



**NCUA**  
National Credit Union Administration

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Office of the Chief Financial Officer



# 2019 – 2020 PROPOSED BUDGET

Staff Draft

Public Briefing  
October 17, 2018



*This presentation contains estimates that are pre-decisional and subject to change.*

# Agenda

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- **Key Accomplishments**
- **The NCUA's Draft 2019-2020 Budget**
  - Strategic Context
  - Organizational Changes
  - Budget Trends
  - Operating Budget
  - Capital Budget
  - Share Insurance Fund Administrative Budget
  - Financing the NCUA Programs
- **Conclusion**

# Key Accomplishments

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- **Initiatives aimed at increasing agency efficiency and reducing examination and reporting burdens**
  - Exam flexibility initiative
  - Enterprise Solution Modernization program
  - Call report modernization project
  
- **Initiatives aimed at increasing agency effectiveness in maintaining safety and soundness of the credit union system and the Share Insurance Fund**
  - Improved risk identification techniques
  - Increased use of specialists
  - Expanded examiner training and guidance
  - Enhanced examination quality control

# Key Accomplishments

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- **Implementation of the Economic Growth, Regulatory Relief, and Consumer Protection Act**
  - Member business lending (loans for non-primary residences)
  - Exemption from appraisals in rural areas
  - Budget transparency and public hearing
  - Home Mortgage Disclosure Act
- **Efforts to reduce regulatory and examination burden**
  - Reform Agenda with 40 regulatory relief recommendations (9 completed & initiated 5 others)
  - Capital (risk-based capital, stress testing, CCU standards, alternative capital)
  - Additional Flexibility in Credit Union Lending (payday alternative loan program, maturity limits, and maximum loan rate ceiling)
- **Distributed \$736M of SIF dividends for 5,700 Credit Unions**

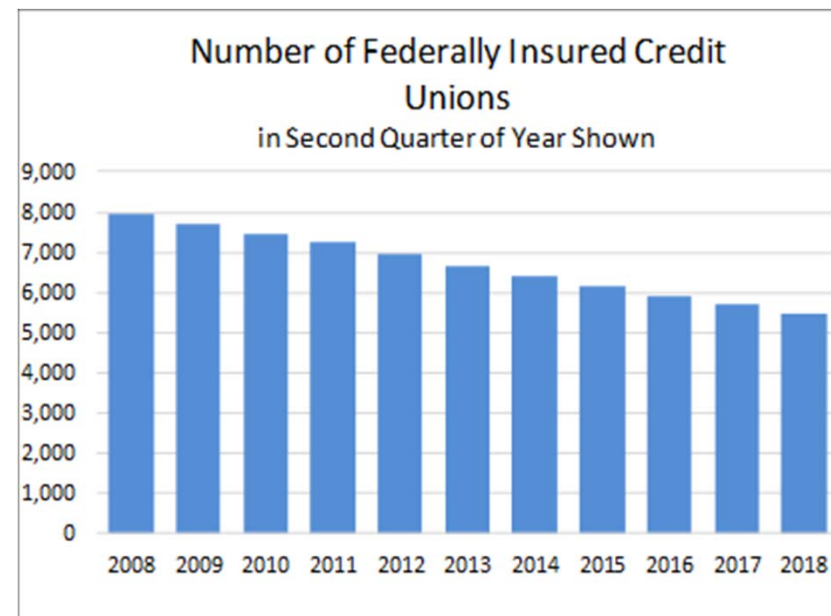
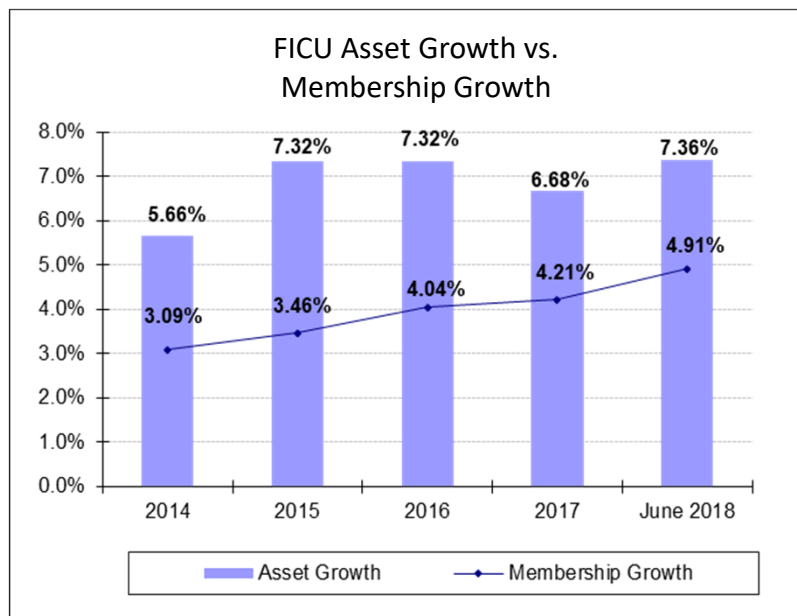
# 2019-2020 Budget: Strategic Context

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- **The NCUA's 2018 – 2022 Strategic Goals underlie the 2019 – 2020 Budget**
  - Ensure a safe and sound credit union system
  - Provide a regulatory framework that is transparent, efficient, and improves consumer access; and
  - Maximize organizational performance to enable mission success.
  
- **Developments that may affect the credit union system**
  - Credit Union responses to a changing economic environment
  - Technology changes and consumers' use of financial institutions
  - Increasing competition and consolidation in the financial services sector
  - Demographic shifts, a changing U.S. population, and generational preferences for credit union services

# Strategic Context: Credit Union System

- Credit Union membership and assets are growing while the total number of credit unions is declining.



- Consolidation and the growth of large credit unions can result in more system complexity.

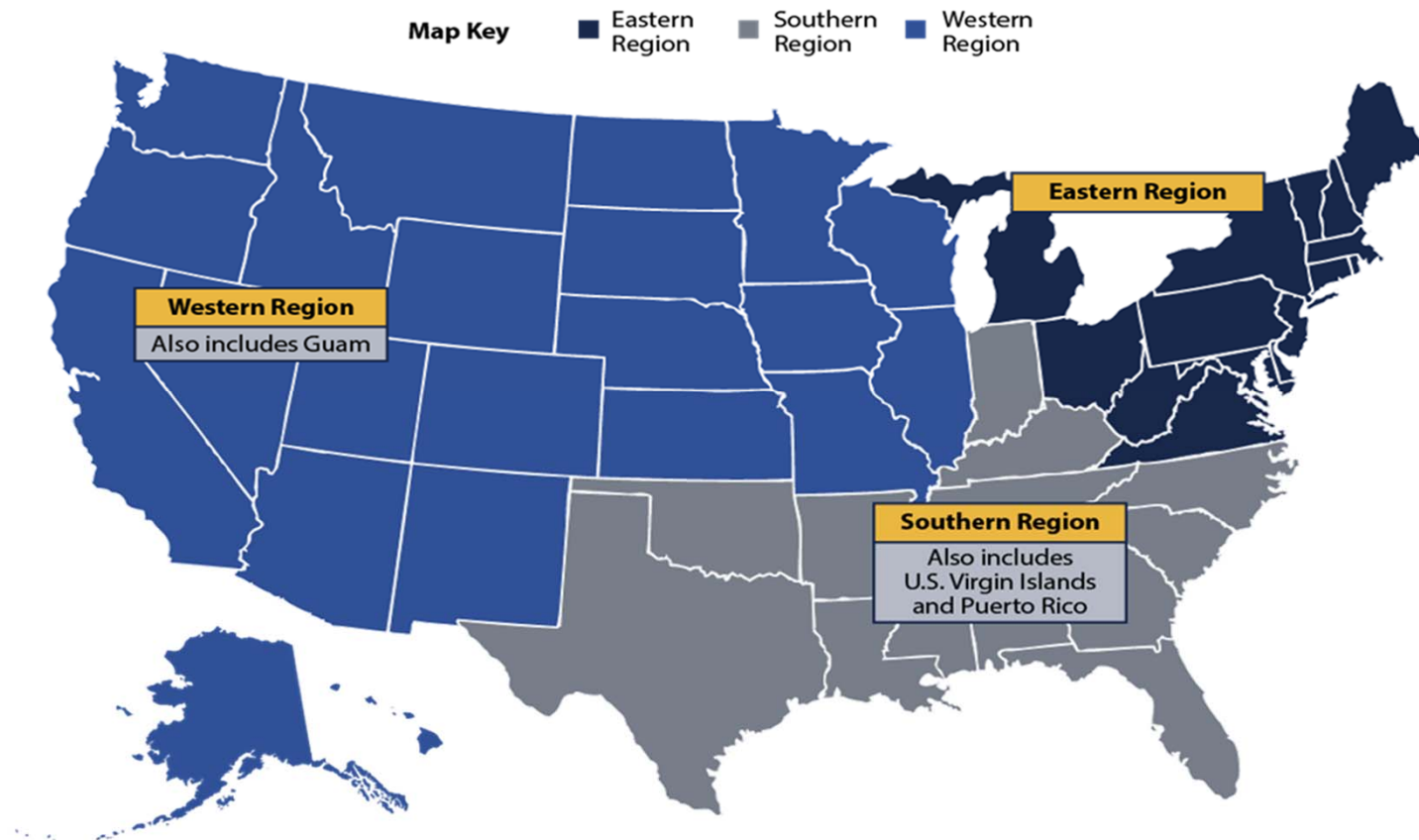
# Organizational Changes

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- **Budget reflects the new agency structure**
  - Three new regional offices will result in closure of the NCUA's Atlanta, GA and Albany, NY locations and an 80% reduction in leased office space:
    - Eastern – Alexandria, VA, to be physically co-located in NCUA central office
    - Southern – Austin, TX
    - Western – Tempe, AZ
  - Asset Management Assistance Center (AMAC) now part of the Southern region
- **Budget supports modernizing the examinations process**
  - Flexible Examination Program (FLEX)
  - ONES Data-Driven Supervision
  - Shared NCUA-FISCU examinations
  - Enterprise Solutions Modernization

# New NCUA Regional Structure

NCUA Regional Structure as of January 2019

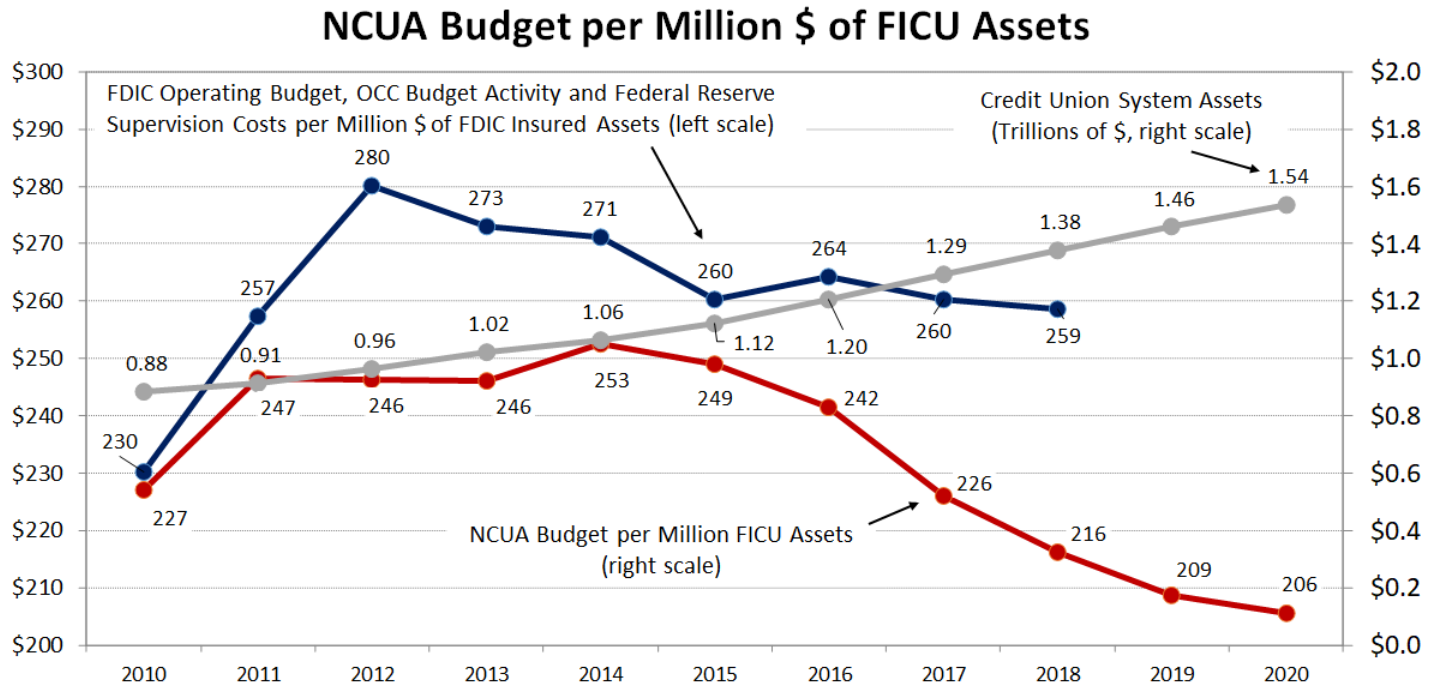


\*Southern Region also includes the Asset Management and Assistance Center



# Budget Trends

- The NCUA's operational efficiency has improved relative to the size of the credit union system

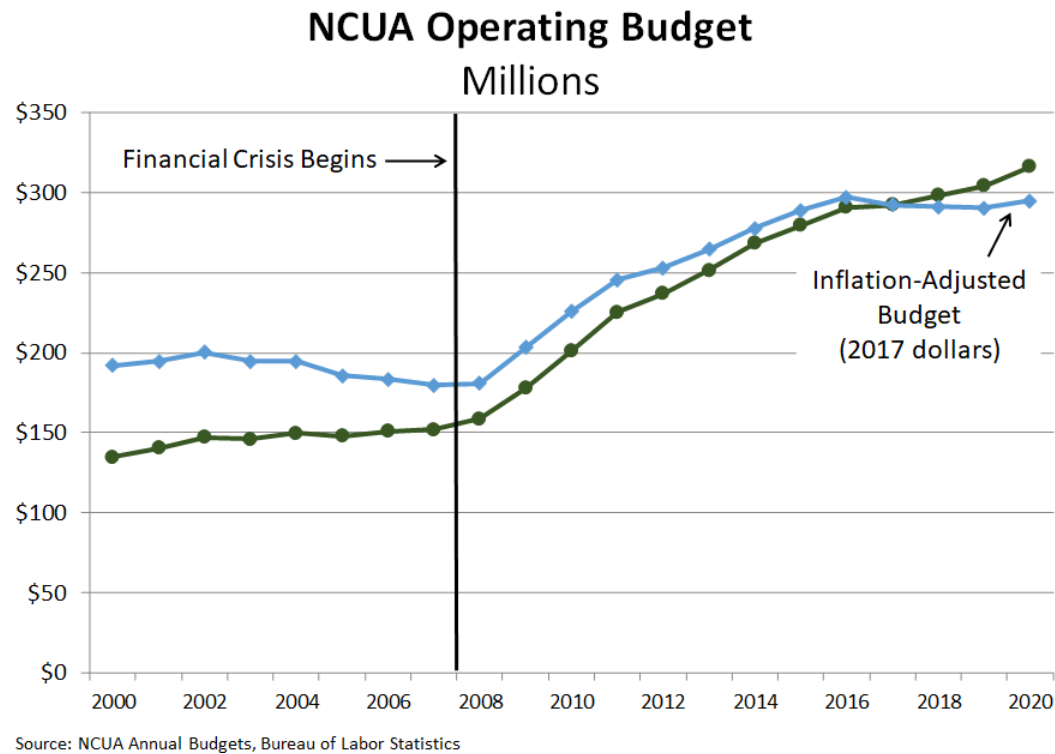


Source: NCUA Annual Budgets, Call Reports, FDIC, OCC, and Federal Reserve financial reports  
 \*Budget per million \$ of FICU assets is calculated as the fiscal year's budget divided by the previous year's end-of-year assets (e.g. - FY2020 budget (\$316M) / projected FICU assets as of 2019Q4 (\$1.537T) = \$206 of NCUA budget per \$1M in FICU assets ).

(NCUA budget (red line) is a decreasing share of FICU assets (gray line))

# Operating Budget Trends

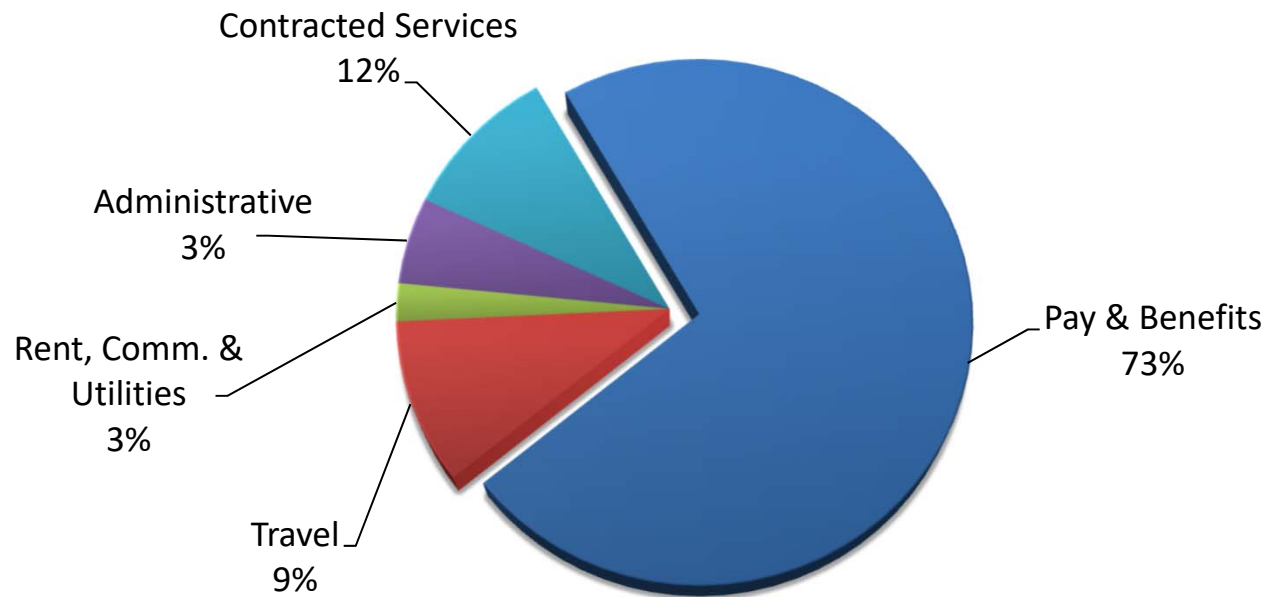
- The 2019 Operating Budget, when adjusted for inflation, decreases 0.2 percent compared to 2018



(NCUA budget in nominal dollars (green line) and real dollars (blue line))

# 2019 Operating Budget Summary

(\$ millions)	2018 Board Approved Budget	2019 Draft Budget	\$ Change	% Change
Budget	\$298.1	\$304.4	\$6.3	2.1%
Positions	1,183	1,173	-10	-0.8%



# 2019 Operating Budget Categories

Budget Category (\$ millions)	2018 Board Approved Budget	2019 Draft Budget	\$ Change	% Change
Employee Pay	\$158.8	\$159.7	\$0.9	0.5%
Employee Benefits	61.9	63.1	1.3	2.1%
Total Pay & Benefits	220.7	222.8	2.1	1.0%
Travel	26.4	26.8	0.3	1.2%
Rent/Comm./Utilities	8.5	8.0	-0.4	-5.2%
Administrative	7.5	8.7	1.2	16.0%
Contracted Services	35.0	38.1	3.1	8.9%
<b>Total, Operating Budget</b>	<b>\$298.1</b>	<b>\$304.4</b>	<b>\$6.3</b>	<b>2.1%</b>

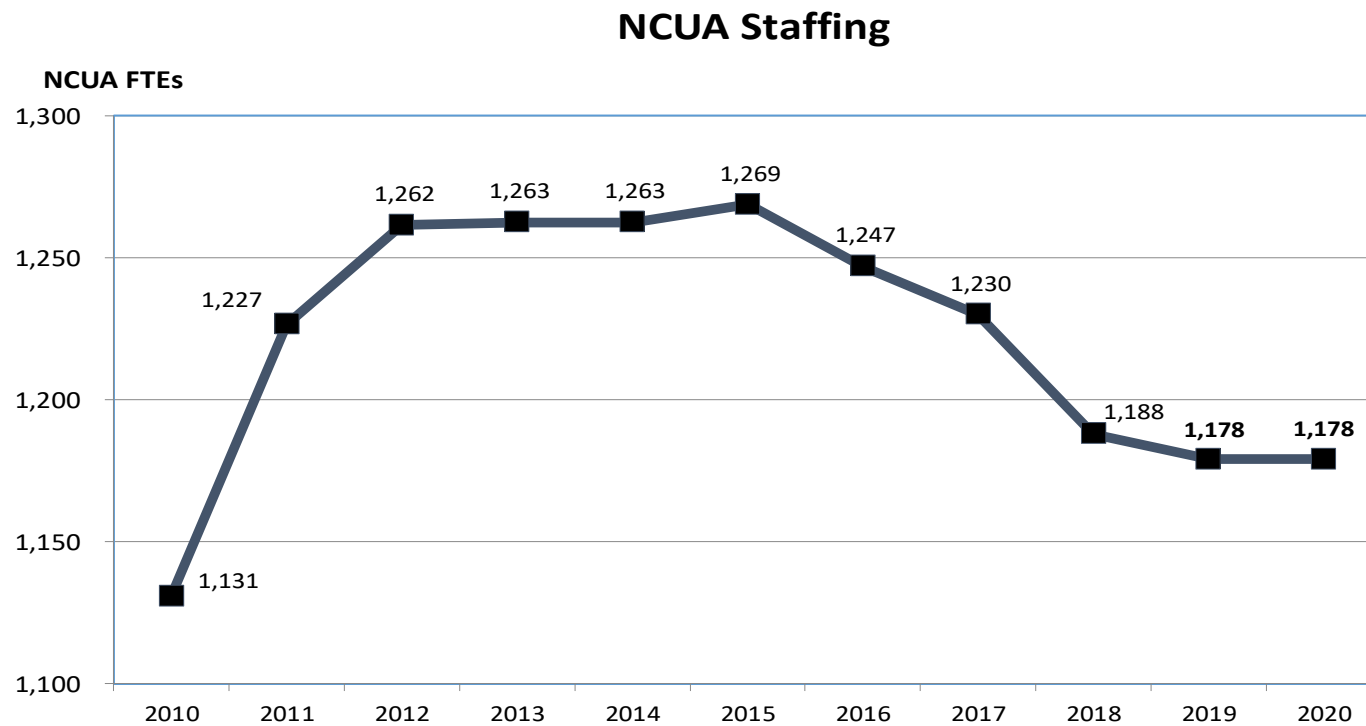
# Pay and Benefits

(\$ millions)	2018	2019	Change 2018 to 2019	% Change 2019
Budget	\$ 220.7	\$ 222.8	\$ 2.1	1.0%

- Increases to employee pay are required by law to “*maintain comparability with other federal bank regulatory agencies*” (Federal Credit Union Act)
  - Collective Bargaining Agreement (CBA) stipulates an agency-wide average merit increase of three percent
  - Locality pay adjustment ranges from zero to three percent, set by the President’s Pay Agent
- General pay increases were discontinued for 2019 CBA
- Personnel benefits include mandatory employer contributions for Social Security, Medicare, retirement, health insurance, and workers compensation

# Personnel Trends

- The budget supports 1,178 positions, a decrease of ten from the 2018 authorized level of 1,188



# Travel

(\$ millions)	2018	2019	Change 2018 to 2019	% Change 2019
Budget	\$ 26.4	\$ 26.8	\$0.3	1.2%

- Credit Union examiners make up two-thirds of the NCUA workforce and travel to perform work and to attend training.
- Extended exam cycles and increased use of offsite examinations help contain travel costs.
- Government per diem rates set by GSA increase nearly eight percent in 2019.
- Expansion of offsite exam work and more virtual training will help contain travel costs in the future.

# Rent, Communications and Utilities

(\$ millions)	2018	2019	Change 2018 to 2019	% Change 2019
Budget	\$ 8.5	\$ 8.0	- \$ 0.4	- 5.2%

- Costs for the NCUA's infrastructure and business operations. Major cost categories include:
  - Telecommunications (phone, networks, internet)
  - Office utilities and postage
  - Space rental for Western Regional office in Tempe, AZ



# Administrative Services

(\$ millions)	2018	2019	Change 2018 to 2019	% Change 2019
Budget	\$ 7.5	\$ 8.7	\$ 1.2	16.0%

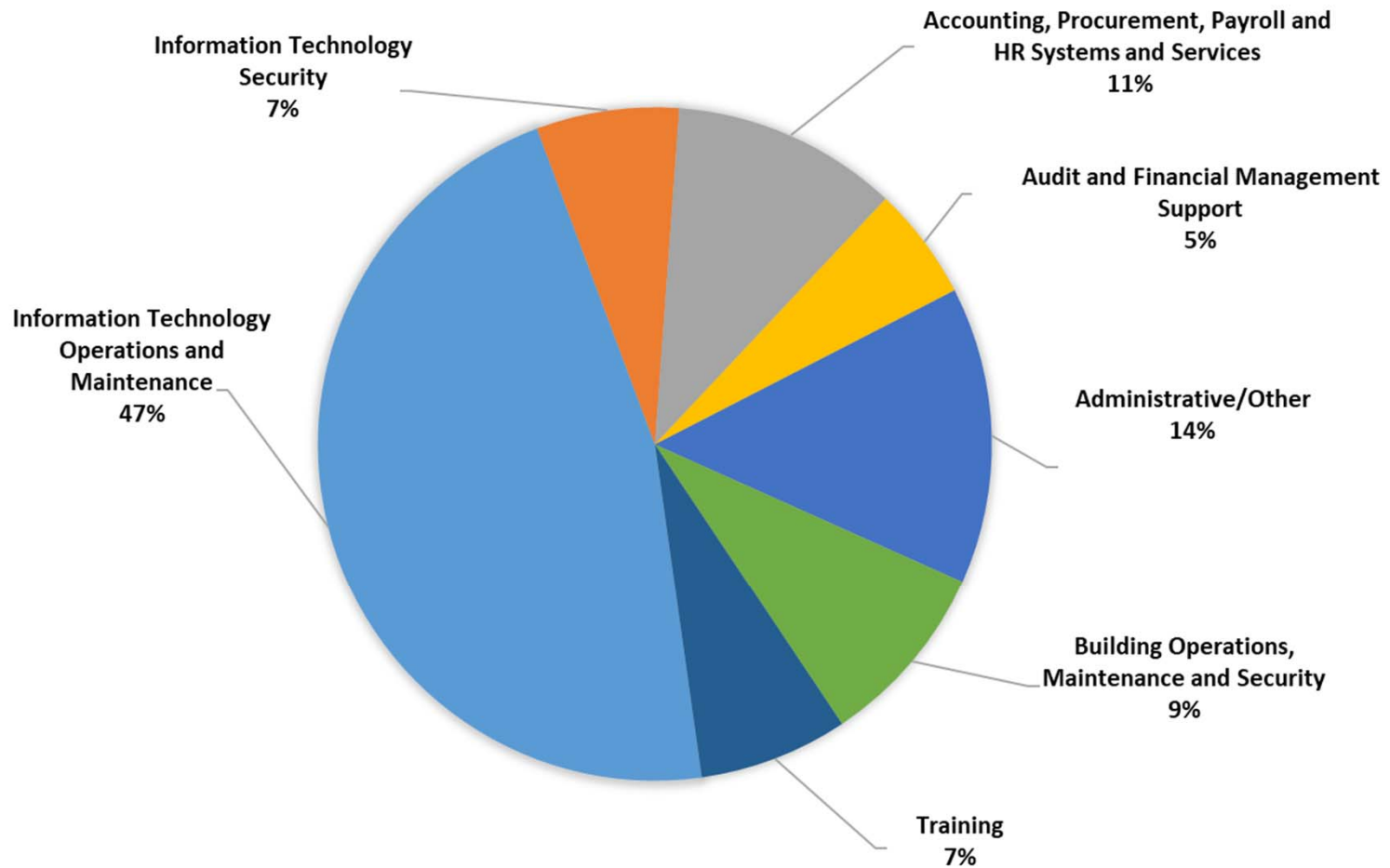
- Costs for ongoing operations such as Federal Financial Institutions Examination Council (FFIEC) fees, employee relocations, recruitment and advertising, shipping, printing, and supplies.
- Increased FFIEC fees and relocation expenses for NCUA employees in 2019.
- General administrative cost savings expected: reductions to recruitment and advertising, printing, supplies, and shipping expenses.

# Contracted Services

(\$ millions)	2018	2019	Change 2018 to 2018	% Change 2019
Budget	\$ 35.0	\$ 38.1	\$ 3.1	8.9%

- Recurring contract support includes:
  - IT support for enterprise architecture, website support, IT service desk, and IT modernization.
  - Ongoing operations and maintenance costs for legacy and new IT systems.
  - Examiner training requirements.
  - Shared service agreements for accounting, human resources, and travel systems.
  - Enterprise Risk Management and financial management support.
  - Building physical security and IT information security program.

# Contracted Services



# 2019 Capital Budget

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- Information Technology investments
  - Information Technology Policy Council oversees the recommended IT software development investments.
  - NCUA's largest development project is MERIT (the Examination and Supervision Solution to replace AIRES), which will be used by both NCUA and state examiners.
  - Assessment of other hardware replacements and upgrades.
- NCUA-owned facility investments
  - Southern regional office capital improvements.
  - Central Office Heating, Ventilation, and Air Conditioning (HVAC) replacement project.

\*NCUA is considering accelerating the loan and share analytical advancements from 2020 to 2019 and may move budgeted funds accordingly.

# 2019 Capital Budget

Capital Project Summary (\$ millions)	2019 Draft Budget
Information Technology software development	\$ 17.1
Other Information Technology investments	\$ 4.0
Capital building improvements and repairs	\$ 0.9
<b>Total</b>	<b>\$ 22.0</b>

\*NCUA is considering accelerating the loan and share analytical advancements from 2020 to 2019 and may move budgeted funds accordingly.

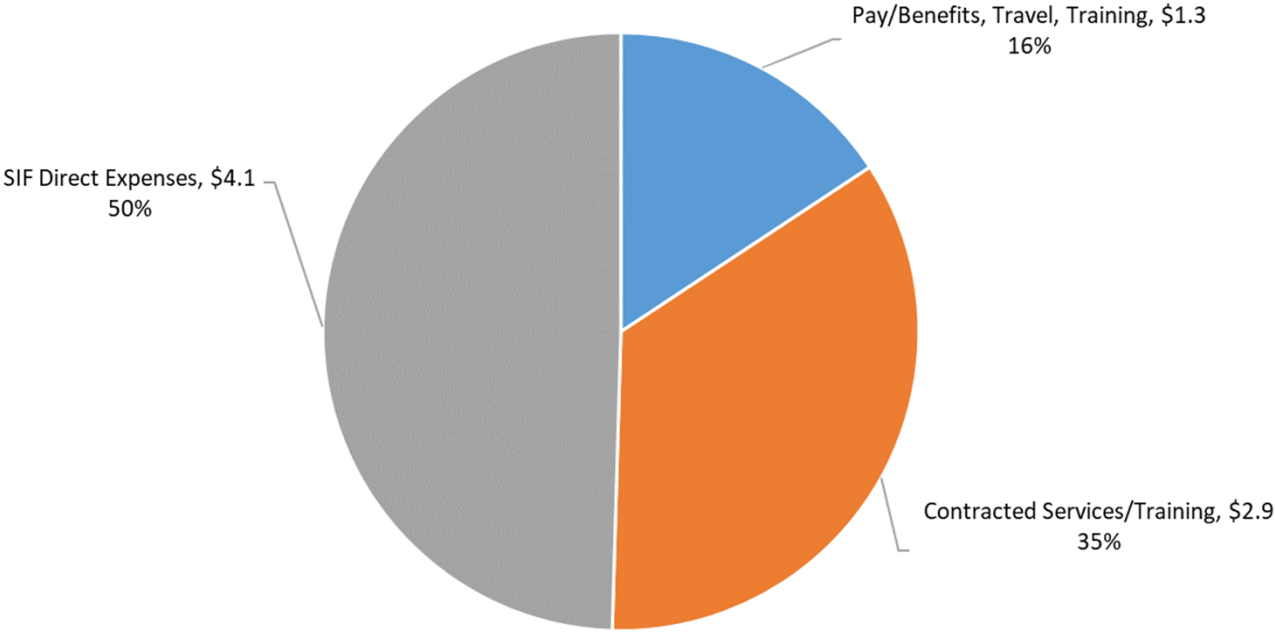
# Share Insurance Fund Administrative Budget

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- Direct costs of Share Insurance Fund (SIF) administration and management.
- Supports the NCUA Guarantee Note (NGN) program and the Corporate System Resolution Program.
- Drivers of expected cost changes in 2019:
  - Consulting services to support NGN program
  - Stress testing for large credit unions
  - Lower expected costs in 2019 for state examiner laptop leases and state examiner training
- Technical assumptions for cost growth (e.g., salary and benefits inflation, travel, etc.) identical to the Operating Budget.
- SIF Admin budget is 2.5% of total NCUA Budget Resources.

# Share Insurance Fund Administrative Budget

(\$ millions)	2018	2019	\$Change	% Change
Budget	\$ 8.1	\$8.4	\$0.3	3.5%
Positions	5	5	0	0.0%



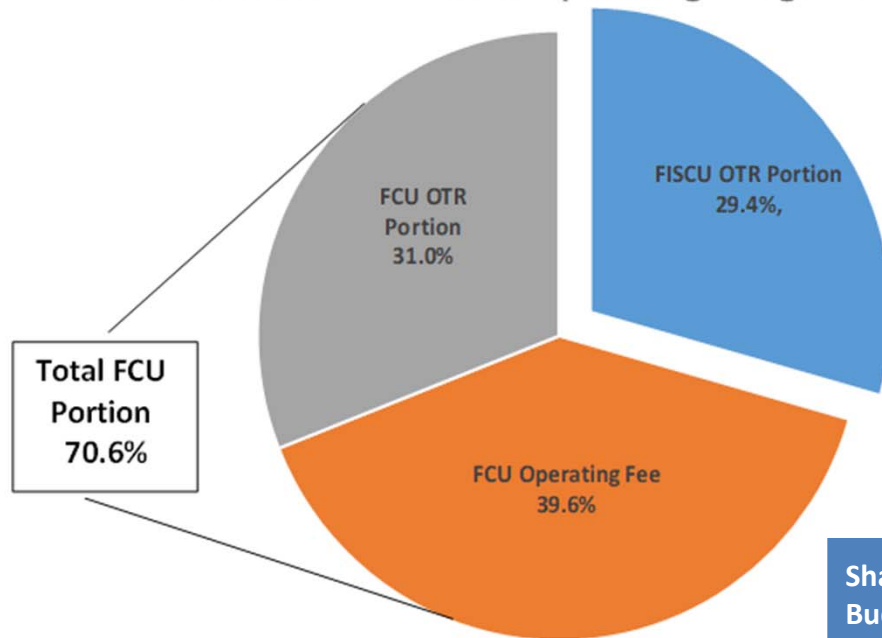
# Share Insurance Fund Administrative Budget

Category (\$ millions)	2018	2019	\$ Change	% Change
Salaries and Benefits	\$1.3	\$1.2	-\$0.1	-1.7%
Travel and Training	0.1	0.1	---	---
NGN support	2.6	2.9	0.3	12.4%
SIF Direct Expenses	4.1	4.1	---	---
<b>TOTAL</b>	<b>\$ 8.1</b>	<b>\$ 8.4</b>	<b>\$ 0.3</b>	<b>3.5%</b>



# Financing the NCUA Programs

2019 Distribution of Operating Budget Costs



Share of Operating Budget covered by:	FCUs	FISCOs
FCU Operating Fee	39.6%	0.0%
OTR x Percent of Insured Shares	31.0% (60.4% x 51.3%)	29.4% (60.4% x 48.7%)
<b>TOTAL</b>	<b>70.6%</b>	<b>29.4%</b>

# Budget Resources

## Key NCUA Budget and Supplementary Materials:

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

- Budget Proposals and Presentations
- Budget Justifications
- Line Item Budget Detail
- Budget FAQs
- Operating Fees
- Overhead Transfer Rate analyses
- Budget-related Board Action Memoranda



The screenshot shows the NCUA website's navigation menu with options: Services, Consumers, Credit Union Analysis, Regulation & Supervision, and About NCUA. The main heading is "Budget and Strategic Planning". Below it, there is a brief description: "Find current and past publications on NCUA's performance, strategy, budget planning and diversity efforts." The page lists several key resources with brief descriptions:

- Strategic Planning**: This multi-year plan outlines NCUA's strategic and performance goals along with critical factors that affect the agency's operations.
- Budget & Financial**: NCUA's dedicated budget resource center includes annual fund audits, budget summaries, office-by-office budget reports, and more.
- Annual Reports**: NCUA's annual plan identifies performance goals consistent with the agency's strategic plan and methods for achieving them.
- NCUA's Diversity & Inclusion Strategic Plan**: NCUA's Diversity and Inclusion Strategic Plan highlights the agency's continued efforts to promote diversity and inclusion.
- Operating Fund Financial Highlights**: The NCUA Operating Fund is supported by operating fees paid by all federal credit unions. These operating fees are used to fund the agency's operations. [More.](#)

# Office Contact

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Please contact my office with questions or comments.

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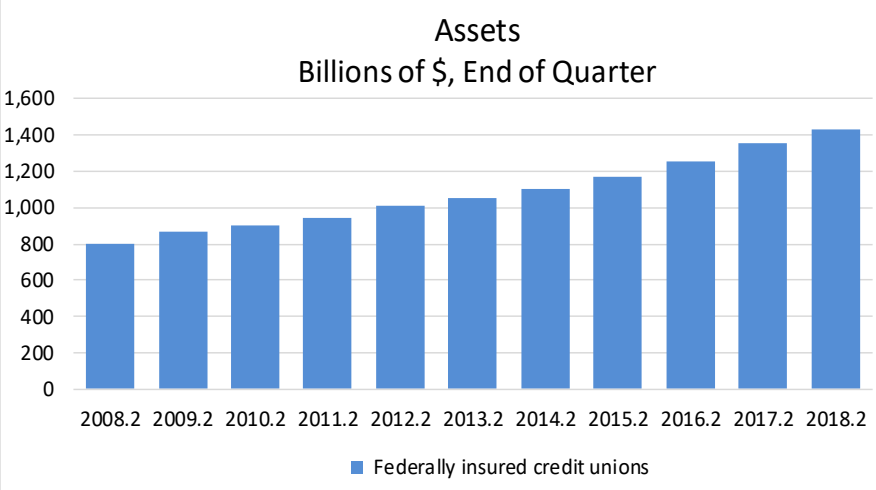
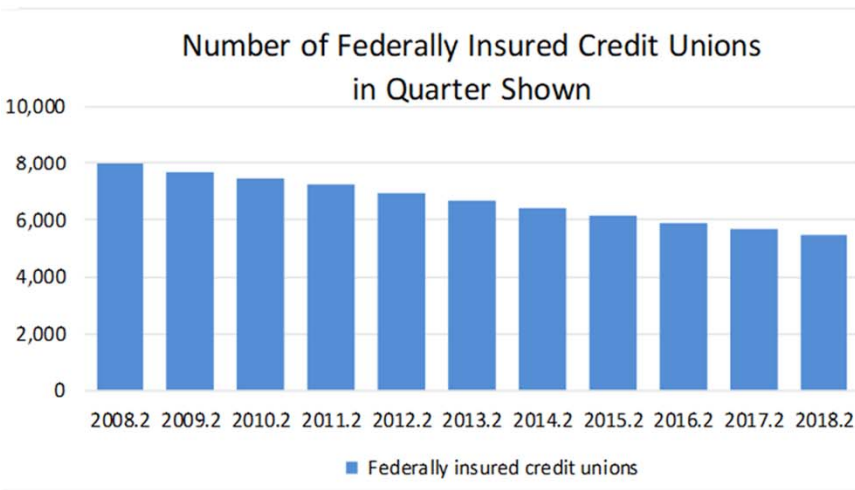
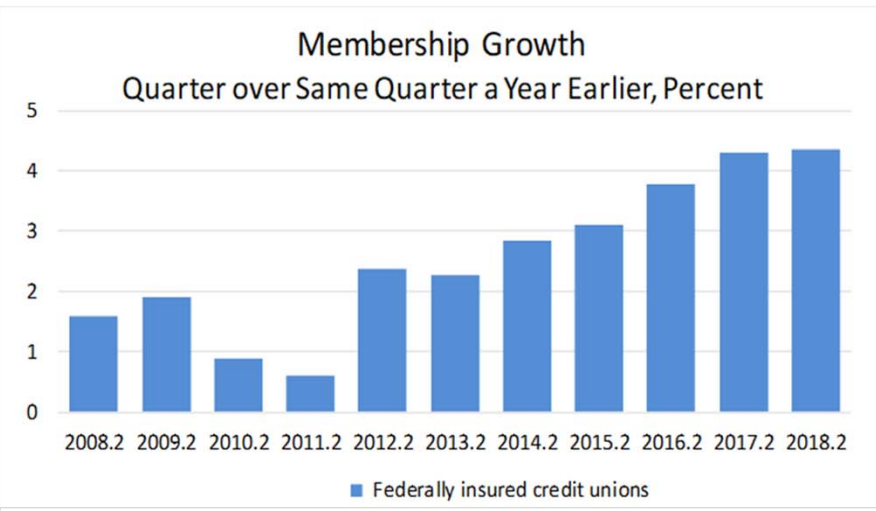
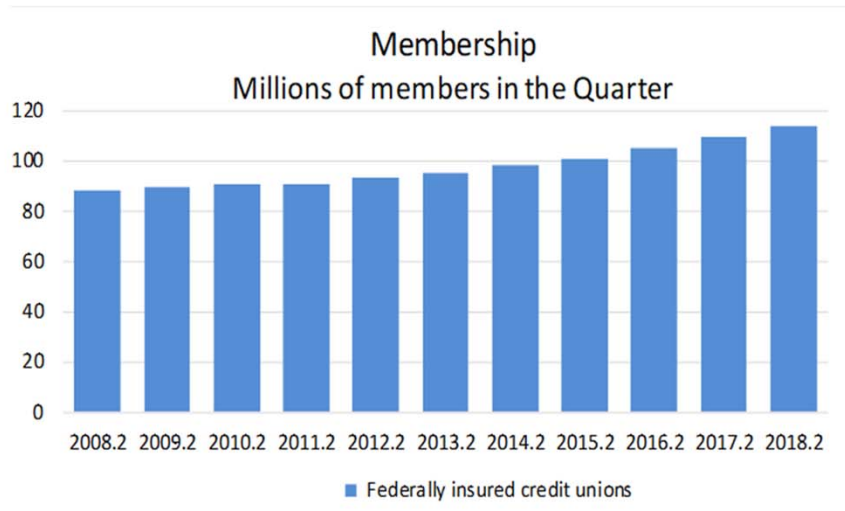
**<https://www.ncua.gov/About/Pages/budget-strategic-planning/supplementary-materials.aspx>**

# APPENDIX SLIDES

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- **Industry Trends**
- **One-time agency reform costs**
- **Revolving Funds**
- **Budget Background**

# Industry Trends



# One-Time Agency Reorganization Costs

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- Outside this budget, the NCUA has one-time costs associated with its reorganization. The planned source of the one-time costs is savings from 2017 and 2018 operations.
- One-time costs cover these expenses:
  - Employee separation expenses
  - Employee relocation expenses
  - Facilities alterations
  - Analytical studies

# The NCUA: Four Revolving Funds

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## 1. Operating Fund

Per the Federal Credit Union Act, the management of the Administration is vested in the National Credit Union Administration (NCUA) Board. The Board approves the Operating Fund budget to pay the expenses necessary to carry out its responsibilities under the Act.

## 2. Share Insurance Fund

The National Credit Union Share Insurance Fund is the federal fund created by Congress in 1970 to insure member's deposits in federally insured credit unions.

## 3. Central Liquidity Fund

The CLF is a mixed ownership government corporation created to improve the general financial stability of credit unions by serving as a liquidity lender to credit unions experiencing unusual or unexpected liquidity shortfalls.

## 4. Community Development Revolving Loan Fund (appropriated)

The Community Development Revolving Loan Fund provides grants and loans to low-income designated credit unions.

# The NCUA Budget Background

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## **Calendar Year versus Government Fiscal Year**

- The NCUA operates on a calendar year
- Budgets and financial reporting coincide with the calendar year
- The NCUA Operating Fee and Share Insurance Fund 1% deposit assessments are based on previous December 31 year-end balance of credit union assets and insured shares, respectively

## **Budget submissions to Congress**

- NCUA's calendar year budgets are converted to the federal government's fiscal year



# The NCUA Budget Background

## NCUA presentation in the FY 2019 Budget Appendix:

- National Credit Union Share Insurance Fund
- Operating Fund
- Central Liquidity Facility
- Community Development Revolving Loan Program

## On-line document location:

<https://www.govinfo.gov/content/pkg/BUDGET-2019-APP/pdf/BUDGET-2019-APP.pdf>

1188 National Council on Disability—Continued Federal Funds—Continued				THE BUDGET FOR FISCAL YEAR 2018										
<b>SALARIES AND EXPENSES—Continued</b>														
<b>Program and Financing—Continued</b>														
Identification code 413-300-0-1-506	2016 actual	2017 est.	2018 est.											
Outlays, gross:														
4010 Outlays from new discretionary authority	2	3	3											
4011 Outlays from discretionary balances	1													
4000 Outlays, gross (total)	3	3	3											
4100 Budget authority, net (total)	3	3	3											
4190 Outlays, net (total)	3	3	3											
<p>The National Council on Disability (NCD), an independent Federal agency, is composed of nine members appointed by the President and the Congress. Established under the Rehabilitation Act of 1973, as amended by the Workforce Innovation and Opportunity Act, the NCD is responsible for reviewing the Federal Government's laws, programs, and policies which affect people with disabilities. The NCD also makes recommendations on issues affecting individuals with disabilities and their families to the President, the Congress, the Rehabilitation Services Administration, the National Institute on Disability, Independent Living, and Rehabilitation Research, and other Federal Departments and agencies.</p>														
<b>Object Classification (in millions of dollars)</b>														
Identification code 413-300-0-1-506	2016 actual	2017 est.	2018 est.											
Direct obligations:														
11.1 Personal compensation: Full-time permanent	1	2	2											
25.2 Other services from non-Federal sources	2	1	1											
99.9 Total new obligations, unexpired accounts	3	3	3											
<b>Employment Summary</b>														
Identification code 413-300-0-1-506	2016 actual	2017 est.	2018 est.											
1001 Direct civilian full-time equivalent employment	11	11	13											
<b>NATIONAL CREDIT UNION ADMINISTRATION</b>														
<b>Federal Funds</b>														
<b>OPERATING FUND</b>														
<b>Program and Financing (in millions of dollars)</b>														
Identification code 025-4025-0-3-373	2016 actual	2017 est.	2018 est.											
Obligations by program activity:														
0601 Examination and supervision	187	200	204											
0603 Administration	95	107	116											
0604 Office of Inspector General	3	4	4											
0900 Total new obligations, unexpired accounts	285	311	324											
Budgetary resources:														
1000 Unobligated balance brought forward, Oct 1	90	90	90											
Budget authority:														
1800 Collected	284	310	323											
1901 Change in uncollected payments, Federal sources	1	1	1											
1950 Spending auth from offsetting collections, mand (total)	285	311	324											
1930 Total budgetary resources available	375	401	414											
Memorandum (non-add) entries:														
1941 Unexpired unobligated balance, end of year	90	90	90											
Change in obligated balance:														
3000 Unpaid obligations, brought forward, Oct 1	32	41	39											
3010 New obligations, unexpired accounts	285	311	324											
3020 Outlays (gross)	-276	-313	-324											
3090 Unpaid obligations, end of year	41	39	39											
3090 Uncollected payments														
3090 Uncollected pymts, Fed sources, brought forward, Oct 1	-62	-63	-64											
3070 Change in uncollected pymts, Fed sources, unexpired	-1	-1	-1											
3090 Uncollected pymts, Fed sources, end of year	-63	-64	-65											
3100 Memorandum (non-add) entries:														
3100 Obligated balance, start of year	-30	-22	-25											
3200 Obligated balance, end of year	-22	-25	-26											
<p><b>Budget authority and outlays, net:</b></p> <p><b>Mandatory:</b></p> <p>4090 Budget authority, gross</p>								285	311	324				
Outlays, gross:														
4100 Outlays from new mandatory authority	240	274	324											
4101 Outlays from mandatory balances	28	39												
4110 Outlays, gross (total)	276	313	324											
Offsetting against gross budget authority and outlays:														
4120 Offsetting collections (collected) from:														
4120 Federal sources	-202	-200	-209											
4121 Interest on Federal securities	-1	-1	-1											
4123 Non-Federal sources	-1	-1	-1											
4124 Offsetting governmental collections	-81	-109	-113											
4130 Offsets against gross budget authority and outlays (total)	-284	-310	-323											
Additional offsets against gross budget authority only:														
4140 Change in uncollected pymts, Fed sources, unexpired	-1	-1	-1											
4170 Outlays, net (mandatory)	-8	3	1											
4180 Budget authority, net (total)														
4190 Outlays, net (total)	-8	3	1											
<p><b>Memorandum (non-add) entries:</b></p> <p>5000 Total investments, 52% Federal securities: Par value</p>								58	64	64				
5001 Total investments, 48% Federal securities: Par value	64	64	64											
<p>The mission of the National Credit Union Administration (NCUA) is to provide, through regulation and supervision, a safe and sound credit union system, which promotes confidence in the national system of cooperative credit. Credit unions are privately-owned, cooperative associations organized for the purpose of promoting thrift and creating a source of credit for their members. As of September 30, 2016, the total number of federally-chartered credit unions was 3,648 with total assets of more than \$663 billion.</p> <p>NCUA, through its Operating Fund, conducts activities prescribed by the Federal Credit Union Act of 1934, which include: 1) chartering new Federal credit unions; 2) approving field of membership applications of Federal credit unions; 3) promulgating regulations and providing guidance; 4) performing regulatory compliance and safety and soundness examinations; 5) implementing and administering enforcement actions, such as prohibition orders, orders to cease and desist, orders of conservatorship and orders of liquidation; and 6) administering the National Credit Union Share Insurance Fund (Share Insurance Fund).</p> <p>The NCUA funds its activities through operating fees levied on all Federal credit unions and through reimbursements from the Share Insurance Fund, which is funded by both Federal credit unions and federally-insured state-chartered credit unions.</p>														
<b>Object Classification (in millions of dollars)</b>														
Identification code 025-4025-0-3-373	2016 actual	2017 est.	2018 est.											
Reimbursable obligations:														
11.1 Full-time permanent	147	153	159											
11.3 Other than full-time permanent	1													
11.9 Total personal compensation	148	153	159											
12.1 Civilian personnel benefits	58	62	63											
21.0 Travel and transportation of persons	27	29	29											
21.3 Communications, utilities, and miscellaneous charges	5	7	7											
25.2 Other services from non-Federal sources	38	45	51											
31.0 Equipment	9	15	15											
99.9 Total new obligations, unexpired accounts	285	311	324											