



National Credit Union Administration
Office of the Chief Financial Officer

BOARD ACTION MEMORANDUM

TO: NCUA Board **DATE:** December 15, 2021
FROM: Chief Financial Officer **SUBJ:** 2022 – 2023 Budget

ACTION REQUESTED: Board approval of the 2022 – 2023 Operating Budget, Capital Budget, and Share Insurance Fund Administrative Budget.

DATE ACTION REQUESTED: December 16, 2021

OTHER OFFICES CONSULTED: All Regional and Central Offices

VIEWS OF OTHER OFFICES CONSULTED: Concur

SUBMITTED TO INSPECTOR GENERAL FOR REVIEW: Yes

RESPONSIBLE STAFF MEMBERS: Eugene H. Schied, Chief Financial Officer

AUTHORITY:

Pursuant to the Federal Credit Union Act, authority for management of the National Credit Union Administration (NCUA) is vested in the NCUA Board (the Board). It is the Board's responsibility to determine the resources necessary to carry out the NCUA's responsibilities under the Act.¹ The Board is authorized to expend such funds and perform such other functions or acts as it deems necessary or appropriate in accordance with the rules, regulations, or policies it establishes.²

Upon the Board's determination of the budgeted annual expenses necessary for the agency's operations, staff calculate the Overhead Transfer Rate and the Operating Fee in accordance with the methodologies approved by the Board. In accordance with its authority³ to use the National Credit Union Share Insurance Fund to carry out a portion of its responsibilities, the Board approved the OTR methodology, and authorized the Office of the Chief Financial Officer to transfer resources from the Share Insurance Fund to the Operating Fund to account for insurance-related expenses.

The Board has also approved, at the December 2020 Board meeting, the current methodology for calculating the schedule for the operating fee assessed to federal credit unions. The Board-approved methodology gives consideration to the ability of federal credit unions to pay such a fee, and the necessity of the expenses the NCUA will incur in carrying out its responsibilities in

¹ See 12 U.S.C. 1752a(a).

² See 12 U.S.C. 1766(i)(2).

³ See 12 U.S.C. 1783(a).

connection with federal credit unions.⁴ Pursuant to the law, fees collected are deposited in the agency’s Operating Fund at the Treasury of the United States, and those fees are expended by the Board to defray the cost of carrying out the agency’s operations, including the examination and supervision of federal credit unions.⁵

At the end of the calendar year, NCUA’s financial transactions are subject to audit in accordance with Generally Accepted Accounting Principles.

SUMMARY:

2022 - 2023 NCUA Budget: Summary of All Funds									
(dollars in thousands)									
	2021 Board Approved Budget	2022 Staff Draft Budget	Revisions to 2022 Staff Draft	Revised 2022 Budget	2022 Revised Budget vs. 2021 Approved Budget		Revised 2023 Budget	2023 Revised Budget vs. 2022 Revised Budget	
					\$ Change	% Change		\$ Change	% Change
NCUA Funds									
Operating Budget	\$ 314,560	\$ 326,004	-5,866	\$ 320,138	\$ 5,578	1.8%	\$ 363,426	\$ 43,288	13.5%
Capital Budget	18,845	13,069	---	13,069	-5,776	-30.7%	13,069	---	---
SIF Admin. Budget	7,973	6,246	---	6,246	-1,727	-21.7%	4,770	-1,476	-23.6%
Total, all NCUA funds.....	341,378	345,319	-5,866	339,453	-1,925	-0.6%	381,265	41,812	12.3%
FTE ¹	1,194	1,242	-46	1,196	2	0.2%	1,204	8	0.7%
Notes: 1) Staffing is for the Operating Fund ONLY, and excludes 5 CLF FTE. FTE for 2021 includes 7 FTEs approved at mid-session.									

The “Staff Draft: 2022 – 2023 Budget Justification” (“staff draft”) was posted to the NCUA website on November 17, 2021, and an identical version was published in the *Federal Register* on November 24, 2021. Compared to the overall funding and staffing levels shown in the staff draft budget, the recommended final budget is reduced by \$5.9 million and 46 full-time equivalents (FTE) in 2022 and 2023 for the Operating Budget.

The recommended final budget is for a total budget (Operating Budget, Capital Budget, and Share Insurance Fund Administrative Budget) of \$339.5 million and 1,196 FTE. This reflects a carryover of \$23 million of unspent 2021 budget funds for the Operating Budget. The 2023 budgets would increase over 2022 by \$41.8 million; however, \$23 million of this increase is the result of the use of carryover to offset the 2022 budget which would not be available in 2023. Even though the Board adopts a two-year budget for planning purposes, its practice has been to revisit each year’s budget before that budget year begins.

The Operating Fee collected from Federal Credit Unions would be further reduced by \$15 million due to accumulated cash in excess of funding needs.

Attachment 1 includes summary budgetary tables for the Operating, Capital, and Share Insurance Fund Administrative budgets; detailed budgetary tables for each office; an updated chart

⁴ See 12 U.S.C. 1755(a)-(b).

⁵ See 12 U.S.C. 1755(d).

showing the distribution of the budget between amounts paid by federal and federally-insured, state- chartered credit unions; and updated Operating Fee worksheets.

An updated 2022 – 2023 Budget Justification for the final budget will be published on the NCUA website when complete. The Budget Justification will be updated to explain the reductions made by the NCUA Board and to respond to relevant comments from the public, as discussed below.

CHANGES TO THE DRAFT BUDGET:

The funding levels in the 2022 staff draft Operating Budget would be reduced by \$5.9 million, for a revised total of \$320.1 million in the recommended final budget. This level is 1.8% percent higher than the Board-approved 2021 Operating Budget.⁶ Staffing would be reduced by 46 FTE as compared to the staff draft.

Specific changes to the staff draft Operating Budget are:

- The 29 additional examiner staff and their associated costs that were added to the 2022 staff draft budget for proposed changes to the examination scheduling parameters for certain credit unions are eliminated in the recommended final budget. The examination scheduling parameters would remain unchanged from 2021.
- The increase to the cadre of specialist examiners by way of converting examiner positions as proposed in the staff draft budget is retained in the recommended final budget; however, the increase in 3 examiner FTE to adjust for reduced productive time is reduced by 1 FTE to a net of 2 FTE.
- The 2 small credit union program officer FTE proposed in the staff draft for the Office of Credit Union Resources and Expansion has been modified; instead, 3 examiner FTE (one per region) are included in the recommended final budget to support the needs of small credit unions.
- The 4 fair lending staff for the Office of Consumer Financial Protection (OCFP) to increase fair lending exams and supervisory contacts proposed in the staff draft has been reduced to 2 additional FTE in the recommended final budget.
- The 1 additional financial inclusion and outreach analyst in OCFP remains in the recommended final budget. However, this position will be term limited to not more than 3 years. The agency will develop program performance metrics and goals to inform any future decision to make this position permanent.
- Staffing changes proposed in the staff draft budget for the Office of Examination and Insurance (other than the reduction for the FTE connected to the NCUA Guaranteed Notes Program) have been removed from the recommended final budget, a net reduction of 2 FTE from the staff draft budget.
- The proposed addition of 1 speechwriter for the Office of External Affairs and Communication in the staff draft budget has been removed from the recommended final budget.
- The proposed conversion of 3 positions to on-budget permanent staff (1 each in the Office of General Counsel, Office of Business Innovation, and the Office of the

⁶ Without application of the \$23 million carryover for unspent 2021 budget funds, the increase would be 4.1%.

Executive Director) in the staff draft budget have been removed from the recommended final budget.

- The budget for travel expenses has been reassessed, and the recommended final budget reduces the travel budget by \$2.7 million compared to the staff draft budget. Travel in 2022 would be funded at about 60% overall of the pre-pandemic travel budget.
- The budget for the fees that the NCUA pays to the Federal Financial Institutions Examination Council (FFIEC) have been increased by \$220,000 based on the revised fee information provided by the FFIEC since the staff draft budget was published.

The staff draft budget proposes the resources necessary for examiners in the NCUA regions, in conjunction with ONES, to continue to supervise credit unions with reported assets between \$10 billion and \$15 billion in 2022. This is retained in the recommended final budget. The corresponding regulation change to the \$10 billion threshold for a consumer credit union to be supervised by ONES will be taken up by the NCUA Board in 2022.

Like any government agency, the NCUA manages its changing workload within its overall authorized budgetary and staff resource levels. The NCUA Board has delegated to the Executive Director the authority to adjust staffing within total allocated resources to best respond to changing agency priorities and trends within the credit union system. The Executive Director must maintain total NCUA staffing at or below the resource levels approved within the budget, and promptly inform the Board of any significant changes to the agency's staffing allocations within the approved resource totals.

Some additional, non-material adjustments were made to the staff draft to make minor corrections and to reflect updated information that was not available at the time of publication.

The recommended final 2022 and 2023 Capital Budgets are unchanged from the staff draft budget and remain at \$13,069,000 for 2022 and 2023. The recommended final 2022 and 2023 Share Insurance Fund Administrative Budgets are unchanged from the staff draft budget and remain at \$6,246,000 and \$4,770,000, respectively.

COMMENTS FROM THE PUBLIC:

As required by the Economic Growth, Regulatory Relief, and Consumer Protection Act (P.L. 115-174), the NCUA held a hearing on December 8, 2021, to discuss the draft budget, which was streamed live on the NCUA website. At that meeting, representatives from four different associations presented their views on the draft budget. The NCUA also received written statements from three organizations that did not make presentations at the budget briefing. All written submissions are posted on the Regulations.gov website. To view the comment letters see: <https://www.regulations.gov/document/NCUA-2021-0149-0002>.

Many of the general comments received from the public about the 2022 – 2023 staff draft budget relate to NCUA operations and program execution. The Office of the Chief Financial Officer will provide these comments directly to the appropriate NCUA senior executives responsible for the relevant offices discussed.

Four commenters criticized the 3.6 percent annual growth for the staff draft 2022 operating budget. The staff draft budget was reassessed, and the recommended final 2022 Operating Budget is \$320.1 million, or \$5.9 million less than the staff draft budget. Overall, the Board-approved budgets would decrease by \$1.9 million in 2022 as compared to the budget it approved for 2021. The changes, as were outlined above, are largely driven by the reduction of 46 personnel from the staff draft budget and additional reductions to the travel budget.

Four commenters requested additional information about the new examiner positions proposed in the 2022 staff draft budget. The recommended final operating budget removes 29 new examiner positions proposed in the staff draft budget that would have resulted from changes in the examination scheduling parameters. The recommended final budget includes 5 additional regional examiners in 2022: two that result from expanding the NCUA's cadre of regional specialist examiners and three that relate to increased support for small credit unions.

Several commenters encouraged the NCUA to provide a more thorough justification for the new positions. In response to these comments, the final budget justification document will be updated to provide more detailed explanations about all new positions approved by the Board. The NCUA will also ensure that future budget documents provide more details for new NCUA positions.

In addition, four commenters raised concerns about the proposal for 4 new fair lending-related positions. The final budget includes 2 additional staff to expand the NCUA's fair lending program. Existing resources allow for only 30 fair lending exams a year. Fair lending violations continue to be uncovered, warranting some additional resources to conduct these reviews and address any violations identified.

One commenter requested that the final budget include an updated spending estimate for 2021. The staff draft and recommended final operating budgets project a \$23 million surplus, which is the most current and best estimate related to 2021 spending. The NCUA 2021 Annual Report will include audited financial statements with final actual spending for 2021.

One commenter requested any surplus balances in the Operating Fund be returned to credit unions directly or via a credit against 2022 budgeted expenses. The attached Operating Fee schedule reflects a credit of \$15 million, which contributes to what would be an average estimated 2022 Operating Fee rate reduction of 23.7% compared to 2021. This \$15 million reduction to the Operating Fee lowers the amounts that will be invoiced to federal credit unions for the annual Operating Fee collection due April 15, 2022.

Three commenters expressed concern over the proposed \$20.8 million travel budget. The travel budget assumptions are updated in the recommended final 2022 operating budget. Based on updated expectations for staff travel in 2022, the revised travel budget is \$18.1 million, or a reduction of \$2.7 million from the staff draft budget. This equates to a travel budget that is about 33% below the pre-pandemic travel budget of \$27 million. The recommended final budget assumes travel activity that is restricted during the first half of the year and would average about

85% of pre-pandemic levels in the second half of the year. As is regular practice at the NCUA, the 2022 travel budget and actual expenses will be reassessed during the 2022 midyear review.

One commenter expressed continued support for the NCUA's ACCESS initiative and encouraged the agency to ensure that the Office of Credit Union Resources and Expansion (CURE) has sufficient resources in 2022 to "support low-income designated credit unions, minority credit unions, and any credit union seeking to expand its field of membership or to pursue these designations." The recommended final budget replaces the two CURE positions proposed in the staff draft budget with an extra 1,000 hours, which equates to one extra examiner FTE in each region (three examiner FTE total) to support small credit unions. Within existing budget resources, CURE will undertake a study in 2022 to determine the options for and design of new small credit union outreach programs. Other resources in CURE would be maintained at current levels.

One commenter recommended two specific revisions to footnotes in the staff draft. First, the commenter noted that footnote 24 described how the Share Insurance Fund paid for "equipment" because laptop computer costs for State examiners were previously paid by the NCUA. Although the NCUA will not provide laptops for State examiners in the future, such expenses were incurred in 2021 as shown on the detailed Share Insurance Fund Administrative Budget table, which is the reason for the footnote. The reference to equipment will be removed from future budgets' footnotes.

The second proposed revision would add a footnote to the chart that illustrates the financing distribution of the operating budget between federal credit unions and federally insured, state-chartered credit unions (FISCUs). The proposed footnote would clarify that FISCUs typically pay supervisory fees to their respective state regulator. Although this clarification is unrelated to the NCUA budget, it is now included in the revised chart attached to this memorandum.

One commenter recommended that the budget justification document should provide greater transparency about cybersecurity expenses. The NCUA will review how the cybersecurity program's expenses are explained as part of the development of the 2023 – 2024 budget.

One commenter questioned the capital budget allocation methodology and application of principle 1 to the overhead transfer rate (OTR). As discussed at the public budget briefing, the change to the Operating Fee methodology allocating a portion of the capital budget to the OTR, as approved by the Board in 2020, only altered the timing of OTR payments for capital projects. This accelerated what had been a reimbursement upon depreciation of capitalized assets to a reimbursement at the time capital investments are made through acquisition or purchase. The treatment of the capital budget under principle 1 of the OTR methodology can be considered during the next methodology review for that calculation. The NCUA will also look to provide better explanation for the drivers behind the year-over-year OTR changes in budget documents going forward, rather than just reporting on the level of the change.

It is important to note that each budget presented to the Board for consideration is included within a Board Action Memorandum (BAM) that summarizes the agency's responses to public

comments on the staff draft budgets. These BAMs are posted on the NCUA's public website, which provides a record of the specific actions taken by the agency in response to public comments on the staff draft budgets. The NCUA CFO has also explained these changes at open meetings of the NCUA Board when the respective budgets were considered.

FINANCING THE NCUA'S PROGRAMS:

The NCUA's expenses are funded primarily through fees paid by federal credit unions and transfers from the Share Insurance Fund using the OTR. As the annual budget is developed for Board review and approval, the approved methodologies for calculating the OTR and Operating Fees are applied to determine the amount of the budget that will be financed by each. The Board delegated authority to the Chief Financial Officer to administer the approved methodology for calculating the Operating Fees, and to set the fee schedule.

To promote transparency about how the NCUA finances its programs, pages 52 through 59 of the staff draft Budget Justification includes a discussion of the methodology for calculating the OTR and the Operating Fee.

The OTR estimates presented in the staff draft Budget Justification have changed as a result of the revisions made to the proposed funding and staffing levels, as discussed in this document. The final 2022 Overhead Transfer Rate is 62.7 percent. This is an increase of 40 basis points from the 62.3 percent rate calculated for the 2021 budget. The residual 37.3 percent of the 2021 budget will be collected through the Operating Fee. As shown in the chart in Attachment 1, in 2022 federal credit unions will cover 68.6 percent of the costs of the NCUA's operations, while FISCUs will pay 31.4 percent.

Worksheets that show the specific steps used to determine the Operating Fee and the scale for rates charged to different sized credit unions are included in Attachment 1. Based on the current Operating Fee methodology, which took effect in early 2021, the Operating Fee charged to federal credit unions will decrease 23.7 percent compared to 2021, a 1,250 basis point reduction from the estimate provided in the staff draft.

There are two reasons for the changes to the Operating Fee. First, the recommendation includes a credit of \$15 million from the Operating Fund, representing past-year, unspent Operating Fee cash collections the NCUA does not currently require. It is important to note that the OTR is billed throughout the year for actual expenses, so there are not excess funds collected that can be "returned" at the end of each year.

Second, based on Call Report data through September 30, 2021, average asset growth is calculated at 16.3 percent, an increase of approximately 200 basis points from the 14.3 percent projected asset growth included in the draft budget.

Federal credit unions with assets less than \$1 million are not assessed an operating fee. For federal credit unions with assets greater than \$1 million, the NCUA establishes a three-tiered scale to compute the fee charged, also known as the assessment scale. The dividing points on the

assessment scale are adjusted upward on an annual basis by the computed rate of asset growth. The dividing points are indexed annually by asset growth to preserve the same relative relationship of the scale to the applicable asset base.

To illustrate the average rate impact for smaller federal credit unions, the final operating fee rate applied to assets under \$2.08 billion will decrease from \$219 per one million dollars of assets in 2021 to \$167 per one million dollars of assets in 2022, a decrease of \$52 per million, or 23.7 percent. Federal credit union assets between \$2.08 billion and \$6.3 billion would be assessed at a rate of \$49 per million, and credit unions with assets above \$6.3 billion would be assessed at \$16 per million, both of which are also 23.7 percent lower than the comparable 2020 levels.

RECOMMENDED ACTIONS: It is recommended that the NCUA Board approve:

1. The 2022 Operating Budget of \$320,138,000 and 1,196 FTEs and the 2023 Operating Budget of \$363,426,000 and 1,204 FTEs.
2. The 2022 Capital Budget of \$13,069,000 and the 2023 Capital Budget of \$13,069,000.
3. The 2022 Share Insurance Fund Administrative Budget of \$6,246,000 and the 2023 Share Insurance Fund Administrative Budget of \$4,770,000.
4. That \$23,000,000 from unspent prior-year budgets is available for expenditure in 2022 from the Operating Fund for contracted-services related expenses.
5. That \$15,000,000 of cash in the Operating Fund be returned to Federal Credit Unions in the form of a credit (reduction) to the 2022 Operating Fee schedule.

ATTACHMENTS:

Attachment 1: Summary Budgetary Tables and OTR and Fee Calculations