National Credit Union Administration

BOARD ACTION MEMORANDUM

TO: NCUA Board **DATE:** November 16, 2015

FROM: Chief Financial Officer **SUBJ:** 2016 Operating Fee

ACTION REQUESTED: Delegate to the Chief Financial Officer authority to administer the methodology approved by the Board for calculating the operating fees and setting the fee schedule each budget cycle, beginning with the rate for 2016.

DATE ACTION REQUESTED: November 19, 2015

OTHER OFFICES CONSULTED: Office of the Executive Director, Office of Examination and Insurance, Office of National Examination and Supervision, and Office of the Chief Economist

VIEWS OF OTHER OFFICES CONSULTED: Concur

BUDGET IMPACT: The ability of NCUA to carry out its planned budget and fulfill its statutory mission is dependent upon an adequate level of operating revenue.

RESPONSIBLE STAFF MEMBER: Chief Financial Officer Rendell L. Jones

BACKGROUND: Section 105 of the *Federal Credit Union Act* provides the NCUA Board with the authority to assess an operating fee on federal credit unions to finance expenses incurred in carrying out its responsibilities under the Act. Pursuant to the Act, the Board is to determine the period for the fee, the method of assessment, and the date of payment. The Board must give consideration to its budget and the ability of federal credit unions to pay in determining the fee.

SUMMARY: The operating fee will be assessed to federal credit unions based on estimated year-end assets. Credit unions with assets less than $1 million will not be assessed an operating fee. To set the assessment scale for 2016, federal credit union asset growth is projected to December 31, 2015. Based on the June 30, 2015, Call Report data, the annual growth is projected to be 4.75 percent at year end. The asset level dividing points will be increased by this same projected growth rate. Assets are indexed annually to preserve the same relative relationship of the scale to the applicable asset base.

To establish the rate applicable to each asset level, a number of factors outlined in Attachment 1, result in an average operating fee rate decrease of 0.47 percent for natural-person federal credit unions. Among these considerations was the July Board action to reduce the 2015 operating budget by $1.3 million. This reduction to cash needs is consistent with NCUA policy for the Operating Fund to maintain approximately a one-month reserve for contingencies.

The corporate federal credit union rate scale remains unchanged from prior years. Attachment 2 shows the proposed operating fee scale.

OPERATING FEE METHODOLOGY: The overhead transfer rate (OTR) is designed to cover NCUA's cost of examining and supervising the risk to the Share Insurance Fund posed by all federally insured credit unions, as well as the cost of administering the Fund. The OTR represents the percentage of the agency's Operating Budget paid for by transfers from the Share Insurance Fund, based on contributions from federal credit unions and federally insured state-chartered credit unions. The federal credit union operating fee covers the portion of the agency's Operating Budget that is *not* covered by the OTR—that is, operational costs for the regulatory (non-insurance) related aspects of operating the agency.

The first step in determining the aggregate operating fee amount requirement is removing the OTR amount and other income (e.g. interest income, rents, publication sales) from the proposed Operating Budget. For 2016, the proposed Operating Budget is $290.9 million.

Second, the net balance (line five) is adjusted for cash and non-cash needs. Cash needs include additions for capital acquisitions and the repayment of the King Street Station note payable. Non-cash needs include deductions for accrued annual leave and depreciation. The Operating Fund is required to maintain sufficient cash reserves as determined by the Board. For 2015, the cash reserve was determined during the mid-session review.

Third, the total budgeted operating fee requirements on line 11 represent operating fees for both natural-person federal credit unions, and corporate federal credit unions. The natural-person federal credit union operating fee requirement is determined by deducting the corporate federal credit union operating fees from the total budget operating fee requirements (line 13).

Next, the current operating fee schedule is updated with the projected federal credit union asset growth rate. The assets are indexed annually to preserve the same relative relationship of the scale to the applicable asset base. The December 31 year-end federal credit union assets are projected on line 14 using the estimated growth rate. The estimated growth rate of 4.75 percent is used to adjust the 2015 operating fee schedule. For 2016, since the estimated collections of $80.8 million are greater the planned Operating Budget requirement of $80.4 million, the average rate reduction of 0.47 percent will be reflected in the revised operating fee schedule. Attachment 3 includes an illustrated outline of the calculation methodology.

Request for Comments on the Operating Fee Methodology

Chairman Matz has publicly indicated she plans to ask the NCUA Board to vote at its January 2016 open meeting to publish the current operating fee methodology in the *Federal Register* for public comment, and periodically thereafter in conjunction with NCUA's Strategic Plan. Under the anticipated comment process, the NCUA Board would analyze the comments and determine whether or not to adjust the methodology. With this process, NCUA would also seek prior public comment on any future changes to the operating fee methodology, and any changes would require a vote of the NCUA Board.

However, there would no longer be a need for staff to bring the operating fee schedule and scale resulting from the operating fee calculation to the NCUA Board annually for approval. Instead, through approval of this Board Action Memorandum, the Board will delegate to the Chief Financial Officer the authority to administer the Board-approved methodology, and to set the operating fees as calculated per the approved methodology each annual budget cycle beginning with the rate for 2016. Each year NCUA will post on its website the operating fee calculation.

RECOMMENDED ACTION: It is recommended that the NCUA Board approve the following items related to the operating fee to be implemented for the 2016 assessment cycle:

1. Delegate authority to the Chief Financial Officer to administer the methodology approved by the Board for calculating the operating fees and to set the fee schedule as calculated per the approved methodology outlined in Attachment 3 beginning with 2016.

2. Increase the asset level dividing points for the natural-person federal credit union operating fee scale by 4.75 percent, which is equal to the estimated asset growth.

3. Decrease the natural-person federal credit union operating fee rates by 0.47 percent, which is equal to the rate adjustment indicated on Attachment 1.

4. Require the Operating Fund to maintain sufficient cash reserves equal to no less than one month of expenses plus any contingencies.

5. Collect 2016 operating fees by Friday, April 15, 2016.

ATTACHMENTS:
(1) 2016 Operating Fee Requirements Schedule
(2) 2016 Operating Fee Scale
(3) Operating Fee Methodology

PROJECTED FISCAL YEAR 2016 OPERATING FEE REQUIREMENTS			
	($ in millions)		2016
1	**Proposed Operating Budget**		**$ 290.916**
2	Overhead Transfer Rate	**73.14%**	$ (212.776)
3	Interest Income		$ (0.014)
4	Miscellaneous (rents, publication fees, FOIA fees)		$ (1.130)
5	**Net** (sum lines 1 - 4)		**$ 76.996**
6	Operating Fund Mid-Session return adjustment		$ (1.335)
7	Accrued Annual Leave (based on historical annual increase)		$ (1.000)
8	Depreciation (building, leasehold, equipment)		$ (5.500)
9	Capital Acquisitions		$ 10.069
10	Payment of King Street Note Payable (scheduled principal payments)		$ 1.420
11	**Budgeted Operating Fee/Capital Requirements** (sum lines 5 -10)		**$ 80.650**
12	Corporate Federal CU Operating Fees		$ (0.250)
13	**Natural Person FCU Operating Fees Required** (sum lines 11 -12)		**$ 80.400**
14	Fees projected with Asset Growth of **4.75%**		$ (80.781)
15	**Difference** (lines 13 & 14)		**$ (0.381)**
16	**Average Rate Adjustment Indicated** (line 15 divided by line 14)		**-0.47%**

PROPOSED 2016 OPERATING FEE SCALE

2015 Natural Person Federal Credit Union Scale

Asset Level		Operating Fee Assessment				
$0	$1,000,000	$0.00				
$1,000,000	$1,217,346,609	$0.00	+ 0.00018284	X total assets over	$0.00	
$1,217,346,609	$3,683,672,549	$222,579.65	+ 0.00005329	X total assets over	$1,217,346,609	
$3,683,672,549	and over	$354,010.16	+ 0.00001779	X total assets over	$3,683,672,549	

2016 (Proposed) Natural Person Federal Credit Union Scale

Projected FCU asset growth rate	4.75%	Change in asset level dividing points
Operating fee rate change	-0.47%	Change in assessment rate percentages

Asset Level		Operating Fee Assessment				
$0	$1,000,000	$0.00				
$1,000,000	$1,275,170,573	$0.00	+ 0.00018198	X total assets over	$0.00	
$1,275,170,573	$3,858,646,995	$232,055.54	+ 0.00005304	X total assets over	$1,275,170,573	
$3,858,646,995	and over	$369,083.13	+ 0.00001771	X total assets over	$3,858,646,995	

FY2016 (Proposed) Corporate Federal Credit Union Scale

Asset Level		Operating Fee Assessment				
$50,000,000	$100,000,000	$10,593.90	+ 0.00019870	X total assets over	$50,000,000	
$100,000,000	and over	$20,528.90	+ 0.00001230	X total assets over	$100,000,000	

OPERATING FEE METHODOLOGY

A: Attachment 1 explanation:

	Natural Person Federal Credit Union Operating Fee Calculation Factors and Explanation	Calculation Formula
1	**Proposed Annual Operating Fund Budget** amount determines the baseline fee requirement.	
2	**Overhead Transfer Rate** calculated from the examiner time survey results, determines the amount of the budget to be reimbursed by the Share Insurance Fund. This amount is subtracted from the proposed budget amount.	OTR% x - 1
3	**Interest Income** projected for the year is estimated based on the latest financial statements, and is subtracted from the budget.	
4	**Miscellaneous** (rents, publication fees, FOIA fees) is estimated based on the latest financial statements, and is subtracted from the budget.	
5	**Net** Adjustment to Budget	Sum lines 1 - 4
6	Reduction of any **Operating Fund Mid-Session return** adjustment	*reduce cash collections*
7	Reduction of Accrued Annual Leave (based on historical annual amounts)	*reduce cash collections*
8	Depreciation (e. g. building, leasehold, and equipment estimate)	*reduce cash collections*
9	New investment projects requested in capital budget	*increase cash collections*
10	Annual payment of King Street Station Note Payable (scheduled principal payments)	*increase cash collections*
11	**Budgeted Operating Fee/Capital Requirements**	Sum lines 5 - 10
12	Corporate federal credit union fees are collected and subtracted from natural person credit union fee requirement (based on corporate credit union scale)	
13	**Natural Person Federal Credit Union Operating Fees Required**	Sum lines 11 - 12
14	**Estimated Fee collections** for end of year (December 31). This projection uses the current operating fee scale with estimated asset growth from an internal NCUA economic forecasting model . Based on the June 30 assets, the year end assets are projected using the estimated asset growth to calculate fee collection estimates for the following year. The operating fee assessment is applied against the year end credit union asset value.	
15	Difference between estimated operating fee collections and projected collections based on estimated asset growth.	Difference between lines 13 and 14
16	**Average Rate Adjustment Indicated** (line 15 divided by line 14)	Line 15 divided by 14

B: Attachment 2 explanation:

Projected federal credit union asset growth = change in asset level dividing points. Every year, the asset level scale is adjusted by the same percentage as the estimated growth rate.	Percent growth noted on line 14
Operating fee rate change = Change in assessment rate percentage	same as Line 16
The **Corporate Credit Union scale** remains unchanged from year to year as the number of CCUs and the collections continue to decrease to an immaterial amount.	