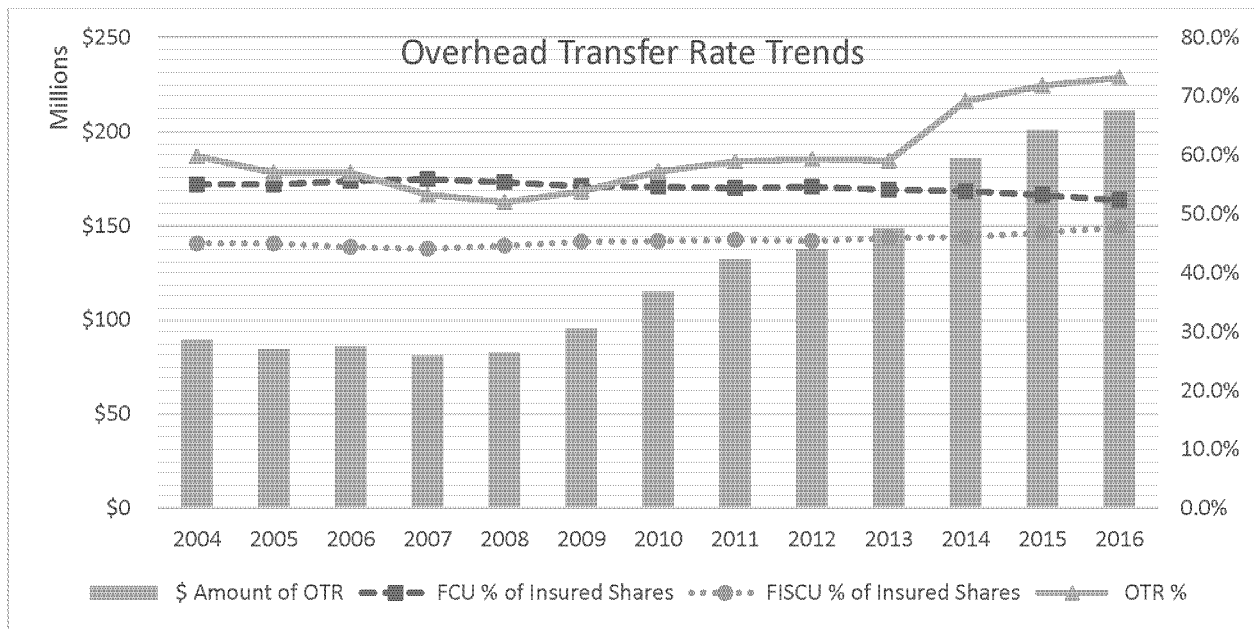


Figure 1

Since the creation of the NCUSIF in 1970, NCUA’s allocation of funds between its dual roles has evolved to address changes in the credit union system and changes to NCUA operations. As credit unions have become larger and more complex, the potential risk to the NCUSIF has increased. As a result, NCUA’s operations have adapted. This has

resulted in an increased focus on insurance-related activities, and this focus remains in place today.

The FCU Act and NCUA Rules and Regulations have also evolved in recent history, and as a result, the agency has placed more of a focus on safeguarding the NCUSIF. In particular:

1. The Credit Union Membership Access Act (CUMAA) was enacted into

law in 1998.<sup>31</sup> This law resulted in new obligations on credit unions and NCUA designed to protect the NCUSIF, such as:

- a. Imposing new requirements on federally insured credit unions with respect to financial statements and audits, and member business loans.<sup>32</sup>

<sup>29</sup> <https://www.ncua.gov/About/Documents/Budget/2013/2013ETSAnalysis.pdf>.

<sup>30</sup> The dollar amount of the OTR in this graph is based on the NCUA Board approved budget, not

actual expenditures. The OTR is applied to actual expenses incurred each month.

<sup>31</sup> <https://www.ncua.gov/Resources/Documents/LCU1998-16.pdf>.

<sup>32</sup> CUMAA imposed a new aggregate limit on a credit union’s outstanding member business loans of the lesser of 1.75 times the credit union’s net worth or 12.25% of the credit union’s total assets.

b. Establishing a new system of tiered capital requirements for all federally insured credit unions.<sup>33</sup>

2. During the aftermath of the financial crisis, from 2010 to 2015, the NCUA Board strengthened critical safety and soundness rules, such as:

a. Codifying interest rate risk guidance into a rule ensuring that federally insured credit unions holding the vast majority of the credit union system's assets have appropriate policies to manage interest rate risk in adverse scenarios.

b. Designing a targeted emergency liquidity rule ensuring that federally insured credit unions at various asset levels have scalable contingency plans to tap reliable sources of liquidity during a crisis.

c. Establishing concentration limits and required due diligence on loan participations.

3. From 2011 through 2015, NCUA also modernized various regulations to provide credit unions with more flexibility and authority.<sup>34</sup> While these modernized rules reduced compliance burdens, they resulted in examiners devoting more time to ensuring safety and soundness through the examination process rather than relying on regulatory limits. For example, NCUA:

a. Expanded regulatory relief eligibility for small and non-complex credit unions.

b. Eliminated the fixed assets cap for FCUs.

c. Eased troubled debt restructuring rules.

d. Authorized "plain-vanilla" derivatives for FCUs.

Since 2001, various independent third-party assessments have also resulted in recommendations to improve and refine the OTR methodology, most of which NCUA has adopted.<sup>35</sup> NCUA is now seeking public comment on the current OTR methodology, as described throughout the remainder of this document, for possible additional improvement.

<sup>33</sup> A net worth standard of 7 percent of assets was established for insured credit unions, as well as risk-based capital standards for "complex" credit unions as defined by NCUA. For credit unions not meeting these standards, progressively more stringent "prompt corrective action" requirements apply.

<sup>34</sup> <https://www.ncua.gov/newsroom/Pages/RegulatoryModernizationInitiativeResults.pdf>.

<sup>35</sup> For a discussion of recommendations not adopted and the associated rationale, see the *Overhead Transfer Rate (OTR)—Timeline* on NCUA's website at <https://www.ncua.gov/About/Documents/Budget/Misc%20Documents/overhead-transfer-rate-chronology.pdf>.

#### IV. Detailed Discussion of OTR Methodology

##### a. Examination Time Survey

NCUA's mission is to foster the safety and soundness of federally insured credit unions, which is primarily achieved through its examination program. Consequently, the majority of NCUA's resources are dedicated to the examination and supervision of federally insured credit unions. Examiners expend time on both regulatory and insurance activities during examinations and supervision contacts at FCUs. Therefore, one of the key components needed to calculate the cost for NCUA's regulatory role and insurance roles is the annual ETS. The ETS applies only to FCU examination and supervision contacts, as examinations (insurance reviews) of FISCUs have by definition the sole purpose of managing risk to the NCUSIF. The Board invites comment on the existing ETS process.

Since its inception in 1985, the ETS evolved from a manually completed form to the automated system used now. From 1985 to 1994, NCUA collected 1,000 to 1,200 manually completed survey forms annually. Survey forms were completed by participants for each FCU examination (work classification code [WCC] 10) and each FCU supervision contact (WCC 22). Since survey results were consistent, NCUA reduced the sample size considerably and instead of annual collection, moved to a 3-year cycle. In 1994, 1997, and 2000, the sample size ranged from 60 to 100 survey forms. There were no surveys completed in 2001.

In 2001 Deloitte & Touche completed a study of the ETS process and concluded it was reasonable and appropriate for use in allocating NCUA's costs between insurance-related and regulatory-related activities.<sup>36</sup> The study included some recommendations to enhance the survey process, such as automating the survey form, improving communications, and varying the period of collection, but did not recommend any changes to the survey's content. NCUA implemented those recommendations.

In 2002, E&I randomly selected one Supervisory Examiner (SE) group (via lottery draw) from each region to participate in the survey process. The regions selected three experienced Principal Examiners (PEs) from these SE groups to complete surveys for all FCU

<sup>36</sup> The Deloitte & Touche Study is available on NCUA's public website. <https://www.ncua.gov/About/Documents/Budget/Misc%20Documents/2001DeloitteReportonOTRProcess.pdf>.

examination and supervision contacts initiated and completed during the ETS period. Since 2002, the participating SE groups in each region have rotated annually. The annual rotation ensures representative coverage of the population of FCUs across each region while minimizing the burden on field staff.

From 1985 through 2000, examiners completed time surveys during a set period, often occurring near the end of the exam program year. Starting in 2002, examiners completed surveys for all examination and supervision contacts they conducted during a 12-month period that starts on June 1, and ends on May 31, of the following year. Utilizing groups from all of NCUA's regions and collecting the data throughout a 12-month period provides a variety of FCUs, completion dates, and geographic locations resulting in a sample that better represents the entire population.

Prior to introducing the automated form, NCUA did not provide formal training to survey participants. Beginning in 2002, E&I held a training session and a subsequent teleconference for the selected participants, their supervisors, and a regional office analyst from each region. E&I also dedicated an email address for examiners to use to request help with the survey. In addition, E&I created a shared electronic database to store information such as answers to Frequently Asked Questions (FAQs), summary reports, and training information.

Since 2002, communications regarding the survey process have improved, which helps to ensure consistent application and reliable results. E&I provides training prior to the start of every ETS cycle; including:

- A discussion of the objectives of the ETS and its importance in determining the OTR,
- how to access and complete the ETS form,
- how to classify examination and supervision activities,
- how to correct data if necessary,
- a review of tools for reporting hours,
- expectations of the ETS participants, and
- resources available to the participants.

The instructions provided to the ETS participants are included in Appendix B.

As previously discussed, the NCUA Board approved funding for an independent review of the OTR at the November 2009 open Board meeting. PricewaterhouseCoopers' January 2011 report resulted in several changes to the

ETS.<sup>37</sup> The definitions used in the ETS were modified to more clearly define the work of NCUA’s examination staff. Specifically, all relevant NCUA regulations were explicitly mapped to the survey classifications to provide more uniformity and consistency of reporting. The report also recommended that NCUA use sample sizes that are consistent with the calculated sample sizes for the two main types of activities (i.e. programs) under survey, and specifically, that NCUA consider increasing the sample sizes for the federal supervision program. To improve the confidence interval, E&I chose one additional SE group per

region to increase the number of supervision surveys. As the report concluded the examination survey size met the desired confidence level, the additional SE group was instructed to upload only the supervision contacts the PEs completed during the ETS period. This reduced the overall burden of completing the surveys for additional examinations.

At the end of each ETS period, NCUA monitors the results of the time study to ensure the sample size is statistically valid. Using the ETS examination upload report, NCUA calculates the mean and standard deviation for percentage of consumer regulatory hours of the WCC 10 examination

uploads. For the most recent ETS period, there were 142 WCC 10 examination uploads with a total of 2,621.6 consumer regulatory hours. The mean was calculated to be 13.37 percent and the standard deviation was 9.09 percent. A statistically valid sample size is calculated for 99 percent, 95 percent, and 90 percent confidence intervals using these statistics, the corresponding Z factor from a standard normal distribution table, and a 3 percent margin of error. Table 1 illustrates the calculations for the most recent ETS period. NCUA’s sample size of 142 exceeds the 60.92 necessary to achieve a 99 percent confidence interval.

TABLE 1—SAMPLE SIZE

C	P = (100%-C)/2	X	S	Z	E	N = ((Z*S)/e) <sup>2</sup>
Confidence interval	Confidence factor	Mean	Standard deviation	From standard normal tables	Margin of error	Sample size
99% .....	0.005	13.37	9.09	2.576	3.00	60.92
95% .....	0.025	13.37	9.09	1.960	3.00	35.27
90% .....	0.050	13.37	9.09	1.645	3.00	24.84

NCUA also performs these calculations for the sample size for WCC 22 supervision contact uploads. Using the ETS WCC 22 upload report, NCUA calculates the mean and standard deviation for percentage of consumer regulatory hours of the WCC 22 supervision contact uploads. For the most recent ETS period, there were 100 WCC 22 uploads with a total of 350.4 consumer regulatory hours. The mean was calculated to be 16.9 percent and the standard deviation was 30.9 percent. Based on these statistics, NCUA’s sample size produces a confidence interval of approximately 69 percent. To achieve a 95 percent confidence interval with 3 percent margin of error, would require approximately 408 uploads. NCUA accepts a lower confidence interval for the WCC 22 uploads because the WCC 10 examination program is the primary focus of the time study and to reduce the burden on field staff. Also, the combined WCC 10 and WCC 22 contacts result in a sample size of 242 uploads with total of 2,972 hours. The mean of the combined sample calculated to be 14.84 percent and the standard deviation was 21.07 percent. Using these statistics, a sample size of 151 provides a greater than 99 percent

confidence level. The sample size is sufficient to provide reliable results.

In 2013, NCUA also obtained an independent review of the mapping of the regulations.<sup>38</sup> The mapping of NCUA’s regulations is outlined in PricewaterhouseCoopers’ October 2, 2013 report, which is available on NCUA’s website and in Appendix A of this document. E&I reviews the regulatory mapping prior to the beginning of each ETS cycle for any necessary updates.<sup>39</sup> Going forward, NCUA intends to clearly state in the preamble to proposed rules whether a rule is promulgated under its Title II authority (insurance) or its Title I authority (regulatory).

As stated earlier, two SE groups from each region participate in the ETS process. One group uploads both FCU examination contacts and FCU on-site supervision contacts while the second SE group uploads only FCU on-site supervision contacts. All PEs in the selected groups participate in the survey. PEs are selected because they possess the necessary level of experience to ensure accurate results where examiner judgment is necessary. If an SE group has less than four PEs, a second group is added to ensure an adequate number of examinations and

supervision contacts are uploaded for a statistically relevant sample. The participating SE groups rotate each year in alphabetical order (Group A one year, Group B the next year, etc.) to ensure a fair distribution of work and to ensure a wider number of FCUs are captured in the survey over time. PEs who transfer to a different SE group during the ETS period continue uploading surveys until the survey cycle ends. However, PEs from a non-participating group that transfer into a group participating in the ETS do not upload any time surveys.

NCUA utilizes its Automated Integrated Regulatory Examination System (AIRES) examination system to capture the ETS information. There are twelve categories of activities on the survey form, modeled on the risk-based examination program. The scope categories are:

1. Planning/Scope Development
2. Call Report Review
3. Supervisory Committee Review
4. Financial Analysis
5. Loan Analysis
6. Investment Analysis
7. Liquidity Analysis
8. Asset Liability Management
9. Compliance
10. Information Systems Technology
11. Management Analysis

insurance related activities provided in the ETS instructions (see Appendix B) to appropriately allocate time as insurance or non-insurance.

<sup>37</sup> <https://www.ncua.gov/About/Documents/Budget/Misc%20Documents/2011PwCOTRReview.pdf>.

<sup>38</sup> <https://www.ncua.gov/About/Documents/Budget/2013/2013ETSAnalysis.pdf>.

<sup>39</sup> The current mapping has not been updated for NCUA’s most recent final rules. Similar to other activities not explicitly classified in the ETS instructions, ETS participants defer to the overarching definitions of insurance and non-

12. Contact Report/Joint Conference/  
Follow-Up Procedures  
For each examination or supervision contact, the examiner inputs the hours spent on insurance, insurance regulatory related and non-insurance and consumer regulatory related activities in each of the categories. A full year's worth of survey results are used to calculate the percentage of hours devoted to regulatory and insurance-related (insurance and regulatory) activities for the Federal

Examination and Federal Supervision Programs. As previously mentioned, the ETS period runs from June 1 to May 31. Only examinations started after June 1 and completed and uploaded by the following May 31 are included in the survey to maintain consistency.

Results of the ETS

The ETS is used to determine the percentage of Workload Budget Hours related to regulatory and insurance-

related tasks for the following two programs:

- Federal Examination (WCC 10); and
- Federal Supervision (WCC 22).

NCUA uses a full year's worth of survey results when determining the regulatory cost driver applied to the budgeted workload hours for its Core Programs and Special Programs. The Workload Budget is discussed later in this document. The results of the ETS concluded on May 31, 2015 are illustrated in Table 2.

TABLE 2—RESULTS OF ETS

Contact type (WCC)	Total surveys collected	Insurance related %	Non-insurance related % (regulatory)
Examination (WCC 10) .....	142	86.83	13.17
Supervision (WCC 22) .....	100	87.21	12.79
Total .....	242	86.87	13.13

Table 3 shows the ETS results by the scope categories.

TABLE 3—ETS RESULTS BY SCOPE CATEGORY

Time category results	Insurance related %	Non-insurance related % (regulatory)
Planning/Scope Development .....	85.95	14.05
Call Report Review .....	95.61	4.39
Supervisory Committee .....	94.61	5.9
Financial Analysis .....	96.98	3.02
Loan Analysis .....	93.65	6.35
Investment Analysis .....	93.05	6.95
Liquidity Analysis .....	93.84	6.16
Asset Liability Management .....	96.15	3.85
Compliance .....	41.28	58.72
Information Systems Technology .....	81.28	18.72
Management .....	90.73	9.27
Examination Report/JC/Follow-Up .....	89.85	10.15
Total .....	86.87	13.13

NCUA also reviews the ETS results by CAMEL code. For the most recent ETS period, NCUA calculated the number of contacts by CAMEL Code as a percentage of the sample size. The

results are documented in Table 4. The percentage of WCC 10 examinations by CAMEL code correlate strongly with the total FICU population at May 31, 2015. As expected the percentage of WCC 22

supervision contacts is weighted more heavily toward CAMEL 3 and CAMEL 4 FICUs since supervision is focused on credit unions with financial and operational weaknesses.

TABLE 4—CAMEL CODE DISTRIBUTION

CAMEL code	Percent of sample		
	WCC 10 examination (%)	WCC 22 supervision (%)	Total FICU population (%)
1 & 2 .....	71.83	22.00	73.56
3 .....	24.65	51.00	22.41
4 .....	3.52	27.00	3.90
5 .....	0.00	0.00	0.13



As Table 2 and Table 3 show, the ETS determined NCUA examiners spend 86.87 percent of their time on insurance related activities and 13.13 percent of their time on non-insurance related activities during examinations and supervision contacts between June 1, 2014 and May 31, 2015. As the next section will describe, the results of the ETS are applied to NCUA’s budgeted workload program hours to determine the agency’s budgeted hours for insurance and non-insurance related activities.

*b. Workload Program Hours*

This step in NCUA’s OTR calculation determines the percentage of work the agency expects to perform in insurance and non-insurance related activities. Specifically, the results of the ETS,<sup>40</sup> and the assessment of work performed by other offices<sup>41</sup> are applied to the workload program hours derived from NCUA’s annual resource budget. This results in a weighted average of program hours devoted to NCUA’s regulatory and insurance roles.

NCUA’s annual resource budget is a comprehensive workload analysis that captures the amount of time budgeted to conduct examinations and supervision of federally insured credit unions, and other programs necessary to carry out NCUA’s dual mission as insurer and regulator. The annual resource budget estimates hours in three major categories:<sup>42</sup>

1. Core Programs includes NCUA’s FCU and FISCO examinations and on- and off-site supervision.
2. Special Programs includes NCUA’s specialized examination programs in the areas of capital markets, information systems, and lending, credit union service organization (CUSO) reviews, chartering and field of membership, and small credit union development.
3. Administrative includes NCUA field staff time related to training and staff development, leave, and travel.

The annual resource budget process starts with a planning session with management representatives from each field office,<sup>43</sup> OCP and E&I. During the planning session, resource requirements for programs such as focused areas of

review,<sup>44</sup> central office details, and working groups are vetted. Examination and supervision requirements are also reviewed and guidance is issued to all field staff. NCUA field staff review each FICU in their district<sup>45</sup> to determine the anticipated number of workload hours<sup>46</sup> needed for the next calendar year. The workload estimates are refined by field management to ensure consistency. Field offices submit their final resource budget proposals to E&I for review and analysis. E&I reviews the program recommendations from the field offices and submits any recommendations for adjustments to the Executive Director. The final resource budget for each field office establishes the foundation for their budget requests and is used to allocate the results of the ETS.

Table 5 shows the 2016 budgeted hours for NCUA’s core and special programs and how those hours are allocated to non-insurance related activities based on the results of the ETS. Administrative time is not allocated in this step of the OTR calculation.

TABLE 5—ALLOCATION OF BUDGETED PROGRAM HOURS

	2016 budgeted workload hours	Non-insurance percent	Non-insurance hours <sup>47</sup>	Allocation basis
Core Programs .....	728,556	na	70,691	Sum of Core Programs
Federal Examination .....	454,115	13.17%	59,807	Examiner time survey
Federal Supervision .....	53,687	12.79%	6,867	Examiner time survey
State Exam & Supervision .....	175,722	0%	0	FISCO work is insurance-related
State Exam Review .....	5,321	0%	0	FISCO work is insurance-related
5300 Program—FCU .....	30,503	13.17%	4,017	Uses FCU examination results from examiner time survey
5300 Program—FISCO .....	9,208	0%	0	FISCO work is insurance-related
Special Programs .....	35,637	na	2,607	Sum of Special Programs
Regional Lending Specialists .....	4,190	13.17%	552	Allocation based on % from time surveys
Regional Capital Market Specialists .....	4,130	0%	0	NCUSIF risk management program
Regional Information Systems Officers .....	3,320	13.17%	437	Allocation based on % from time surveys
Field of Membership & Chartering .....	500	100.00%	500	Regulatory program
Small Credit Unions .....	18,633	6.00%	1,118	Allocation based on OSCUI’s time reporting results
CUSO Examinations .....	4,864	0%	0	NCUSIF risk management program
<b>Total Core &amp; Special Programs .....</b>	<b>764,193</b>	<b>na</b>	<b><sup>48</sup>73,298</b>	
Percent of 2016 core and special programs devoted to NCUA’s Non-Insurance Role .....			9.6%	= 73,298 ÷ 764,193

Detailed Explanation of Allocation Basis

Table 5 shows how NCUA’s core and special program hours are allocated to non-insurance and thereby insurance related activities. A detailed explanation of the allocation basis for each core

program and special program is outlined below.

Core Programs

NCUA’s federal examination and federal supervision programs’ non-

insurance related activities are allocated at 13.17 percent and 12.79 percent, respectively, based on the results of the

<sup>40</sup> Discussed in Section IV.a.

<sup>41</sup> Including programs administered by the Office of Small Credit Union Initiatives (OSCUI) and the Office of Consumer Protection (OCP) as discussed in Section IV.c.

<sup>42</sup> Time budgeted for core and special programs is considered productive time, while administrative hours are considered non-productive time. These classifications are used during the SSA Imputed Value step of the OTR calculation.

<sup>43</sup> Field office refers to each of NCUA’s five Regional Offices and the Office of National Examinations and Supervision (ONES).

<sup>44</sup> Each year NCUA issues a Letter to Credit Unions outlining the Supervisory Priorities for the year. <https://www.ncua.gov/regulation-supervision/Pages/policy-compliance/communications/letters-to-credit-unions/2016/01.aspx>.

<sup>45</sup> NCUA examiners are assigned a district of specific FCUs and FISCOs and are responsible for

managing examination and supervision of the credit unions assigned to their district.

<sup>46</sup> Workload hours include hours for examinations, on- and off-site supervision, and reviews by regional and national specialized examiners.

<sup>47</sup> Numbers may not reconcile exactly due to rounding.

<sup>48</sup> These are the budgeted hours allocated to insurance-related, regulatory work in 2016.

ETS.<sup>49</sup> The results of the ETS from June 2014 to May 2015 determined that examiners spent 13.17 percent of their time on non-insurance related activities during the examination of FCUs and 12.79 percent of their time on non-insurance related activities during the supervision of FCUs. These percentages (13.17 percent and 12.79 percent) are respectively applied to the 2016 budgeted hours for federal examinations and federal supervision to determine the number of hours for non-insurance related activities.

NCUA examiners conduct examinations and supervision of FISCUs, and generally do so in conjunction with the governing state supervisory authority (SSA). It is also NCUA's policy to conduct reviews of examinations completed by the SSA. NCUA's FISCU related work (examinations, supervision and state exam reviews) is solely associated with the agency's role as an insurer. For purposes of calculating the OTR, 100 percent of the budgeted hours for FISCU examinations, supervision and state examination reviews are allocated to insurance-related activities.

All federally insured credit unions file quarterly 5300 Call Reports with NCUA. NCUA examiners are responsible for performing quarterly reviews of the 5300 Call Report information for all federally insured credit unions in their district. For FCUs, NCUA examiners are also responsible for validating the information submitted by the FCUs. For this reason, more time is budgeted for the federal 5300 program than for the state 5300 program. An extension of the examination program, the budgeted hours for the federal 5300 program are allocated as insurance and non-insurance hours based on the results of the ETS for federal examinations. Thus, 13.17 percent of federal 5300 program hours are allocated to non-insurance activities. Consistently, the budgeted hours for the state 5300 program are allocated the same as the FISCU examination program, 100 percent to insurance related activities.

#### Special Programs

Regional lending, information technology and capital market specialists participate in the examination and supervision of

federally insured credit unions to perform focused reviews of more complex areas of credit union operations. Regional specialists do not participate in the ETS. The work performed by regional lending and information technology specialists is a combination of insurance and non-insurance related activities. Therefore, the budgeted hours for regional lending specialists and regional information systems officers is allocated conservatively at 13.17 percent for non-insurance related activities, based on the ETS results. The work performed by regional capital market specialists is focused on credit unions' asset liability management and serves as a risk management program for the NCUSIF. Thus, budgeted hours for regional capital market specialists is allocated 100 percent to insurance-related activities.

NCUA budgets hours for examiners to support OCP with chartering and field of membership applications and expansion requests. One-hundred percent of the hours budgeted for examiners to assist with this activity are allocated to NCUA's non-insurance function.

NCUA also budgets hours for examiners to support OSCUI with providing assistance to small credit unions. The budgeted hours for examiner participation in the small credit union program are allocated to insurance and non-insurance related activities on the same basis as the OSCUI programs. As described in the financial budget section, OSCUI conducts its own time survey each year and has determined that 6 percent of its work should be allocated to non-insurance related activities. Thus, NCUA allocates 6 percent of these budgeted workload hours to non-insurance related activities.

The agency's CUSO examination program is a risk-management program focused on protecting the NCUSIF (NCUA does not charter and has no regulatory authority over CUSOs). Thus, 100 percent of the hours budgeted for CUSO examinations is allocated to insurance related activities.

As Table 5 shows, the combination of non-insurance workload hours for core and special programs is compared to the overall workload budget for those programs, to develop the overall weighted average of non-insurance related work across all programs. The percentage of non-insurance activities

derived from the ETS and the annual resource budget are applied to NCUA's Operating Budget as outlined in the Financial Budget section.

#### c. Financial Budget

NCUA's budget process uses the agency's strategic goals and objectives set forth in the NCUA Strategic Plan as a framework to ensure agency priorities and initiatives drive resulting resource needs and allocations. The annual budget provides the resources to execute the strategic plan and undertake tasks in NCUA's major programs.

Each NCUA office develops a budget request identifying resources required to support NCUA's mission and strategic goals and objectives. These budgets are developed using zero-based budgeting techniques to ensure each office's requirements are individually justified and consistent with the agency's overall strategic plan. One of the primary inputs in the development of the financial budget is the workload analysis described in the workload budget section. The final workload analysis establishes the foundation for the field office budget requests in addition to establishing the amount of work related to insurance and non-insurance related activities for the OTR. The workload analysis is also used to develop personnel and travel costs, and all offices develop cost estimates for fixed and recurring items such as rent or leased property, operations and maintenance, repair on owned facilities, supplies, telecommunications, and other administrative and contracted services costs. Information related to NCUA's budget process, including detailed information on the NCUA Board-approved 2016 Operating Budget are available on the agency's Web site.<sup>50</sup>

Table 6 shows how NCUA's 2016 Operating Budget is allocated to non-insurance related activities, using the weighted average derived from the core and special programs (9.6 percent) and the results of the assessment of insurance and non-insurance related activities for programs administered by other offices. The allocation basis for all offices is outlined in detail below Table 6. The Board invites comment on the current process for allocating NCUA's Operating Budget used in the OTR calculation.

<sup>49</sup> The results of the time study are documented in Tables 2 and 3.

<sup>50</sup> <https://www.ncua.gov/About/Pages/budget-strategic-planning/supplementary-materials.aspx>.

TABLE 6—ALLOCATION OF NCUA OPERATING BUDGET

Cost area 2016 Financial Budget	Dollar budget (\$M)	Non-insurance percent	Non-insurance cost (\$M)
<i>All Regional Costs: Based on non-insurance related portion of core and special programs</i> .....	\$155.49	9.6%	\$14.91
<i>Asset Management Assistance Center and Assistance Program: Manages liquidation payouts, assets acquired from liquidations and assistance programs, and recoveries for the NCUSIF</i> .....	\$6.92	0%	\$0
<i>Office of Consumer Protection: Primarily non-insurance (regulatory) function i.e. chartering/FOM—net of work related to share insurance coverage for members and FISCUs</i> .....	\$9.54	82.3%	\$7.86
<i>Office of Small Credit Union Initiatives: Ensures small credit unions operate in safe and sound manner through its consulting program. However, it also addresses consumer regulatory issues</i> .....	\$6.37	6.0%	\$0.38
<i>Office of National Examinations and Supervision: NCUSIF risk management function to supervise corporate credit unions and large natural person credit unions. CFPB examines the natural person credit unions assigned to this office for consumer compliance</i> .....	\$10.48	0%	\$0
<i>Office of Minority and Women Inclusion</i> .....	\$2.94	86.0%	\$2.53
<i>All Other Offices</i> <sup>51</sup> : Based on non-insurance percent of core and special programs .....	\$99.18	9.6%	\$9.51
<b>Total 2016 NCUA Budget</b> .....	<b>\$290.92</b>	.....	<b>\$35.19</b>

Explanation of Allocation Basis For Financial Budget

Regional Offices

The financial budget for the agency’s five regional offices is allocated based on the weighted average of non-insurance and insurance related activities calculated in the workload budget section. Resources in the regions execute NCUA’s core and special programs, thus, the budgeted costs related to these programs should receive the same allocation basis as the programs themselves—as determined by the ETS. The budget for the regional offices is allocated at 9.6 percent for non-insurance related activities.

AMAC

NCUA conducts credit union liquidations and performs management and recovery of assets through the Asset Management and Assistance Center (AMAC). AMAC assists NCUA regional offices with the review of large, complex loan portfolios and actual or potential bond claims. It also participates extensively in the operational phases of conservatorships and records reconstruction. The purpose of AMAC is to manage and reduce costs to the NCUSIF and credit union members of credit union failures. Thus, 100 percent of AMAC’s activities are allocated as insurance-related.

OCP

OCP is responsible for NCUA’s consumer financial literacy efforts, consumer inquiries and complaints, consumer protection compliance and rulemaking, fair lending examinations,

interagency coordination and outreach, chartering and field-of-membership matters, low-income designations, charter conversions and bylaw amendments. OCP monitors time performing insurance related activities, insurance-regulatory related activities, and consumer-regulatory related activities by division. OCP has four divisions:

- Consumer Affairs,
- Consumer Compliance Policy and Outreach,
- Consumer Access, and
- Consumer Access South

The Division of Consumer Access and Division of Consumer Access South do not specifically track the amount of time devoted to insurance related, insurance regulatory related, and consumer regulatory related issues. Instead, these divisions have developed estimates by using standard factors based on the type of work inherent in each project category. The divisions assume the following, based on a blend of time among Consumer Access Analysts, Technicians, and Specialists:

- 25 percent of time is devoted to determining if any safety and soundness issues exist when processing various chartering and field of membership expansion applications;
- 10 percent of time is devoted to addressing insurance related questions, membership concerns, and bylaw disputes directly relevant to consumer related regulatory concerns; and
- The remaining 65 percent of time is devoted to regulatory issues primarily pertaining to reviewing applications for new charters and charter expansions to ensure the proposals are consistent with regulatory requirements. To a lesser extent, the Divisions of Consumer Access associate this time with the

enforcement of NCUA’s chartering policies.

The Division of Consumer Compliance Policy and Outreach focuses on consumer regulatory related issues and does not regularly work on matters categorized as insurance related or insurance-regulatory related in the ETS instructions. This division spends 100 percent of productive time addressing regulations the ETS instructions classify as consumer-regulatory related regulations. These regulations include regulations implementing the Equal Credit Opportunity Act, the Home Mortgage Disclosure Act, the Truth in Lending Act, and the Real Estate Settlement Procedures Act. Therefore, OCP estimates this division spends 100 percent of its time on consumer regulatory related issues.

The Division of Consumer Affairs develops estimates based on the number of inquiries, complaints and telephone calls processed by staff, and the average amount of time needed to address those contacts. OCP estimates the Division of Consumer Affairs spends:

- 5 percent of the division’s time addressing share insurance questions received from consumers;
- 90 percent on consumer-regulatory related activities; and
- 5 percent of time administering the Financial Literacy Program.

Based on the allocation method described above, 82.3 percent of OCP’s work is non-insurance related. This 82.3 percent is applied to the OCP Operating Budget to determine the allocation of costs between insurance and non-insurance related activities.

OSCUI

OSCUI supports the success of small credit unions through its four main functional areas—training, grants and

<sup>51</sup>The weighted average, previously determined, is applied to all other cost centers (CFO, human resources, etc.) as these are overhead functions that support the agency’s mission.

loans, partnership and outreach, and consulting. The office only monitors ETS activities for its consulting function. The other program areas do not regularly work on matters categorized as insurance related, insurance-regulatory related or consumer-regulatory related functions but provide support for the consulting function.

OSCUI monitors time related to the ETS categories through data collected during credit union consulting contacts. Since the consulting work covers a wide range of topics (many of which don't cleanly fit into an ETS activity category), OSCUI developed a weighting system to measure ETS related activity. The weighting system identifies the percentage of time allocated to each of the three ETS categories for each consulting topic. OSCUI consultants (Economic Development Specialists) record consulting time by topic. Time is allocated to the ETS categories by multiplying the number of consulting

hours per topic, by the percentage of time allocated for the topic. The assumptions for monitoring and allocation of time to ETS categories, and used to develop the weighting system, are as follows:

- Consulting assistance that helps credit unions address safety and soundness issues is catalogued as an insurance related activity.
- Consulting assistance that addresses regulations that are not designed to protect the consumer directly are catalogued as insurance-regulatory related activity.
- Consulting assistance that addresses regulations that are designed to protect the consumer directly are catalogued as consumer-regulatory related activity.

Table 7 documents each consulting topic and OSCUI's assumptions for the ETS activity related to the topic. For example, OSCUI assigns consulting work on asset liability management to an insurance-related activity so it is weighted at 100 percent in that area;

consulting work related to investments is weighted 50 percent insurance related and 50 percent insurance-regulatory related.

OSCUI's Economic Development Specialists completed 11,003 hours of assistance to credit unions enrolled in the OSCUI Consulting Program during the ETS cycle ending on May 31, 2015. The hours were allocated as follows:

- 7,952 (72 percent) insurance related activities addressing safety and soundness issues.
- 2,434 (22 percent) insurance-regulatory related activities.
- 617 (6 percent) consumer-regulatory related activities.

Based on the allocation method described above, 6 percent of OSCUI's work is non-insurance (consumer regulatory) related. This 6 percent is applied to OSCUI's Operating Budget to determine the allocation of costs between insurance and non-insurance related activities.

TABLE 7—OSCUI TIME ALLOCATION

Consulting type of work	Percent insurance related activity	Percent insurance-regulatory related activity	Percent consumer-regulatory related activity
Asset Liability Management .....	100	0	0
BSA/OFAC .....	0	0	100
Budgeting .....	100	0	0
Collections .....	75	25	0
Consumer Compliance .....	0	0	100
Credit Committee .....	60	20	20
Disaster Recovery .....	70	20	10
FOM Expansion .....	50	50	0
Grant Writing .....	100	0	0
Internal Controls .....	100	0	0
Investments .....	50	50	0
Lending .....	70	20	10
Low-Income Designation .....	0	100	0
Marketing .....	50	40	10
Merger Guidance .....	50	50	0
New Product Development .....	70	20	10
Net Worth Restoration Plan (NWRP)/Prompt Corrective Action (PCA) .....	0	100	0
Operational Assistance Other .....	70	20	10
Other Policies .....	70	20	10
Recordkeeping .....	100	0	0
Relocation of Home Base CUs .....	100	0	0
Secondary Capital .....	50	50	0
Strategic Issues Other .....	100	0	0
Strategic Planning .....	100	0	0
Succession Planning .....	70	20	10
Technology .....	70	20	10
Training .....	70	20	10
Training Board .....	70	20	10
Training Staff .....	70	20	10
Training Supervisory Committee .....	70	20	10

ONES

ONES oversees the unique examination and supervision issues related to consumer credit unions with assets greater than \$10 billion and all corporate credit unions. ONES was

established on January 1, 2013, but was not assigned responsibility for consumer credit unions with \$10 billion or more in assets until January 1, 2014. ONES did not complete time surveys for its large natural person credit unions in 2014 or 2015, but will complete time

surveys for all its large natural person credit unions in 2016.

ONES does not have the ability to automatically complete and submit the ETS for corporate credit unions since the corporate examination program is not integrated into AIREs. ONES staff

manually completed the time survey two consecutive years (2011 and 2012) for all corporate credit unions following the E&I instructions. ONES found the percentages of time allocated for the activities using the E&I guidance did not substantially change year to year and used the information from these two measurement periods as a baseline for estimating and reporting the time allocated to Insurance Related, Insurance Regulatory Related, and Consumer Regulatory Related activities for the calendar years 2013, 2014, and 2015. ONES will complete time surveys in 2016 for both corporate credit unions and assigned natural person FCUs.

Because corporate credit unions do not perform and are not responsible for Consumer Regulatory issues, this category is reported as zero. The remaining time is allocated between Insurance Related and Insurance Regulatory Related activities. ONES provides a report of corporate credit unions with a table that breaks out the following information:

- Total Examination and Supervision hours
- Total Insurance Related hours
- Total Insurance Regulatory Related hours, and
- Total Consumer Regulatory Related hours.

ONES reports the information for each corporate credit union. Total examination and supervision hours are reviewed. The time allocations derived from the 2011 and 2012 time surveys are applied to determine the specific amounts of time reported for each category. ONES also reviews each corporate credit union individually to ensure there were no special circumstances that would have warranted a deviation from the original surveyed estimates. ONES' estimates for the most recent ETS period are shown in Table 8.

TABLE 8—ONES TIME ALLOCATION

Corporate credit union	Total examination and supervision hours	Insurance related hours	Insurance regulatory related hours	Consumer regulatory related hours
A .....	1654	1316	338	0
B .....	1124	942	182	0
C .....	1192	1007	186	0
D .....	1053	913	140	0
E .....	1353	945	409	0
F .....	769	514	256	0
G .....	567	332	235	0
H .....	981	788	194	0
I .....	575	387	188	0
J .....	621	415	205	0
K .....	95	6	89	0
L .....	694	607	87	0
M .....	481	357	124	0
N .....	919	712	207	0
Totals .....	12,077	9,239	2,838	0
% of Total .....	.....	76.5%	23.5%	0.0%

Based on the allocation method described above, 100 percent of ONES' work is insurance related. This percentage is applied to ONES' Operating Budget to determine the allocation of costs between insurance and non-insurance related activities.

Office of Women and Minority Inclusion (OMWI)

OMWI oversees the agency's equal employment opportunity program and all matters relating to measuring, monitoring and establishing policies for diversity in the agency's management, employment and business activities as well as responsibility for assessing the diversity policies and practices of entities regulated by the agency and preserving credit unions designated as minority depository institutions.

OMWI does not monitor time related to the ETS categories but does estimate staff time spent on insurance related and non-insurance related activities. The insurance related time is primarily time spent administering and reporting

to Congress on various programs, including the agency's Minority Depository Institution Preservation Program and responding to requests related to insurance-regulatory issues. Staff working on tasks related to these activities includes the OMWI Director, one Diversity Outreach Program Analyst, and one Management Analyst.

OMWI estimates the percentage of time spent on these programs as compared to the total time spent performing all tasks and responsibilities for the Diversity Outreach Program Analyst, Management Analyst, and OMWI Director. OMWI applies the estimated percentage of time allotted to insurance activities to its total estimated working hours. Then, those hours are compared to the estimated number of total hours worked by all OMWI staff. OMWI's time estimates for the most recent ETS period resulted in the following allocation:

- 14 percent of staff time spent on insurance related activities; and

- 86 percent of time is spent on non-insurance activities.

Based on the allocation method described above, 86 percent of OMWI's work is non-insurance related. This percentage is applied to OMWI's Operating Budget to determine the allocation of costs between insurance and non-insurance related activities.

All Other Offices

NCUA's remaining offices do not provide estimates on their insurance and non-insurance related activities. Rather, because these offices are support functions for NCUA's main program—the examination and supervision of credit unions—the same allocation basis used for the regional offices is used to determine the costs of insurance and non-insurance related activities for these support functions. The budgeted costs for the offices of the NCUA Board, Executive Director, General Counsel, Chief Financial Officer, Chief Information Officer and Chief Economist as well as Human Resources,

Examination and Insurance, Public and Congressional Affairs, and Continuity and Security Management are allocated at 9.6 percent non-insurance related activities for purposes of calculating the OTR.

Combining the calculation steps in the workload program hours and financial budget section, the OTR methodology thus far has established the amount of NCUA's Operating Budget related to insurance and non-insurance related activities. NCUA's 2016 Operating Budget of \$290.92 million includes \$35.19 million allocated to non-insurance (regulatory) activities. The remaining \$255.73 million of NCUA's Operating Budget is allocated to insurance-related activities. Identifying the portion of NCUA's Operating Budget allocated to insurance-related activities is the first step in determining NCUA's total insurance related costs. Consideration must also be given to the direct costs to

the NCUSIF and the SSA Imputed Value, discussed in the next section.

*d. Calculating NCUSIF Insurance and Non-Insurance Costs*

Based on the ETS results for NCUA's core programs, the determination of insurance and non-insurance activities for special and other programs (Section IV.b) and applying the percentage of insurance and non-insurance activities to NCUA's Operating Budget (Section IV.c), the agency arrives at the dollar amount of insurance related costs included in the NCUA Operating Budget. As noted above, for 2016, this amount is \$255.73 million (NCUA's 2016 Operating Budget of \$290.92 million less non-insurance related costs of \$35.19 million).

In addition to NCUA budgeted costs, there are operational costs charged directly to the NCUSIF which must be added to the insurance related portion of NCUA's Operating Budget when

calculating the total cost of providing insurance. For 2016, these direct operational costs are budgeted at \$1.56 million. The NCUSIF directly pays for the costs associated with SSA staff attendance at NCUA-sponsored training and the related travel expenses (\$1.4 million), as well as SSA computer and related equipment leases (\$0.16 million). These direct operational costs must be factored into the total operational costs of providing NCUSIF insurance, which needs to be absorbed by all FICUs. NCUA does not include credit union failure related costs<sup>52</sup> in the calculation, as these losses (charges to the NCUSIF) are already allocated based on the mutual nature of NCUSIF deposit insurance and are not costs of operating the NCUSIF.

This step of the calculation results in total insurance related costs to be absorbed by all FICUs of \$257.29 million.<sup>53</sup> See Table 9.

TABLE 9—NCUSIF COSTS  
[millions]

2016 NCUA Operating Budget .....	\$290.92	Table 6. Budgeted costs for SSA training, travel, and equipment.
Non-Insurance Related Costs .....	- 35.19	
Direct Operational Charges to NCUSIF .....	+1.56	
<b>Total 2016 Budgeted Insurance Related Costs .....</b>	<b>257.29</b>	

*e. Allocation of Insurance Costs*

This step of the OTR methodology is designed to calculate the total cost of providing share insurance, including work currently performed by SSAs, and then allocate these costs on an insured shares basis between FCUs and FISCUs. The steps in the OTR methodology thus far have determined the total budgeted operating costs and direct charges applicable to NCUA's role as insurer to be absorbed by all FICUs, \$257.29 million. During the revision to the OTR methodology in 2003, the agency concluded it is appropriate to recognize NCUA relies on SSAs, to the fullest

extent possible, to perform insurance related supervision of FISCUs. The cost NCUA, and thus the NCUSIF, avoids<sup>54</sup> should be taken into account when determining and allocating the total cost of providing NCUSIF insurance. The calculation of this imputed SSA value is a multi-step process outlined in Section IV.g, *SSA Imputed Value*. In 2016, the SSA imputed value is \$40.6 million.

The OTR methodology also considers that the most fair and appropriate basis to allocate the cost of providing NCUSIF insurance between FCUs and FISCUs is the distribution of insured shares. This is consistent with the mutual nature of the insurance provided by the NCUSIF,

and the statutory allocation method for any NCUSIF premiums and dividends.

Section IV.d, *Calculation of Insurance and Non-Insurance NCUSIF Costs*, determined NCUA's cost to fulfill its role as insurer is \$257.29 million. However, the value provided by NCUA's reliance on SSA work should be factored in to determine the total cost to the federally insured credit union system of providing NCUSIF insurance. To do this, the imputed value of the insurance related work performed by the SSAs (\$40.60 million)<sup>55</sup> is added to the total budgeted insurance related costs (\$257.29 million):

TABLE 10—TOTAL COST OF PROVIDING NCUSIF INSURANCE  
[millions]

Total 2016 Budgeted Insurance Related Costs .....	\$257.29	Table 9. Value NCUA places on worked performed by SSAs. Table 32.
SSA Imputed Value .....	+ \$40.60	
<b>Total Cost of Providing NCUSIF Insurance .....</b>	<b>\$297.89</b>	

<sup>52</sup> Payouts on insured shares of failed institutions.  
<sup>53</sup> Budgeted amounts are used to calculate the OTR; however, the OTR is applied to actual expenses incurred each month.

<sup>54</sup> NCUA relies on SSA examination work. Different SSAs are funded by various means, such as fees paid by state-chartered credit unions or through general state tax revenues.

<sup>55</sup> The calculation of the SSA imputed value is discussed in detail in Section IV.g.

The total cost of providing NCUSIF insurance must be allocated between FCUs and FISCUs. As mentioned, the allocation is based on their respective

proportions of insured shares. FCUs and FISCUs represent 52.3 percent and 47.7 percent,<sup>56</sup> respectively, of the \$935 billion in NCUSIF insured shares as of

June 30, 2015. Thus, the distribution of costs is as follows:

TABLE 11—ALLOCATION OF TOTAL COSTS OF PROVIDING NCUSIF INSURANCE

	FCUs	FISCUs	
Total Cost of Providing NCUSIF Insurance (millions) .....	\$297.89		Table 10.
Proportion of insured shares .....	× 52.3%	× 47.7%	
Allocated total insurance costs (millions) .....	\$155.80	\$142.09	

FISCUs are responsible for \$142.09 million of the total costs of providing NCUSIF insurance. However, SSAs are

providing \$40.6 million worth of imputed value toward the cost of providing NCUSIF share insurance.

Therefore, FISCUs are responsible for absorbing only \$101.49 million of the total insurance costs:

TABLE 12—NET COST OF NCUSIF INSURANCE FOR FISCUS  
[millions]

FISCU portion of total insurance costs .....	\$142.09	Table 11. Table 32.
SSA Imputed Value .....	– \$40.60	
Net Cost of NCUSIF Insurance for FISCUs .....	\$101.49	

f. Calculating the OTR

This final step of the OTR methodology computes the OTR as a percentage of the NCUA Operating Budget. Section IV.e, *Allocation of Insurance and Non-Insurance Costs*, determined the net cost of providing

NCUSIF insurance to be absorbed by FISCUs through the OTR is \$101.49 million. This amount divided by the percentage of total insured shares held by FISCUs (47.7 percent) results in the total dollar cost to be absorbed by the NCUSIF for providing insurance to all federally insured credit unions. To state

it another way, if FISCUs are responsible for 47.7 percent of the cost of providing NCUSIF insurance, and this represents \$101.49 million, then the dollar amount of NCUA costs to be absorbed by the NCUSIF, through the OTR, must equal \$212.78.<sup>57</sup> See Table 13.

TABLE 13—COSTS TO BE ABSORBED BY THE NCUSIF, THROUGH THE OTR

Net Cost of NCUSIF Insurance for FISCUs (millions) .....	\$101.49	Table 12. Table 11.
FISCU Proportion .....	÷ 47.7%	
Costs to be Absorbed by the NCUSIF, through the OTR (millions).	\$212.78	

Now that the dollar amount of the NCUA budget to be absorbed by the NCUSIF via the OTR has been calculated, the Overhead Transfer Rate itself, as a percentage of the budget can

be calculated. The dollar amount of the NCUA budget to be absorbed by the NCUSIF (\$212.78 million) divided by the total NCUA Budget (\$290.92 million) equals the rate at which actual

expenses will be funded by the NCUSIF as they are incurred each month (73.1 percent). This rate is what is called the OTR.

TABLE 14—OVERHEAD TRANSFER RATE

Costs to be Absorbed by the NCUSIF, through the OTR (millions).	\$212.78	Table 13.
NCUA Operating Budget .....	÷ \$290.92	Table 9.
Overhead Transfer Rate .....	73.1%	

Table 14 illustrates that 73.1 percent of NCUA’s operating expenses, \$212.78 million based on the 2016 budget, are funded by the NCUSIF via the OTR. The remaining 26.9 percent of NCUA’s

operating expenses, \$78.14 million based on the 2016 budget, must be funded by other sources, primarily the FCU Operating Fee.<sup>58</sup> Thus, the explicit and implicit distribution of total

Operating Budget costs for FCUs and FISCUs is 65.1 percent and 34.9 percent, respectively.

<sup>56</sup> Based on insured shares reported on NCUA’s 5300 Call Report as of June 30, 2015.

<sup>57</sup> Mathematically, this computation must be used to arrive at the total costs (based on budget) to be

absorbed by the NCUSIF, through the OTR, since this amount is the unknown to be solved for based on the addition of imputed, but not actual, costs to the budget.

<sup>58</sup> Other funding sources, in addition to the FCU Operating Fee (including federal corporate credit union Operating Fees) and fees collected for various services and publications.

TABLE 15—OPERATING BUDGET DISTRIBUTION

Portion of 2016 operating budget covered by:	FCUs	FISCUs
FCU Operating Fee .....	26.9%	0.0%
OTR × Percent of Insured Shares .....	38.2%	34.9%
	(73.1% × 52.3%)	(73.1% × 47.7%)
Total .....	65.1%	34.9%

g. SSA Imputed Value

To develop an OTR that properly reflects the total cost to insured credit unions of providing NCUSIF insurance, it is necessary to factor in the value of the insurance related supervision provided by state examination programs and relied upon by NCUA in managing the NCUSIF. NCUA developed a four step process to calculate (impute) the value of the insurance work performed by SSAs that NCUA relies upon. The imputed value derived from these calculations is factored into the calculation of the OTR as discussed in Section IV.e.

NCUA determined the best measure available for the value of state

examination programs to the NCUSIF is what it would cost NCUA to perform this work.<sup>59</sup> An alternative measure of the value of this work is the actual cost of SSA supervision programs. However, these do not necessarily reflect the value to NCUA in managing the NCUSIF<sup>60</sup> and are not readily available to NCUA. The Board invites comment on the methodology for determining the SSA imputed value including proposals for alternative methods for valuing the insurance work performed by SSAs in the OTR calculation.

Throughout this discussion, we will present the calculations used to determine the values for the 2016 OTR. In these calculations we use the following information:

- Average exam time based on 2014 actual results,
- percentage of exam time used for insurance work based on the 2015 ETS results, and
- budget projections for 2016.

Step 1—NCUA FISCU Workload Projection

The first step in this process is to determine the workload required for NCUA to examine all FISCUs. To calculate this figure, NCUA determines the examination hours that field staff expended on FCUs by asset size and CAMEL rating. The results for 2014 are documented in Table 16.

TABLE 16—FCU AVERAGE EXAMINATION TIME (HOURS) FOR 2014

	Asset range (millions)				
	<\$10	\$10–\$100	\$100–\$250	\$250–\$500	>\$500
CAMEL 1 .....	39	80	162	192	408
CAMEL 2 .....	41	88	186	234	445
CAMEL 3 .....	45	100	223	279	407
CAMEL 4 .....	65	142	312	225	438
CAMEL 5 .....	109	219	0	0	0

NCUA then determines the distribution of FISCUs using the same asset and CAMEL rating categories. The

distribution for 2014 is documented in Table 17.

TABLE 17—NUMBER OF FISCUS IN EACH CATEGORY [as of December 2014]

	Asset range (millions)				
	<\$10	\$10–\$100	\$100–\$250	\$250–\$500	>\$500
CAMEL 1 .....	54	99	45	30	83
CAMEL 2 .....	342	664	205	102	147
CAMEL 3 .....	188	230	46	16	12
CAMEL 4 .....	40	32	5	2	4
CAMEL 5 .....	0	0	0	0	0

<sup>59</sup> NCUA realizes that the imputed value may be higher or lower than what SSAs actually spend to conduct insurance related supervision programs NCUA relies upon. Nonetheless, the relevant factor for purposes of computing the OTR is the value to the NCUSIF derived from this work.

<sup>60</sup> Another consideration is the fact each SSA program may not represent the same percentage of insurance related supervision of institutions based on each state's unique program and cost structure, necessitating separate regulatory and insurance cost factors be calculated for each state. Such an

endeavor would be costly and would require each SSA to divulge detailed financial and operating information, which they may not be inclined to provide.



The average examination time estimates from Table 16 are then applied to the distribution of FISCUs in Table 17 using the same asset and CAMEL rating categories. This provides an estimate of the examination time

needed if NCUA were to conduct all of the state examination work on the same basis employed for FCUs. Based on the average examination hours for FCUs and the number of FISCUs in each asset and CAMEL category, NCUA would have

needed 318,573 hours to complete examinations of all FISCUS in the same manner as it examined FCUs in 2014. The estimated hours are documented in Table 18.

TABLE 18—PROJECTED FISCU EXAM HOURS

	Asset range (millions)					Totals <sup>61</sup>
	<\$10M	\$10–\$100	\$100–\$250	\$250–\$500	>\$500	
CAMEL 1 .....	2,116	7,911	7,295	5,766	33,898	56,986
CAMEL 2 .....	13,982	58,225	38,232	23,845	65,408	199,692
CAMEL 3 .....	8,499	22,889	10,256	4,465	4,882	50,992
CAMEL 4 .....	2,616	4,530	1,558	449	1,750	10,902
CAMEL 5 .....	.....	.....	.....	.....	.....	.....
Totals .....	27,213	93,555	57,340	34,526	105,938	318,573

Step 2—Allocation of Projected Fiscu Exam Hours

Step 1 calculated that it would take 318,573 hours for NCUA to conduct examinations in all FISCUs. However, not all examination time is used to meet

NCUA’s role as insurer. The ETS results for cycle ending on May 31, 2015, indicate that 86.83 percent of examination time was used to meet NCUA’s needs in managing risks to the NCUSIF. For consistency and fairness, this same distribution is applied to

FISCUs when determining the total time it would take NCUA to supervise FISCUs to meet its role as insurer, resulting in 276,617 hours for insurance related time. Table 19 illustrates this calculation.

TABLE 19—PROJECTED FISCU EXAM HOURS USING ETS

	Hours
Gross FISCO Exam Hours .....	318,573
Times Insurance Factor Based on Exam Survey .....	× 86.83%
Equals Total Insurance Hours .....	= 276,617

NCUA also estimates total FISCO examination time by multiplying current NCUA budgeted FISCO

examination time <sup>62</sup> by two. This reflects that FISCO examinations are conducted jointly with the SSA, and

that all NCUA examination time is for insurance purposes. Table 20 documents this calculation.

TABLE 20—PROJECTED FISCO EXAM HOURS USING MULTIPLIER

	Hours
Current Budgeted FISCO Insurance Hours .....	149,914
Times 2 (Assuming Joint Examinations and 50/50 time split with SSA) .....	× 2
Equals Projected Examination Insurance Hours for State Program .....	= 299,828

The result of the calculation in Table 20 is compared to the result from Table 19 and the greater of the two numbers is selected, in this case 299,828 hours, from Table 20. Using the greater of the two results benefits the SSA imputed value as it requires more resources and, therefore, increases the imputed value.

Next, NCUA takes the results from the previous step and subtracts the current

budgeted state examination program hours since they are already included in the resource budget. NCUA also makes an adjustment for additional FISCO supervision hours. NCUA’s 2016 workload program budgets 25,808 hours for FISCO supervision. Since supervision is typically performed jointly with SSAs, NCUA would need

an additional 25,808 hours. The result is the number of additional insurance hours necessary for NCUA to examine and supervise all FISCUs without any SSA assistance. The calculation for the 2016 OTR indicates NCUA would need an additional 175,722 hours to complete all the FISCO work. The calculation is illustrated in Table 21.

<sup>61</sup> Numbers may not add up exactly due to rounding.

<sup>62</sup> From the 2016 NCUA Workload Budget.

TABLE 21—ADDITIONAL HOURS FOR FISCU INSURANCE WORK

	Hours
Projected FISCU Insurance Hours .....	299,828
Less Current Budgeted FISCU Examination Hours .....	- 149,914
Plus Additional FISCU Supervision Hours .....	+ 25,808
Equals Total Additional FISCU Insurance Hours .....	= 175,722

Finally, NCUA deducts the time budgeted for FISCU examination report reviews to arrive at the net additional insurance hours needed to complete all FISCU examinations and supervision.<sup>63</sup>

The FISCU examination report review time would no longer be needed if NCUA performed the FISCU examinations. NCUA's 2016 workload budget contained 5,231 hours for FISCU

examination report review. Deducting those hours from the results from Table 21 results in net additional insurance hours of 170,401. This calculation is illustrated in Table 22.

TABLE 22—NET ADDITIONAL HOURS FOR FISCU INSURANCE WORK

	Hours
Total Additional FISCU Insurance Hours .....	175,722
Less Current Budgeted FISCU Examination Review Hours .....	- 5,321
Equals Net Additional FISCU Insurance Hours .....	= 170,401

Step 3—Projected Additional Staff Required

The next step in the calculation is to determine how many additional full-time equivalent (FTE) examiners are

needed to complete the net additional FISCU insurance hours calculated in Step 2. To accomplish this, NCUA first calculates the total annual productive work hours for an FTE examiner. Total Core and Special Workload hours from

the Workload Budget must be divided by Total Estimated Workload Hours to determine the productivity ratio.<sup>64</sup> The productivity ratio for 2016 is 52.7 percent. The productivity ratio calculation is illustrated in Table 23.

TABLE 23—EXAMINER PRODUCTIVITY RATIO

Budgeted Core and Special Workload Program Hours .....	764,193
Divided by Total Budgeted Workload Program Hours .....	+ 1,448,716
Equals the Productivity Ratio .....	52.7%

Applying the productivity ratio to the total annual work hours for an examiner FTE results in the number of productive

hours per year for each examiner. The budgeted productive hours for an

examiner for 2016 is 1,097. This calculation is illustrated in Table 24.

TABLE 24—PRODUCTIVE HOURS PER FTE

Total Annual Work Hours per examiner FTE .....	2,080
Times the Productivity Ratio .....	× 52.7%
Equals Annual Productive Hours per examiner FTE .....	= 1,097

The additional number of examiner FTEs necessary to complete the net additional FISCU insurance work is calculated by dividing the net

additional FISCU insurance hours from Table 22 in Step 2 by the annual productive hours per FTE. The 2016 OTR calculation resulted in 155.3

additional examiner FTEs needed to complete the additional insurance work in FISCU. Table 25 illustrates this calculation.

TABLE 25—EXAMINER FTES NEEDED FOR ADDITIONAL FISCU WORK

Net Additional FISCU Insurance Hours .....	170,401
Divided by Annual Productive Hours per FTE .....	+ 1,097
Equals Additional Examiner FTES Needed .....	= 155.3

<sup>63</sup> As part of its fiduciary responsibility, NCUA examiners review all state examination reports. This time is assigned to work classification code 26.

<sup>64</sup> Total workload hours include various leave benefits, training, and administrative time.

Adding an additional 155.3 examiners would necessitate additional staffing in other areas, including additional Supervisory Examiners and Regional

Office staff. Based on NCUA’s staffing patterns and organizational structure, the following ratios of examiners to other regional positions were used to

determine additional staffing needs and costs. The ratios are documented in Table 26.

TABLE 26—OTHER REGIONAL FTEs NEEDED

Additional staff needed	Ratio examiners to position	FTEs per position
Examiners .....	1/1	155.3
Supervisory Examiners .....	1/9	17.3
Regional Office Analysts .....	1/15	10.4
Regional Office Directors .....	1/25	6.2
Other Regional Support Staff .....	1/20	7.8
<b>Total Number of Additional Regional FTEs Needed .....</b>		<b>196.9</b>

Step 4—Dollar Amount of the SSA Imputed Value

The next step is to calculate the dollar amount of the SSA imputed value. The first step in this process is to calculate

the average cost per regional FTE. The average cost is based on the actual budget for regional offices and field staff and includes employee pay and benefits, travel, rent, communications,

utilities, administrative, and contracted services. The average cost of a regional FTE for the 2016 OTR calculation was \$185,508 based on 838.2 FTEs. The calculation is illustrated in Table 27.

TABLE 27—ANNUAL COST PER REGIONAL FTE

Total Cost of Regions (2016 budget) .....	\$155,492,604
Divided by FTEs in Regions (2016 budget) .....	+ 838.2
<b>Equals Annual Cost Per Regional FTE .....</b>	<b>= \$185,508</b>

Next, NCUA applies the annual cost per regional FTE to the total number of additional FTEs necessary if NCUA were to complete all FISCO

examinations and supervision. In Table 26, NCUA calculated the total number of regional FTEs to be 196.9 for 2016. Multiplying the additional FTEs by the

average projected cost per FTE results in additional regional costs of \$36,525,336 for 2016. Table 28 illustrates this calculation.

TABLE 28—TOTAL ADDITIONAL REGIONAL COST

Projected Average Cost per FTE for 2016 .....	\$185,508
Times Additional FTEs Needed .....	× 196.9
<b>Equals Total Additional Regional Cost .....</b>	<b>= \$36,525,336</b>

The additional regional staffing would also have an impact on the workload of the following NCUA central offices:

- Office of Human Resources,
- Office of the Chief Financial Officer

Division of Financial Control, and

- Office of the Chief Information Officer Division of IT Operations.

Adding 196.6 additional staff members to NCUA would represent a 15.6 percent increase in staffing. This percentage increase is calculated by

dividing the number of additional regional FTEs by NCUA’s existing number of FTEs, which was 1,260.2 for the 2016 OTR calculation. Table 29 illustrates the calculation.

TABLE 29—PERCENTAGE INCREASE IN FTEs

Office	Budget
Additional FTEs Needed .....	196.9
Divided by Current Number of FTEs .....	+ 1,260.2
<b>Equals the Percentage Increase in FTEs .....</b>	<b>= 15.6%</b>

The workload will increase for the central offices indicated above, as these offices directly support staff by

processing personnel actions, providing computer support, and processing payroll and travel vouchers.<sup>65</sup>

Therefore, NCUA applies the 15.6 percent increase to each of the above office’s budget to account for additional

<sup>65</sup> Other central offices are considered sufficiently scalable or not directly impacted to absorb such an

increase in regional positions without needing additional staff.

resources and workload. The combined budgets for these three offices for 2016 was \$36,064,124. The projected increase in cost for 2016 based on the 15.6 percent increase was \$5,634,664. The calculations are shown in Table 30.

TABLE 30—ADDITIONAL CENTRAL OFFICE COSTS

Office	Budget
Office of Human Resources .....	\$15,547,400
Plus Office of the Chief Financial Officer Division of Financial Control .....	+ \$7,956,891
Plus Office of the Chief Information Officer Division of IT Operations .....	+ \$12,559,833
Equals Total Other Office Budgets Affected .....	= \$36,064,124
Times 15.6 percent .....	× 15.6%
Equals Additional Central Office Costs .....	= \$5,634,664

In addition to the increases in certain costs, there would be some areas of savings to NCUA if it conducted all of the insurance related FISCO work.

There would be no need to pay for the training of state examiners, or provide SSAs with computers and other equipment. The cost savings projected

for the 2016 OTR calculation was \$1,562,408. Table 31 shows the breakdown of the cost savings.

TABLE 31—TOTAL COST SAVINGS

SSA Training and Travel .....	\$1,400,000
Plus SSA Computer Leases .....	+ \$162,408
Equals Total Cost Savings .....	= \$1,562,408

The SSA imputed value is calculated by adding the additional regional and central office costs from Table 28 and 30

and then subtracting the cost savings from Table 31. The SSA imputed value

for the 2016 OTR is \$40,597,592. Table 32 illustrates the calculation.

TABLE 32—SSA IMPUTED VALUE

Additional cost area	Cost
Additional Regional Costs .....	\$36,525,336
Plus Additional Central Office Costs .....	+ \$5,634,664
Less SSA Training and Equipment Cost .....	- \$1,562,408
Equals Imputed SSA Value .....	= \$40,597,592

The SSA Imputed Value of \$40.6 million is used to determine the total costs to NCUA of providing NCUSIF insurance (Table 10) and to determine the net cost of NCUSIF insurance for FISCUs (Table 12). As previously discussed in *Section IV.e, Allocation of Insurance and Non-Insurance Costs*, NCUA includes the SSA Imputed Value in the OTR calculation to account for NCUA's reliance, to the fullest extent possible, on SSAs to perform much of the insurance related supervision of FISCUs. Therefore, the costs NCUA and thereby the NCUSIF avoid are taken into account when determining and allocating the total cost of providing NCUSIF insurance.

**V. Request For Comment**

The Board invites comments on all issues discussed in this document. In particular, the Board solicits specific comments on the OTR's allocation of insurance and non-insurance related

activities to the Operating Budget and the methodology used to determine the value of the work performed in FISCUs by SSAs. Further, commenters should not feel constrained to limit their comments to the issues discussed above. Rather, commenters are encouraged to discuss any other relevant OTR issues they believe NCUA should consider. Commenters are encouraged to provide documentation to support any alternatives they may suggest to adjust the existing methodology or components therein.

By the National Credit Union Administration Board on January 21, 2016.

**Gerard Poliquin,**

*Secretary of the Board.*

**VI. Appendix A—Mapping of NCUA Regulations**

In its January 20, 2011, Overhead Transfer Rate Review, PricewaterhouseCoopers recommended that NCUA consider steps

aimed at making the OTR methodology more transparent, along with all of the assumptions and steps that are utilized. In response, NCUA modified the classification of insurance and non-insurance related activities in May 2011 for the 2011–2012 ETS by establishing Insurance Related Activities, Insurance Regulatory Related Activities and Consumer Regulatory Related Activities. These definitions are mapped to the NCUA Regulations and were distributed to ETS participants as part of the ETS Instructions. The mapping of regulations deemed part of the examination process and distributed to the time study participants for the ETS period covering June 1, 2014 to May 31, 2015, is provided below. Footnotes have been added to provide additional insight. The current mapping has not yet been updated for NCUA's most recent final rules. Similar to other activities not explicitly classified in the ETS instructions, ETS participants defer to the overarching definitions of insurance and non-insurance related activities provided in the ETS instructions (see Appendix B) to appropriately allocate time as insurance or non-insurance.

NCUA Regulation	Part	Insurance regulatory related	Non-insurance and consumer regulatory related	Description	
§ Part 701—Organization and Operations of FCUs <sup>66</sup> .	.1—Federal credit union chartering, field of membership modifications, and conversions.	.....	X	This part addresses the location of NCUA's chartering and field of membership policies	
	.2—Federal Credit Union Bylaws .....	.....	X	Requires FCU's to operate in accordance with their approved bylaws.	
	.3—Member inspection of credit union books, records, and minutes.	.....	X	This part grants a group of members the right to inspect the books and records of an FCU.	
	.4–.5—Reserved.	.....			
	.6—Fees paid by federal credit unions .....	.....		X	This section establishes the fees to be paid by the credit union to the NCUA.
	.7–.13—Reserved.	.....			
	.14—Change in official or senior executive officer in credit unions that are newly chartered or are in troubled condition.	.....	X	.....	This section establishes parameters under which a newly chartered credit union or a troubled credit union must operate with regard to management decisions and operations.
	.15–.18—Reserved.	.....			
	.19—Benefits for employees of federal credit unions.	.....	X	.....	This section allows a FCU to pay employees certain benefits as part of their employment with the FCU.
	.20—Suretyship and guaranty .....	.....	X	.....	This section establishes the ability of a FCU to enter into suretyship and guaranty agreements under certain conditions and limitations.
	.21—Loans to members and lines of credit to members.	.....	X	.....	This section establishes the parameters for a FCU's overall lending program.
	.22—Loan participation .....	.....	X	.....	This section establishes the ability of an FCU to enter into loan participation agreements, and establishes limitations and parameters under which an FCU can do so.
	.23—Purchase, sale, and pledge of eligible obligations.	.....	X	.....	This section of the regulation establishes the ability of an FCU to purchase, sell, or pledge eligible obligations (loans) of the FCU.
	.24—Refund of interest .....	.....	X	.....	This section of the regulations authorizes an FCU to refund interest to members under certain conditions.
	.25—Charitable contributions and donations ..	.....	X	.....	This sections grants authority of an FCU to make charitable contributions.
	.26—Credit union service contracts .....	.....	X	.....	This sections grants authority for an FCU to enter into service contracts with other FCUs.
	.27–.29—Reserved.	.....			
	.30—Services for nonmembers within the field of membership.	.....	.....	X	This section grants authority to FCUs to provide limited services to non-members within their field of membership.
	.31—Nondiscrimination requirements .....	.....	.....	X	This section prohibits an FCU from discriminating against a person or group of persons and establishes parameters under which it must operate to ensure non-discrimination and notify others of its non-discrimination policies.
	.32—Payment on shares by public units and nonmembers.	.....	X	.....	This section grants permission to FCUs to receive payments on shares from public units.
.33—Reimbursement, insurance, and indemnification of officials and employees.	.....	X	.....	This section establishes the parameters under which an FCU may compensate officials, and volunteers.	
.34—Designation of low-income status; acceptance of secondary capital accounts by low-income designated credit unions.	.....	X	.....	Grants permission to LICU's to accept secondary capital accounts. <sup>67</sup>	
.35—Share, share draft, and share certificate accounts.	.....	.....	X	Regulation grants permission for credit unions to offer share, share draft and certificate accounts to members.	
.36—FCU Ownership of fixed assets .....	.....	X	.....	Sets parameters and limitations on a FCU's ownership and treatment of fixed assets	
37—Treasury Tax and Loan Depositories; Depositories and Financial Agents of the Government.	.....	X	.....	Grants permission for FCU's to act as Treasury tax and loan depository as well as a depository of public money.	
.38—Borrowed funds from natural persons ....	.....	.....	X	Grants permission for FCU's to borrow funds from natural persons.	
.39—Statutory lien .....	.....	.....	X	Grants permission to an FCU to establish a lien against the property of members to secure a financial obligation to the FCU by that member.	

NCUA Regulation	Part	Insurance regulatory related	Non-insurance and consumer regulatory related	Description
§ 702—Prompt Corrective Action <sup>68</sup> .	.1—Authority, purpose, scope and other supervisory authority.	.....	.....	This Part of the NCUA regulations (including subparts A, B, C and D) deals exclusively with safety and soundness issues that impact directly or indirectly the financial condition of the credit union.
Subpart A .....	.2 Definitions. .101—Measures and effective date of net worth classification. .102—Statutory net worth categories ..... .103—Applicability of net worth req't ..... .104—Risk portfolios defined ..... .105 Weighted-average life of investments ..... .106—Standard calculation of risk-based net worth requirement. .107—Alternative components for standard calculation.	X X X X X X		
Subpart B—Mandatory and Discretionary Supervisory Actions.	.108—Risk mitigation credit ..... .201—Prompt corrective action for “adequately capitalized” credit unions. .202—Prompt corrective action for “undercapitalized” credit unions. .203—Prompt corrective action for “significantly undercapitalized” credit unions. .204—Prompt corrective action for “critically undercapitalized” credit unions. .205—Consultation with State officials on proposed prompt corrective action. .206—Net worth restoration plans .....	X X X X X X		
Subpart C—Alternative Prompt Corrective Action for New Credit Unions.	.301—Scope and definition.  .302—Net worth categories for new credit unions. .303—Prompt corrective action for “adequately capitalized” new credit unions. .304—Prompt corrective action for “moderately capitalized,” “marginally capitalized” or “minimally capitalized” new credit unions. .305—Prompt corrective action for “uncapitalized” new credit unions. .306—Revised business plans for new credit unions. .307—Incentives for new credit unions .....	X X X X X X		
Subpart—D Reserves .....	.401—Reserves. .402 Full and fair disclosure of financial condition. .403—Payment of dividends .....	X X X		
§ 703—Investment and Deposit Activities <sup>69</sup> .	.1—Purpose and scope .....  .2—Definitions. .3—Investment policies ..... .4—Recordkeeping and documentation requirements. .5—Discretionary control over Investments and investment advisers .6—Credit Analysis .....	X X X X		This part of NCUAs regulations deal with investment and deposit permissions of FCU's and the compliance or non-compliance with this section impacts either directly, or indirectly, the financial condition of the credit union.
§ 704—Corporate Credit Unions <sup>70</sup>	.1—Scope .....  .2—Definitions. .3—Corporate Credit Union Capital ..... .4—Prompt Corrective Action ..... .5—Investments ..... .6—Credit Risk Management ..... .7—Lending ..... .8—Asset-Liability Management ..... .9—Liquidity Management ..... .10—Investment Action Plan ..... .11—Corporate CUSO's ..... .12—Permissible Services ..... .13—Board Responsibilities ..... .14—Representation .....	X X X X X X X X X X X X X		This entire part of NCUAs regulations sets parameters on the financial operations of corporate credit unions. The compliance or non-compliance with this section could impact directly, or indirectly, the financial condition of the corporate credit union.

NCUA Regulation	Part	Insurance regulatory related	Non-insurance and consumer regulatory related	Description
	.15—Audit Requirements .....	X		
	.16—Contract/Written Agreements .....	X		
	.17—State-chartered corporate credit unions .....	X		
	.18—Fidelity bond coverage .....	X		
	.19—Disclosure of executive compensation ... ..	X		
	.20—Reserved .....	X		
	.21—Enterprise Risk Management .....	X		
§ 706—Credit Practices <sup>71</sup> .....	.22—Membership Fees .....	X		This entire section protects the member from unfair or deceptive acts by an FCU as well as compliance with other federal law designed to protect the consumer (member).
	.1—Definitions .....			
	.2—Unfair credit practices .....		X	
	.3—Unfair or deceptive cosigner practices ....		X	
§ 707—Truth in Savings <sup>72</sup> .....	.4—Late charges .....		X	This entire section protects the member from unfair or deceptive acts by an FCU as well as compliance with other federal law.
	.1—Authority, purpose, coverage and effect on state laws.			
	.2—Definitions .....		X	
	.3—General disclosure requirements .....		X	
	.4—Account disclosures .....		X	
	.5—Subsequent disclosures .....		X	
	.6—Periodic statement disclosures .....		X	
	.7—Payment of dividends .....		X	
	.8—Advertising .....		X	
	.9—Enforcement and record retention .....		X	
§ 712—Credit Union Service Organizations <sup>73</sup> .	.10—Reserved.			This entire section of NCUAs regulations deal with the structure and operations of a CUSO. The compliance or non-compliance with these regulations could have a direct or indirect impact on the financial condition of an FCU.
	.11—Additional disclosure requirements for overdraft services.		X	
	.1—what does this part cover? .....			
	.2—How much can an FCU invest in or loan to CUSOs, and what parties may participate? .....	X		
	.3—What are the characteristics of and what requirements apply to CUSOs? .....	X		
	.4—What must an FCU and a CUSO do to maintain separate corporate identities? .....	X		
	.5—What activities and services are preapproved for CUSOs? .....	X		
	.6—What activities and services and prohibited for CUSOs? .....	X		
	.7—Reserved.			
	.8—What transaction and comp. limits apply to an FCU and a CUSO? .....	X		
§ 713—Fidelity Bond and Insurance Coverage for Federal Credit Unions <sup>74</sup> .	.9—When must an FCU comply with this part? .....	X		This entire section of NCUA's regulations requires credit unions to obtain fidelity bond insurance coverage. This coverage protects the credit union from covered losses and therefore protects the NCUSIF.
	.10—How can a state supervisory authority obtain an exemption for state chartered credit unions from compliance with § 712.3(d)(3)? .....	X		
	.1—What is the scope of this section? .....			
	.2—What are the responsibilities of a credit union's board of directors under this section? .....	X		
	.3—What bond coverage must a credit union have? .....	X		
	.4—What bond forms may be used? .....	X		
	.5—What is the required minimum dollar amount of coverage? .....	X		
.6—What is the permissible deduction? .....	X			
.7—May the NCUA Board require a credit union to secure additional insurance coverage? .....	X			

NCUA Regulation	Part	Insurance regulatory related	Non-insurance and consumer regulatory related	Description
§ 714—Leasing <sup>75</sup>	.1—What does this part cover?  .2—What are the permissible leasing arrangements? .3—Must you own the leased property in an indirect leasing arrangement? .4—What are the lease requirements? .5—What is required if you rely on an estimated residual value greater than 25% of the original cost of the leased property? .6—Are you required to retain salvage powers over the leased property? .7—What are the insurance requirements applicable to leasing? .8—Are the early payment provisions, or interest rate provisions, applicable in leasing arrangements? .9—Are indirect leasing arrangements subject to the purchase of eligible obligation limit? .10—What other laws must you comply with when engaged in leasing?	  X X X X X X X X X	                  	This entire section of NCUAs regulations deals with the ability of FCUs to enter into leasing agreements and sets parameters on types of leases and limitations on financial arrangements. The compliance or non-compliance with this part could have a direct or indirect impact on the financial condition of the credit union.
§ 715—Supervisory Committee Audits and Verifications <sup>76</sup>	.1—Scope of this part  .2—Definitions used in this part .3—General responsibilities of the Supervisory Committee. .4—Audit responsibility of the Supervisory Committee. .5—Audit of Federal Credit Unions .6—Audit of Federally-insured State-chartered credit unions. .7—Supervisory Committee audit alternatives to a financial statement audit. .8—Requirements for verification of accounts and passbooks. .9—Assistance from outside, compensated person. .10—Audit report and working paper maintenance and access. .11—Sanctions for failure to comply with this part. .12—Statutory audit remedies for Federal credit unions.	  X X X X X X X X X X	                  	This entire section of NCUAs regulations deals with the roles and responsibilities of the Supervisory Committee which are designed to ensure the safe and sound operation of an FCU.
§ 716—Privacy of Consumer Financial Information <sup>77</sup>	1. Purpose and scope  2. Model privacy form and examples. 3. Definitions.	    	    	This entire section of NCUA's regulations deals with an FCU's communication with its members and the safeguarding of member information.
Subpart A—Privacy and Opt Out Notices.	4—Initial privacy notice to consumers required. 5 Annual privacy notices to members required. 6 Information to be included in privacy notices. 7—Form of opt out notice to consumers and opt out methods. 8—Revised privacy notices	        	X X X X X	
Subpart B—Limits on Disclosures	9—Delivering privacy and opt out notices 10—Limits on disclosure of nonpublic information to third parties. 11—Limits on re-disclosure and reuse of information. 12—Limits on sharing of account number information for marketing purposes.	      	      	
Subpart C—Exceptions	13—Exception to opt out requirements for service providers and joint marketing. 14—Exceptions to notice and opt out requirements for processing transactions.	  	  	



NCUA Regulation	Part	Insurance regulatory related	Non-insurance and consumer regulatory related	Description
Subpart D—Relation to Other Laws; Effective Date.	.15—Other exceptions to notice and opt out requirements.	.....	X	This entire section of NCUAs regulations, including Subparts A through I, deals with the implementation of the Fair Credit Reporting Act which is designed to protect consumers (members) from unfair or deceptive practices.
	.16—Protection of Fair Credit Reporting Act ..	.....	X	
	.17—Relation to state laws .....	.....	X	
	.18—Effective date; transition rule .....	.....	X	
§ 717—Fair Credit Reporting <sup>78</sup> .....	.1 Purpose, scope and effective dates. ....	.....	.....	
	.2—Examples.	.....		
	.3—Definitions.	.....		
Subpart B .....	Reserved.	.....		
Subpart C—Affiliate Marketing .....	.20—Coverage and definitions .....	.....	X	
	.21—Affiliate marketing opt-out and excep- tions.	.....	X	
	.22—Scope and duration of opt-out .....	.....	X	
	.23—Contents of opt-out notice; consolidated and equivalent notices.	.....	X	
	.24—Reasonable opportunity to opt-out .....	.....	X	
	.25—Reasonable and simple methods of opt- ing out.	.....	X	
	.26—Delivery of opt-out notices .....	.....	X	
	.27—Renewal of opt-out .....	.....	X	
	.28—Effective date, compliance date, and pro- spective application.	.....	X	
Subpart D—Medical Information ...	.30—Obtaining or using medical information in connection with a determination of eligi- bility for credit.	.....	X	
	.31—Limits on re-disclosure of information ...	.....	X	
	.32—Sharing medical information with affil- iates.	.....	X	
Subpart E—Duties of Furnishers of Information.	.40—Scope.	.....		
	.41—Definitions.	.....		
	.42—Reasonable policies and procedures concerning the accuracy and integrity of furnished information.	.....	X	
	.43—Direct Disputes .....	.....	X	
Subparts F—H .....	Reserved.	.....		
Subpart I—Duties of Users of Consumer Reports Regarding Address Discrepancies and Records Disposal.	.80–.81 Reserved.	.....		
	.82—Duties of users regarding address dis- crepancies..	.....	X	
	.83—Disposal of consumer information .....	.....	X	
	.84–.89 Reserved.	.....		
	.90—Duties regarding the detection, preven- tion, and mitigation of identity theft..	.....	X	
	.91—Duties of card issuers regarding changes of address.	.....	X	
§ 722—Appraisals <sup>79</sup> .....	.1—Authority, Scope and Purpose .....	.....	.....	This entire section of NCUAs regulations es- tablishes rules for obtaining appraisals on collateral securing financial obligations of members. The compliance or non-compli- ance with this section could have a direct or indirect impact on the financial standing of the credit union.
	.2—Definitions.	.....		
	.3—Appraisals required; transactions requir- ing a State certified or licensed appraiser.	.....	X	
	.4—Minimum appraisal standards .....	.....	X	
	.5—Appraiser Independence .....	.....	X	
	.6—Professional association membership; competency.	.....	X	
	.7—Enforcement .....	.....	X	
§ 723—Member Business Loans <sup>80</sup>	1.—What is a member business loan? .....	.....	.....	This entire section of NCUAs regulations es- tablishes parameters under which an FCU must act in the creation, implementation and monitoring of a member business lend- ing program, including: underwriting guide- lines, loan limitations and loan types. The compliance or non-compliance with this part could impact the financial condition of an FCU.
	2.—What are prohibited activities?.	.....	.....	



NCUA Regulation	Part	Insurance regulatory related	Non-insurance and consumer regulatory related	Description
	.202—Audit and verification requirements .....	X	.....	This section requires a Supervisory Committee to make or cause to be made an audit of the credit unions books and records. Non-compliance can impact the credit union's financial condition.
	.203—Minimum loan policy requirements .....	X	.....	This section establishes certain requirements for an FCU's compliance with parts 723 and 701 of NCUA regulations, and exempts FISCUs if the SSA has adopted their own rules governing certain lending programs/practices.
	.204—Maximum public unit and nonmember accounts, and low income designation.	X	.....	This section requires compliance with part 701.32 regarding acceptance of non-member deposits.
	.205—Reporting requirements for credit unions that are newly chartered or in troubled condition.	X	.....	This section required newly chartered credit unions in existence under 2 years or credit unions designated as in troubled condition to comply with part 701.14 of the regulations.
	.206—Corporate credit unions .....	X	.....	Requires corporate credit unions to comply with part 704 of NCUA regulations.
	.207—Community development revolving loan program for credit unions.	.....	X	This part of section 741 requires any insured credit union to adhere to part 705 of NCUA regulations governing loans to LICU's for the purposes of community investment.
	.208—Mergers of federally insured credit unions; voluntary termination or conversion of insured status.	X	.....	Requires compliance with section 206 of the FCU act and parts 708a and 708b of the regulation regarding termination or conversion of insured status.
	.209—Management official interlocks .....	X	.....	Prohibits an official of one credit union serving as an official of another, competing credit union.
	.210—Central liquidity facility .....	X	.....	Requires insured credit unions to comply with part 725 of the regulation governing the membership of credit unions in the CLF.
	.211—Advertising <sup>63</sup> .....	X	.....	This section of this part of NCUAs regulations requires an insured credit union to comply with Part 740 of the regulations governing the advertising and notification of NCUSIF insurance.
	.212—Share insurance .....	X	.....	This section addresses the insurance of member accounts as prescribed in subpart A of part 745 of the regulations.
	.213—Administrative actions, adjudicative hearings, rules of practice and procedure.	X	.....	This section addresses an insured credit unions compliance with part 747 of the regulations.
	.214—Report of crime or catastrophic act and Bank Secrecy Act compliance.	.....	X	This section of part 741 requires insured credit unions to comply with Part 748 a regulation that deals with consumer protection.
	.215—Records preservation program .....	.....	X	This section of part 741 requires and insured credit union to comply with part 749 of the regulations which addresses the preservation of credit union records, including member information.
	.216—Flood insurance .....	.....	X	This section of part 741 requires and insured credit union to comply with part 760 of the regulations which addresses the requirement for flood insurance on real estate loans where required for protection of the member's property and credit unions collateral.
	.217—Truth in savings .....	.....	X	This section of part 741 requires insured credit unions to comply with part 707 of the regulations which addresses compliance with the Truth in Savings act, as previously discussed above.
	.218—Involuntary liquidation and creditor claims.	X	.....	Requires all insured credit unions to comply with part 709 of the regulation regarding involuntary liquidation and creditor claims against FCUs.
	.219—Investment requirements .....	X	.....	Requires compliance of all insured credit unions to comply with Part 703 of the regulations. Part 703 is discussed earlier in this chart.
	.220—Privacy of consumer financial information.	.....	X	Requires compliance of all insured credit unions to comply with part 716 of the regulation. Part 716 is discussed earlier in this chart.

NCUA Regulation	Part	Insurance regulatory related	Non-insurance and consumer regulatory related	Description
§ 745—Share Insurance and Appendix <sup>84</sup> .	.221 Suretyship and guaranty requirements ...	X	.....	Requires compliance with Part 701.20 of NCUA regulations regarding an FCU entering into a suretyship arrangement, and limits a FISCUs ability to enter into such arrangements to the applicable state law.
	.222—Credit Union Service Organizations .....	X	.....	Requires all insured credit unions to comply with part 712.(d)(3) and 712.4 of NCUA regulations regarding the establishment and operation of CUSOs.
Subpart A—Clarification and Definition of Account Insurance and Coverage.	.0—Scope.			This entire section, including subparts A and B, addresses membership accounts and payments to members.
	.1 Definitions.			
	.2—General principles applicable in determining insurance of accts.	X		
	.3—Single ownership accounts .....	X		
	.4—Revocable trust accounts .....	X		
	.5 Accounts held by executors or administrators.	X		
	.6—Accounts held by a corporation, partnership or unincorporated association.	X		
	.7—Shares accepted in a foreign currency ....	X		
	.8—Joint ownership accounts .....	X		
	.9-1 Trust accounts .....	X		
	.9-2 Retirement and other employee benefit plan accounts.	X		
	.10—Accounts held by government depositors.	X		
	Subpart B—Payment of Share Insurance and Appeals.	.11—Accounts evidenced by negotiable instruments.	X	
.12—Accounts obligations for payment of items forwarded for collection by depository institution acting as agent.		X		
.13—Notification to members/shareholders ....		X		
.200—General.				
§ 748—Security Program, Report of Suspected Crimes, Suspicious Transactions, Catastrophic Acts, and Bank Secrecy Act Compliance <sup>85</sup> .	.201—Processing of insurance claims .....	X		
	.202—Appeal .....	X		
	.203 Judicial review .....	X		
§ 749—Records Preservation Program <sup>86</sup> .	.0—Security program .....			This section addresses the requirement for insured credit unions to comply with the Bank Secrecy Act (BSA).
	.1 Filing of reports .....		X	
§ Part 760—Loans In Areas Having Special Flood Hazards <sup>87</sup> .	.2—Procedures for monitoring Bank Secrecy Act (BSA) compliance.		X	
	.0—Purpose and Scope .....			This part addresses the requirements of and best practices of preserving the records of the credit union.
	.1—Definitions.			
	.2—Vital records preservation program .....	X		
	.3—Vital records center .....	X		
	.4—Format for vital records preservation .....	X		
	.5—Format for records required by other NCUA regulations.	X		
	.1—Authority, Purpose and Scope .....			This section deals with the requirement for flood insurance where required. The obtaining of flood insurance, and proper determination of the requirement for flood insurance, protects the member's property and the credit unions collateral.
	.2—Definitions.			
	.3—Requirement to purchase flood insurance where available.			X
	.4—Exemptions .....			X
	.5—Escrow Requirement .....			X
	.6—Required use of standard flood hazard determination form.			X
	.7—Forced placement of flood insurance .....			X
	.8—Determination fees .....			X
.9—Notice of special flood hazards and availability of Federal disaster relief assistance.			X	
.10—Notice of servicer's identity .....			X	

<sup>66</sup> Part 701 deals with the organization of FCUs. Portions of Part 701 deal with safety and soundness and are classified as Insurance Regulatory Related, other sections are Non-Insurance or Consumer Regulatory Related. Certain sections are classified as Insurance Regulatory Related not because the section authorizes the activity; but rather, the section establishes limitations and other criteria to ensure the activity is done safely and soundly.

<sup>67</sup> Aids in meeting the necessary net worth levels under Prompt Corrective Action.

<sup>68</sup> Part 702 defines the various statutory levels of net worth for all federally insured credit unions and the actions required when credit unions fall below well capitalized per the FCU Act. The entire Part protects the NCUSIF and is Insurance Regulatory Related.

<sup>69</sup> Part 703 is designed to provide reasonable controls to ensure FCUs conduct investing safely and soundly. The entire Part protects the NCUSIF and is Insurance Regulatory Related.

<sup>70</sup> Part 704 governs the organization and operations of corporate credit unions. Corporate credit unions do not have direct consumer operations and are systemically critical to the FICU system. The entire Part protects the NCUSIF and is Insurance Regulatory Related. This section has been updated since the PricewaterhouseCoopers 2013 report to reflect changes in Part 704.

<sup>71</sup> Recently Rescinded. Part 706 deals with FCU credit practices. Portions of 706 are designed to protect consumers from unfair credit practice while other parts are designed to ensure FCUs establish appropriate credit exposure limits in relation to their net worth. The consumer related portions of this Part are classified as Non-Insurance or Consumer Regulatory Related while those dealing with FCU safety and soundness are classified as Insurance Regulatory Related.

<sup>72</sup> Part 707 is designed to protect FICU members from unfair or deceptive practices by requiring adequate consumer disclosures. The entire Part is classified as Non-Insurance or Consumer Regulatory Related.

<sup>73</sup> Part 712 deals with CUSOs. The rule sets requirements for the legal structures and approved and prohibited activities. Since a poorly organized or operationally unsound CUSO can have a negative impact on a FICUs' net worth, the entire Part protects the NCUSIF and is classified as Insurance Regulatory Related.

<sup>74</sup> Part 713 governs establishes the requirements for credit union bond and insurance coverage. Bond and insurance coverage protects credit unions from losses. The entire rule is classified as Insurance Regulatory Related.

<sup>75</sup> Part 714 governs FCU authority to enter into lease agreements and sets requirements designed to protect FCUs from losses associated with leasing activities. The entire Part is classified as Insurance Regulatory Related.

<sup>76</sup> Part 715 establishes the roles and responsibilities of the Supervisory Committee. Since the Supervisory Committee performs an oversight and control function related to safety and soundness, the entire Part is classified as Insurance Regulatory Related.

<sup>77</sup> Part 716 deals exclusively with the safeguarding of member information and the entire Part is classified as Non-Insurance and Consumer Regulatory Related.

<sup>78</sup> Part 717 deals exclusively with the Fair Credit Reporting Act which is designed to protect members from unfair or deceptive reporting practices. The entire Part is classified as Non-Insurance and Consumer Regulatory Related.

<sup>79</sup> Part 722 establishes requirements for obtaining appraisals securing financial obligations of members. Sufficiently valued collateral can mitigate losses associated with secured loans and protects the credit union and thereby the NCUSIF from

## VII. Appendix B—Examination Time Survey Instructions

NCUA issues instructions to participants in the ETS prior to the start of each ETS cycle. Training for participants is also provided to ensure time spent on insurance and non-insurance related activities is captured accurately and consistently. Below is the version of instructions distributed to participants prior to the June 1, 2015 through May 31, 2016 ETS cycle.

### Examination Time Survey

#### I. General Definitions

##### A. Rules and Regs Classification

#### II. Specific Instructions About Individual

losses. The entire Part is categorized as Insurance Regulatory Related.

<sup>80</sup> Part 723 establishes the requirements and restrictions for FICU member business lending. This section is designed to promote safe and sound underwriting of business loans and establish reasonable concentration risk limits. This entire Part protects FICUs and the NCUSIF from losses and is classified as Insurance Regulatory Related.

<sup>81</sup> Part 740 establishes the requirement for federally insured credit unions to properly disclose that deposits are federally insured. This entire Part is classified as Insurance Regulatory Related.

<sup>82</sup> Part 741 establishes the requirements for obtaining and keeping NCUSIF insurance coverage. Certain sections of this Part are designed to promote safety and soundness and are categorized as Insurance Regulatory Related while other sections deal with requirements for the benefit of members and are categorized as Non-Insurance and Consumer Regulatory Related.

<sup>83</sup> In practice, section 741.211 is classified as Insurance Regulatory Related since it both invokes Part 740, which itself is Insurance Regulatory Related, and it relates to requirements for FISCUs. Previous ETS instructions contained a clerical error classifying section 741.211 as Non-Insurance and Consumer Regulatory Related. However, since section 741.211 is applicable only to FISCUs and the ETS only samples FCUs, the results of the ETS and OTR were not affected. The classification of section 741.211 has been updated here and will be reflected this way during the next ETS instruction.

<sup>84</sup> Part 745 defines insurance coverage by account type and establishes priority during payout. In practice, Part 745 is classified as Insurance Regulatory Related as it relates to the insurability of accounts. Previous ETS instructions contained a clerical error classifying Part 745 as Non-Insurance and Consumer Regulatory Related. AMAC and OCP primarily execute Part 745 as it relates to NCUA's payout function and consumer inquiries regarding insurance coverage. Part 745 is captured in the Financial Budget section of the OTR calculation through AMAC's and OCP's financial budgets, with 100 percent and 17.7 percent of the respective budgets allocated to insurance-related activities. Thus, the actual OTR calculation was not affected by the clerical error in the instructions. The classification of Part 745 has been updated here and will be reflected this way during the next ETS instruction.

<sup>85</sup> Part 748 deals with required regulatory reporting designed to protect members. The entire Part is categorized as Non-insurance and Consumer Regulatory Related.

<sup>86</sup> Part 749 deals with the preservation of vital FICU records necessary for ongoing operations. Failure to properly protect records could jeopardize the viability of an insured credit union and the insurance coverage of member accounts. This entire Part is categorized as Insurance Regulatory Related.

<sup>87</sup> Part 760 is designed to protect member's property and the entire section is categorized as Non-Insurance and Consumer Regulatory Related.

Scope Categories  
 A. Planning/Scope Development  
 B. Call Report Review  
 C. Supervisory Committee Review  
 D. Financial Analysis  
 E. Loan Analysis  
 F. Investment Analysis  
 G. Liquidity Analysis  
 H. Asset Liability Management  
 I. Compliance  
 J. Information Systems Technology  
 K. Management Analysis  
 L. Contact Report/Joint Conference/Follow-Up Procedures

#### I. General Definitions

##### Insurance Related Examination Procedures

Insurance Related examination or supervision contact procedures address safety and soundness issues. On the time survey forms, respondents should classify the time used to evaluate safety and soundness as "insurance related." "Insurance Related" time includes:

- Evaluating financial trends and Call Report data
- Determining the credit union's solvency position
- Evaluating risks, and potential costs, the credit union presents to the NCUSIF (when appropriate)
- Assessing management's efforts to protect earnings and net worth by identifying, evaluating, controlling, and monitoring internal and external risks
- Assessing management's abilities to develop strong policies and a reliable internal control structure

##### Insurance Regulatory Related Examination Procedures

Insurance Regulatory related examination or supervision contact procedures address regulations that are not designed to protect consumers directly. This includes assessing compliance with all regulations outside of consumer oriented regulations—see listing of consumer regulations in the following section—Consumer Regulatory examination procedures.

Insurance Regulatory related regulations include those regulations that address safety and soundness issues. Examples include (this is not all inclusive):

- 701.21—Loans to Members and Lines of Credit to Members
  - Includes total loan limit to one individual, limitation on maturity, rate of interest, and security.
- 702—Prompt Corrective Action
  - Establishes net worth categories and mandatory and discretionary supervisory actions
- 703—Investments and Deposit Activities
  - Establishes permissible investments and requires credit analysis prior to purchase and requires ongoing monitoring of securities
- 712—Credit Union Service Organizations
  - Establishes investment and loan limits as well as outlines permissible activities
- 713—Fidelity Bond and Insurance Coverage
  - Requires minimum bond coverage
- 715—Supervisory Committee Audits and

- Verifications
- 722—Appraisals
  - Establishes minimum appraisal standards based on loan size
- 723—Member Business Loans
  - Establishes prohibited activities, requires specific policies and sets overall loan limits as well as limits to one member or group of associated members

#### *Consumer Regulatory Related Examination Procedures*

Consumer Regulatory Related examination or supervision contact procedures address compliance with consumer regulations. The regulations include:

- Reg. B—Equal Credit Opportunity Act
- BSA—Bank Secrecy Act
- Reg. C—Home Mortgage Disclosure Act
- Reg. CC—Expedited Funds Availability
- COPPA—Children’s Online Privacy Protection Act
- Reg. D—Reserve Requirements
- Reg. E—Electronic Funds Transfer Act
- FACTA—Fair and Accurate Credit Transactions Act
- FCPR—Fair Credit Practice Rule
- FCRA—Fair Credit Reporting Act
- FDCPA—Fair Debt Collections Practices Act
- FDPA—Flood Disaster Protection Act
- FHA—Fair Housing Act
- GLBA—Gramm-Leach Bliley Act
- HOEPA—Home Ownership and Equity Protection Act
- HOPA—Home Owner’s Protection Act
- Reg. M—Consumer Leasing
- OFAC—Office of Foreign Asset Control
- PCFI—Privacy of Consumer Financial Information
- RFPA—Right to Financial Privacy Act
- SCRA—Service Members Civil Relief Act
- Reg.—X Real Estate Settlement Procedures Act
- Credit Card Act
- Unlawful Internet Gaming Enforcement Act
- SAFE Act—Secure and Fair Enforcement for Mortgage Licensing Act
- Reg.—Z Truth in Lending
- Rules and Regulations Part 706—Credit Practices
- Rules and Regulations Part 707—Truth in Savings
- Rules and Regulations Part 717—Fair Credit Reporting

The chart below will help you determine the appropriate regulatory category (Insurance Regulatory or Non-Insurance and Consumer Regulatory) for all regulations. [*The chart normally embedded here is shown as Appendix A in this document*].

## II. Specific Instructions about Individual Scope Categories

**Note:** *The procedures referenced within each time category of the survey are not all encompassing. These guidelines merely provide examples respondents should consider when estimating the allocation of their time.*

### A. Planning/Scope Development

1. Time related to Insurance Issues includes the time required for tasks such as:

- Reviewing prior contact reports to identify historical safety and soundness concerns;
  - Reviewing scope workbook to become familiar with potential safety and soundness concerns;
  - Reviewing correspondence between contacts that address safety and soundness issues;
  - Reviewing recent financial trends;
  - Evaluating changes to the credit union’s product and service mix that could present new safety and soundness concerns;
  - Determining whether a Subject Matter Examiner could assist during the supervision process in addressing safety and soundness concerns;
  - Considering whether additional resources (i.e., grants, technical assistance, low-income designation) are available to assist management in addressing safety and soundness concerns;
  - Evaluating prevailing economic conditions;
  - Reviewing risk management reports;
  - Interviewing key officials to learn status of action taken to correct previously identified safety and soundness concerns;
  - Developing on-site procedures for evaluating safety and soundness concerns;
  - Completing portions of scope workbook that pertain to safety and soundness concerns; and
  - Updating scope workbook to document new information about safety and soundness issues.
2. Time related to Insurance Regulatory Issues includes the time for tasks related to Insurance Regulatory compliance such as:
- Reviewing prior contact reports for previously cited noncompliance and regulatory violations related to Insurance Regulatory issues;
  - Reviewing correspondence between contacts that addresses Insurance Regulatory concerns;
  - Determining the potential applicability of new Insurance Regulatory requirements;
  - Considering whether additional resources (i.e., grants, technical assistance, low-income designation) are available to assist management in addressing Insurance Regulatory compliance concerns;
  - Interviewing key officials to determine management’s level of expertise regarding, and attitude toward, Insurance Regulatory compliance;
  - Developing on-site procedures for evaluating Insurance Regulatory concerns;
  - Completing portions of scope workbook that pertain to Insurance Regulatory concerns; and
  - Updating scope workbook to document new information about Insurance Regulatory issues.
3. Time related to Consumer Regulatory Issues includes the time for tasks related to consumer regulations such as:
- Reviewing prior contact reports for previously cited noncompliance issues and regulatory violations related to Consumer Regulatory issues;
  - Reviewing scope workbook to become familiar with potential Consumer Regulatory concerns;

- Reviewing correspondence between contacts that addresses Consumer Regulatory concerns;
- Determining the potential applicability of new Consumer Regulatory requirements;
- Determining whether a Subject Matter Examiner could assist during the supervision process in addressing Consumer Regulatory compliance concerns;
- Considering whether additional resources (i.e., grants, technical assistance, low-income designation) are available to assist management in addressing Consumer Regulatory compliance concerns;
- Evaluating changes to the credit union’s product and service mix that could require an expanded review of Consumer Regulatory compliance;
- Interviewing key officials to determine management’s level of expertise regarding, and attitude toward, Consumer Regulatory compliance;
- Developing on-site procedures for evaluating Consumer Regulatory concerns;
- Completing portions of scope workbook that pertain to Consumer Regulatory concerns; and
- Updating scope workbook to document new information about Consumer Regulatory issues.

### B. Call Report Review

1. Time related to Insurance Issues includes the time required for tasks such as:
  - Determining if factors causing inaccuracies in Call Reports are symptoms of internal control weaknesses;
  - Reviewing Call Report trends for potential risk indicators;
2. Time related to Insurance Regulatory Issues includes the time for tasks related to Insurance Regulatory compliance such as:
  - Verifying the accuracy and timeliness of Call Reports filed by management.
3. Time related to Consumer Regulatory Issues while reviewing the Call Report is not applicable considering no consumer regulations are addressed in the Call Report.

### C. Supervisory Committee Review

1. Time related to Insurance Issues includes the time required for tasks such as:
  - Reviewing general internal controls and segregation of duties;
  - Evaluating if the supervisory committee serves as a legitimate “check” upon management activity; and
  - Determining whether supervisory committee is effective in correcting identified internal control weaknesses.
2. Time related to Insurance Regulatory Issues includes the time for tasks related to Insurance Regulatory compliance such as:
  - Ensuring the supervisory committee is carrying out its fiduciary responsibility to ensure member account verifications and annual audits are complete and timely and meeting the supervisory committee’s regulatory requirements.
  - Reviewing the actual documentation from the supervisory committee audit and member account verification.
3. Time related to Consumer Regulatory Issues includes the time for tasks such as:
  - Review of follow-up actions related to Consumer Regulatory violations.

#### D. Financial Analysis

1. Time related to Insurance Issues includes the time required for tasks such as:

- Reviewing the current financial trends; and
- Determining whether management has adequate controls and risk management systems in place.

2. Time related to Insurance Regulatory Issues includes the time for tasks such as:

- Reviewing general accounting procedures to ensure compliance with the Accounting Manual for Federal Credit Unions;
- Verifying that current financial statements reflect the balances in the general ledger;
- Determining that management is maintaining adequate subsidiary ledgers; and
- Testing the validity of delinquency computation and income accrual procedures.

3. Time related to Non-Insurance Issues is not applicable considering no consumer regulations are addressed during the review of this area.

#### E. Loan Analysis

1. Time related to Insurance Issues includes the time required for tasks such as:

- Reviewing loan underwriting procedures;
- Determining the risk associated with the product mix;
- Evaluating loan policies to determine if sound practices exist;
- Reviewing collection efforts for timeliness;
- Evaluating whether the level of the credit union's reserves is consistent with the loan products offered by the credit union.
- Assessing the controls management has over loan losses.

2. Time related to Insurance Regulatory Issues includes the time for tasks related to compliance with the following regulations:

- 701.21—Loans to Members and Lines of Credit to Members Assessing
- 702.22—Loan participation
- 722—Appraisals
- 723—Member Business Loans

3. Time related to Consumer Regulatory Issues includes the time for tasks such as:

- Evaluating compliance with consumer and mortgage compliance laws and regulations—Refer to listing under General Definitions; and
- Ensuring the written policies comply with all applicable lending regulations.

#### F. Investment Analysis

1. Time related to Insurance Issues includes the time required for tasks such as:

- Reviewing appropriateness of the investment portfolio and overall practices;
- Determining the adequacy of the internal controls related to investments;
- Assessing investment trends;
- Ensuring adequate safekeeping procedures are in place; and
- Evaluating management's effectiveness in addressing investment risks.

2. Time related to Insurance Regulatory Issues includes the time for tasks related to compliance with the following regulations:

- Reviewing the permissibility of the investments included in the portfolio—703—Investments and Deposit Activities; and

○ Reviewing the written investment policy to ensure the policy includes all elements discussed in the regulations.

3. Time related to Consumer Regulatory Issues is not applicable considering no consumer regulations are addressed in the review of investments.

#### G. Liquidity Analysis

1. Time related to Insurance Issues includes the time required for tasks such as:

- Determining whether the credit union has sufficient liquidity to cash needs for loan and share transactions; and
- Evaluating whether management has sound contingency plans for addressing unanticipated liquidity needs.
- Ensuring risk management processes (measuring, monitoring, controlling, and reporting) are appropriate for credit union.

2. Time related to Insurance Regulatory Issues includes the time for tasks related to compliance with the following:

- Ensuring management is complying with statutory borrowing limitations.

3. Time related to Consumer Regulatory Issues is not applicable considering no consumer regulations are addressed in the review of liquidity.

#### H. Asset Liability Management

1. Time related to Insurance Issues includes the time required for tasks such as:

- Determining if management has adequate controls in place and assigns clear responsibilities to address the credit union's overall exposure to interest rate risk;
- Reviewing the adequacy of the credit union's modeling and risk monitoring procedures; and
- Ensuring that management initiates corrective action when internal analysis identifies concerns relative to interest rate risk.

2. Time related to Insurance Regulatory Issues includes the time for tasks related to compliance with the following:

- Ensuring written asset liability management policies do not contain provisions that are inconsistent with regulations that apply to loans, investments, or shares.

3. Time related to Consumer Regulatory Issues is not applicable considering no consumer regulations are addressed in the review of asset liability management.

#### I. Compliance

1. Time related to Insurance Issues includes the time required for tasks such as:

- Determining whether any identified regulatory violations could cause the credit union to have financial risk exposure.

2. Time related to Insurance Regulatory Issues includes the time reviewing compliance with the following regulations:

- 701.21—Loans to Members and Lines of Credit to Members
- 701—Prompt Corrective Action
- 703—Investments and Deposit Activities
- 712—Credit Union Service Organizations
- 713—Fidelity Bond and Insurance Coverage
- 715—Supervisory Committee Audits and Verifications
- 722—Appraisals

○ 723—Member Business Loans

3. Time related to Consumer Regulatory Issues includes Assessing management's compliance with the consumer and mortgage compliance laws and regulations. This includes:

- Reg. B—Equal Credit Opportunity Act
- BSA—Bank Secrecy Act
- Reg. C—Home Mortgage Disclosure Act
- Reg. CC—Expedited Funds Availability
- COPPA—Children's Online Privacy

Protection Act

- Reg. D—Reserve Requirements
- Reg. E—Electronic Funds Transfer Act
- FACTA—Fair and Accurate Credit Transactions Act
- FCPR—Fair Credit Practice Rule
- FCRA—Fair Credit Reporting Act
- FDCPA—Fair Debt Collections Practices Act

Act

- FDPA—Flood Disaster Protection Act
- FHA—Fair Housing Act
- GLBA—Gramm-Leach Bliley Act
- HOEPA—Home Ownership and Equity

Protection Act

- HOPA—Home Owner's Protection Act
- Reg. M—Consumer Leasing
- OFAC—Office of Foreign Asset Control
- PCFI—Privacy of Consumer Financial Information

Information

- RFPA—Right to Financial Privacy Act
- SCRA—Service Members Civil Relief Act

Act

- Reg.—X Real Estate Settlement

Procedures Act

- Credit Card Act
- Unlawful Internet Gaming Enforcement Act

Act

- SAFE Act—Secure and Fair Enforcement for Mortgage Licensing Act
- Reg.—Z Truth in Lending
- Rules and Regulations Part 706—Credit Practices

Practices

- Rules and Regulations Part 707—Truth in Savings
- Rules and Regulations Part 717—Fair Credit Reporting

Act

#### J. Information Systems Technology

1. Time related to Insurance Issues includes the time required for tasks such as:

- Ensuring that the credit union's written policies contribute toward the establishment and maintenance of a system of sound internal controls; and
- Determining if weakness in the control structure presents any exposure to financial risks.

2. Time related to Insurance Regulatory Issues includes the time for tasks related to compliance with the following:

- Ensuring that all agreements with outside parties meet applicable legal requirements.

3. Time related to Consumer Regulatory Issues includes Assessing management's compliance with the following consumer regulations:

- Children's Online Privacy Protection Act (COPPA)
- Gramm-Leach-Bliley Act (GLBA) related to guidance on identity theft.

#### K. Management Analysis

1. Time related to Insurance Issues includes the time required for tasks such as:

- Reviewing planning and general business practices for overall soundness;
- Reviewing income/expense budget process and controls; and

- Assessing management's capabilities in implementing strategies to address risks.

2. Time related to Insurance Regulatory Issues includes the time for tasks related to compliance with the following:

- Reviewing compliance with Federal Credit Union Bylaws;
- Reviewing Board minutes to ensure meetings take place in accordance with the Federal Credit Union Act and Bylaws; and
- Ensuring that all written policies are consistent with applicable Insurance Regulatory laws and regulations.

3. Time related to Consumer Regulatory Issues includes the time for tasks such as:

- Ensuring that all consumer and mortgage written policies are consistent with applicable laws and regulations.

- Review of compliance with implementing corrective action related to regulatory violations associated with consumer and mortgage loans

- Ensuring that all written policies are consistent with applicable Consumer compliance laws and regulations.

*L. Contact Report/Joint Conference/Follow-Up Procedures*

1. Time related to Insurance Issues includes the time required for tasks such as:

- Communicating safety and soundness or risk management issues to credit union officials and employees during the exit interview process;

- Documenting supervision plans for monitoring safety and soundness concerns noted during an on-site contact;

- Discussing safety and soundness or risk management concerns with management during the joint conference;

- Preparing written reports that provide guidelines for correcting safety and soundness concerns;

- Drafting correspondence for the Regional Director's signature that discuss safety and soundness concerns;

- Preparing internal monitoring reports that assess management's progress in addressing safety and soundness or risk management issues; and

- Implementing administrative remedies designed to correct safety and soundness or risk management concerns.

2. Time related to Insurance Regulatory Issues includes the time for tasks related to compliance with the following:

- Communicating regulatory violations related to Insurance Regulatory issues;

- Documenting supervision plans for monitoring for Insurance Regulatory violations noted during an on-site contact;

- Discussing Insurance Regulatory concerns with management during the joint conference;

- Preparing written reports that provide guidelines for complying with Insurance Regulatory issues; and

- Drafting correspondence for the Regional Director's signature that discuss Insurance Regulatory concerns.

3. Time related to Consumer Regulatory Issues includes the time for tasks such as:

- Communicating regulatory violations related to consumer and mortgage loans

- Documenting supervision plans for monitoring Consumer Regulatory violations noted during an on-site contact;

- Discussing Consumer Regulatory concerns with management during the joint conference;

- Preparing written reports that provide guidelines for complying with consumer regulations that do not specifically pertain to insurance-related concerns; and

- Drafting correspondence for the Regional Director's signature that discuss Consumer Regulatory concerns.

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