

MS. MATZ: All in favor say "Aye."

MS. HYLAND: "Aye."

MR. FRYZEL: "Aye."

MRS. MATZ: "Aye." The ayes have it. The motion passes. Thank you very much and again, thank your staff for working right up to the last minute as the numbers were changing until last night. So thank you very much.

MS. WOODSON: Thank you.

MS. MATZ: The next issue is NCUA's Overhead Transfer Rate. Staff presenting: John Kutchey, Deputy Director, Office of Examination and Insurance, and Cherie Freed, Loss/Risk Analysis Officer. Good morning. Welcome.

MR. KUTCHEY: Good morning, Chairman Matz, Board Member Hyland, Board Member Fryzel. Cherie and I are here this morning to present the 2010 overhead transfer rate recommendation. I will provide a brief overview of the methodology that we use to compute the rate and Cherie will then discuss the time survey process, which is one of the key components to the calculation of the rate.

In 2003, the NCUA Board approved the method we use today to calculate the overhead transfer rate.

Since that time, the Board has set the rate annually based upon the results of approved methodology. The process was designed to equitably distribute cost between NCUA's two roles as regulator of federally chartered credit unions and as the insurer of shares in all federally insured credit unions.

The formula incorporates the following key factors, including the results of the ongoing time survey that were completed between June 2008 and May 2009, NCUA's 2010 recently approved Resource Workload Budget and financial budget, the distribution of insured shares between federal credit unions and federally insured state chartered credit unions, and finally, the value of the insurance-related work conducted by state regulators.

The approved method has provided a consistent means for distributing costs between federal credit unions and federally insured state chartered credit unions by taking all of these factors into account. At this time, Cherie will briefly discuss the items which went into the calculation for 2010.

MS. FREED: Thank you. The exam time survey process is a key factor that does go into the formula

to calculate the overhead transfer rate. We use all principal examiners in randomly selected supervisory groups across our five regions. Twenty-five principal examiners participated in the 2008-2009 cycle and these examiners submitted a total of 279 surveys for examination and supervision. For the time survey ending May 2009, examiners reported spending 67.27% of supervision time on insurance-related procedures. This is an increase over the May 2008 results of 63.87%. And this is due, in part, to the increased emphasis on insurance issues such as the financial analysis, evaluating risks and evaluating management's efforts in resolving the financial and operational issues which have emerged in credit unions. Examiners are spending a higher percentage of time on safety and soundness issues. This is consistent with the events that are occurring in the current financial environment.

The formula also includes 50,000 additional hours budgeted for exam and supervision work in credit unions for the coming year. The budget changes which were recently approved and the slight change that has occurred between the insured share distribution between federal and federally insured state-chartered

credit unions and the imputed value of insurance-related work completed by the state regulators. Included in the 50,000 hours is 35,000 hours of work just specifically on federally insured state chartered credit unions. After factoring these changes into the approved formula, the overhead transfer rate increased from 53.8 for 2009 to the recommended level of 57.2 for 2010. And with that, I would be happy to answer any of your questions.

MS. MATZ: Thank you very much. If I am not mistaken, the formula for calculating the overhead transfer rate has changed since the last time I was on the Board. Could you explain briefly [laughter], what the change is?

MS. FREED: Actually, the formula and the methodology have not changed. What has actually changed is a lot of the components and as offices have moved or how we have done business within the agency, those have to continue to be updated within the methodology. We have automated the exam time survey to try to get more accurate and timeliness information and the current formula has continued to show what we expect in the changing environment.

MS. MATZ: The change, of course, is a result of the fact that we have so many credit unions experiencing safety and soundness issues and therefore there are more insurance-related concerns and the overhead transfer rate reflects that increase.

MS. FREED: Yes. And since your first term, during that time period we had a lot of consumer BSA issues and things like that and, over the past year, we have now moved more to safety and soundness concerns within the credit union industry.

MS. MATZ: So the increase, of course, is a reflection of the times that we are living in.

MS. FREED: Yes.

MR. KUTCHEY: We did predict this. We projected this for 2010 after we delivered the same similar presentation in 2009 with the expectation that safety and soundness issues would increase. So it is trending. The overhead transfer rate is trending in the direction that we expected given the conditions in the economy.

MS. MATZ: Do you want to take a stab at 2011?

MS. FREED: It will go up and we are also seeing insured share distribution is starting to

increase in state chartered credit unions. So we are seeing a lot of the trends are moving to more where we will be doing more insurance-related work as an agency.

MS. MATZ: Okay. Any questions, Ms. Hyland?

MS. HYLAND: Thank you, Chairman. Yes, a few. You indicated that we had about 25 examiners participate in the time survey. What would be the outcome if we expanded the number of folks? Because we have, what, about 500, 600 examiners or so? What happens if we expand that group?

MS. FREED: We try to look and we try to get a statistically valid number of surveys each year to verify that we are within the range. And we try to balance as an agency the time that the examiner would have to spend asking most of our folks, and again, we focus just on principal examiners because we feel they have the most ability to look at what is actually insurance-related versus regulatory. So we try to balance the hours we would spend to what the results would be. And in looking back and looking at how it has trended, we do not feel that increasing it would. We have had to increase the number of SE groups that

we have used. So we do look at it every year and we will continue to evaluate it each cycle.

MS. HYLAND: Okay, great. And that is a good segue because I know the last time you were at the Board table we talked about reviewing the methodology, although it has been awhile, as the Chairman noted. We actually did do a review of the methodology and how we conduct the overhead transfer rate analysis. The last time we talked about an upcoming review of that methodology. Do you want to update us on where that is and what it is and when it might happen?

MS. FREED: Yes. As you indicated, we have done an internal review and we tried to look at how we could do it better but we are trying to continue to look forward-looking. What will happen and this is a forward-looking type calculation. Since the last Board meeting and what was approved in the 2009 budget was to have an external review done. We have gone out with a statement of work and we expect to sign a contract here in 2009 and we expect to have it done in the first half of 2010 and we will present the report and any recommended changes to the Board in 2010.

MS. HYLAND: That is great. Thank you. No further questions.

MS. MATZ: Thank you.

MR. FRYZEL: I have no questions.

MS. MATZ: Do I hear a motion?

MS. HYLAND: Yes. I move that the Board establish an overhead transfer rate of 57.2% for 2010.

MR. FRYZEL: Second.

MS. MATZ: All in favor say "Aye."

MS. HYLAND: "Aye."

MR. FRYZEL: "Aye."

MRS. MATZ: "Aye." The motion passes. And thank you for your hard work on this. Thank you very much. The next item is NCUA's Operating Fee Scale. Staff presenting Chris McGrath, Budget Analyst, Office of the Chief Financial Officer. Welcome Chris.

MR. MCGRATH: The purpose of this action is to complete the final piece of the 2010 budget. That is the funding of the budget by federal credit unions through the operating fee. This is the final piece because once the budget and the overhead transfer rate are approved, which you have done, the next step is to drop in those amounts into attachment 1, which we will go through shortly, and determine what the change will