



BOARD ACTION MEMORANDUM

TO: NCUA Board **DATE:** November 15, 2012
FROM: Chief Financial Officer **SUBJ:** 2013 Operating Fee

ACTION REQUESTED: Board approval of the operating fee structure and the assessment scale for 2013.

DATE ACTION REQUESTED: November 15, 2012

OTHER OFFICES CONSULTED: Office of the Executive Director, Office of Examination and Insurance, Office of Corporate Credit Unions, and Office of the Chief Economist

VIEWS OF OTHER OFFICES CONSULTED: Concur

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

RESPONSIBLE STAFF MEMBER: Chief Financial Officer Mary Ann Woodson

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. On an annual basis 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 to the ability of federal credit unions to pay when determining the fee.

SUMMARY: The operating fee will be assessed to federal credit unions based on December 31, 2012, year-end assets. Credit unions with assets less than \$1 million will not be assessed an operating fee. To set the assessment scale for 2013, federal credit union asset growth is projected to December 31, 2012. Based on the September 30, 2012, 5300 data, the annual growth is estimated to be 6.5 percent at year end. The asset level dividing points will be increased by this same average annualized growth rate. Assets are indexed annually to preserve the same relative relationship of the scale to the asset base to which it is applied.

In establishing the rate to be applied to each asset level, a number of factors, as shown in attachment 1, resulted in an operating fee rate increase of 0.24 percent for natural person federal credit unions. Among these considerations was the July Board action to reduce the 2012 operating budget by \$2 million. Further analysis of projected 2012 spending supports an additional \$500,000 reduction, for a total decrease of \$2.5 million, as shown in item 7 of attachment 1. This reduction to cash needs considers the

operating fund's policy to hold a one-month reserve for contingencies.

The corporate federal credit union rate scale remains unchanged. A portion of the cost of the Office of Corporate Credit Unions (OCCU), or \$3.06 million, is transferred to the National Credit Union Share Insurance Fund. This represents the cost of OCCU which is not covered by the overhead transfer rate and the corporate federal operating fees as shown below:

Cost of the Office of Corporate Credit Unions.....	\$9.04 million
Less: Overhead transfer rate 59.1%.....	\$5.34 million
Less: Corporate federal credit union operating fees.....	<u>\$0.64 million</u>
Amount transferred to National Credit Union Share Insurance Fund.....	\$3.06 million

Attachment 2 shows the proposed operating fee scale.

RECOMMENDED ACTION: It is recommended that the NCUA Board approve the following items related to the operating fee to be implemented for the 2013 assessment cycle:

1. Increase the asset level dividing points for the natural person federal credit union operating fee scale by 6.5 percent, which is equal to the estimated asset growth.
2. Eliminate operating fees for federal credit unions with assets less than \$1 million.
3. Increase the natural person federal credit union operating fee rates by 0.24 percent, which is equal to the rate adjustment indicated on attachment 1.
4. Require the Operating Fund to maintain sufficient cash reserves equal to one month of expenses plus any contingencies.
5. Collect operating fees by Tuesday, April 30, 2013.

Chief Financial Officer

Attachments

PROJECTED FISCAL YEAR 2013 OPERATING FEE REQUIREMENTS

(amounts in millions)

1	Proposed Operating Budget	\$ 251.38
2	Overhead Transfer Rate 59.1%	(148.57)
3	Corporate Credit Union Costs Transferred to NCUSIF	(3.06)
4	Interest Income	(0.04)
5	Miscellaneous (rents, publication fees, FOIA fees)	(1.40)
6	Net	\$ 98.31
7	Operating Fund Cash Balance Adjustment	(2.50)
8	Accrued Annual Leave (based on historical annual increase)	(0.70)
9	Depreciation (building, leasehold, equipment)	(4.29)
10	Capital Acquisitions	1.43
11	Payment of King Street Note Payable (scheduled principal payments)	1.42
12	Budgeted Operating Fee Requirements	\$ 93.67
13	Corporate Federal CU Operating Fees	(0.64)
14	Natural Person FCU Operating Fees Required	\$ 93.03
15	Fees projected with Asset Growth of 6.50%	(92.81)
16	Difference	\$ 0.22
17	Rate Adjustment Indicated (line 16 divided by line 15)	0.24%

PROPOSED 2013 OPERATING FEE SCALE

FY2012 Natural Person Federal Credit Union Scale

<u>Asset Level</u>		<u>Operating Fee Assessment</u>		
\$0	\$500,000	\$0.00		
\$500,000	\$750,000	\$100.00	+ 0.00000000	X total assets over \$0.00
\$750,000	\$1,047,766,655	\$0.00	+ 0.00022556	X total assets over \$0.00
\$1,047,766,655	\$3,170,526,157	\$236,334.25	+ 0.00006574	X total assets over \$1,047,766,655
\$3,170,526,157	and over	\$375,884.46	+ 0.00002195	X total assets over \$3,170,526,157

FY2013 (Proposed) Natural Person Federal Credit Union Scale

Projected FCU asset growth rate	6.50%	Change in asset level dividing points
Operating fee rate change	0.24%	Change in assessment rate percentages

<u>Asset Level</u>		<u>Operating Fee Assessment</u>		
\$0	\$1,000,000	\$0.00		
\$1,000,000	\$1,115,871,488	\$0.00	+ 0.00022610	X total assets over \$0.00
\$1,115,871,488	\$3,376,610,357	\$252,298.54	+ 0.00006590	X total assets over \$1,115,871,488
\$3,376,610,357	and over	\$401,281.23	+ 0.00002200	X total assets over \$3,376,610,357

FY2013 (Proposed) Corporate Federal Credit Union Scale

<u>Asset Level</u>		<u>Operating Fee Assessment</u>		
\$5,000,000	\$20,000,000	\$1,130.50	+ 0.00022340	X total assets over \$5,000,000
\$20,000,000	\$50,000,000	\$4,481.50	+ 0.00021110	X total assets over \$20,000,000
\$50,000,000	\$100,000,000	\$10,814.50	+ 0.00019870	X total assets over \$50,000,000
\$100,000,000	and over	\$20,749.50	+ 0.00001230	X total assets over \$100,000,000