Overhead Transfer Rate (OTR) - Timeline

1970	• National Credit Union Share Insurance Fund (Share Insurance Fund) was established.[1]
1972	• GAO audit recommends NCUA adopt method of allocating costs between NCUA and newly formed Share Insurance Fund.
1973-1980	• Various cost allocation methods were employed, including direct charges to the Share Insurance Fund for insurance expenses (for example, cost of closing institutions, liquidation and merger costs) and examiner time spent supervising - as opposed to examining - institutions.
1981-1984	• The OTR ranged between 30 and 34 percent.
1985-1993	• Annual examination surveys were conducted requiring the completion of 1,000 to 1,200 survey forms per year. • Survey results varied between 50.1 percent and 60.4 percent for insurance related activities; however, the OTR was maintained at 50 percent.
1994	• Survey results indicate 55.96 percent insurance related activities. • The Board approved conducting surveys once every 3 years, and set the OTR at 50 percent for 1995 through 1997.
1997	• Survey results of 50 percent insurance related activities. • OTR set at 50 percent for 1998 through 2000.
2000	• The Board votes to resume annual surveys, which are expanded to include more examiners and central and regional office staff. • Survey results of 66.72 percent resulted in an increase of the OTR to 66.72 percent for 2001. The Board also decides to hire an independent party to assess the OTR process.
2001	• NCUA General Counsel opinion confirms OTR not subject to Administrative Procedures Act.

[1] Section 1783(a) of the Federal Credit Union Act created the National Credit Union Share Insurance Fund and authorized the NCUA Board to use the fund to pay for "such administrative and other expenses incurred in carrying out the purposes of this title as it may determine to be proper."

	• Deloitte and Touche (D&T) finalized a review of the OTR process, including consulting with industry groups.[2] D&T found the following: *The comparison indicates that NCUA's focus on risk to the NCUSIF from such dynamics as diversification, concentration and increasing asset size has been recognized in the survey process.* *NCUA more closely resembles a multi-product company that uses the same manufacturing operation to produce multiple product lines. Such companies must allocate their operating costs among multiple products using cost allocation methods. NCUA's overhead transfer process is very comparable to the methods used by private industry to accomplish such cost allocation.* • The D&T report included the following recommendations:[3] o Enhance communication of the importance of the survey process and NCUA's growing focus on insurance-related matters. o Vary the time of year surveys are conducted, incorporate them into the examination system (AIRES), and consider automating time sheets. o Update the definitions of insurance-related and regulatory-related, and provide additional training and resources for examiners on the surveys.
2002	• NCUA implemented D&T's recommendations to automate the survey collection process, enhance guidance and training for examiners, collect surveys on an ongoing basis, and establish a help-line and frequently asked questions for staff on the survey process. • Automated survey collection began in June 2002. • NCUA initiated an agency task force to conduct a comprehensive review of the OTR in part to better define insurance-related and regulatory-related. • Survey results support an OTR range of 62 percent to 70 percent. The NCUA Board sets the OTR at 62 percent.
2003	• Agency task force completes extensive review of the OTR, and recommends a revised, comprehensive methodology for calculating the OTR, and that it be calculated every year.[4]

[2] D&T's September 5, 2001, Independent Accountant's Report on Applying Agreed-Upon Procedures is posted un-redacted on NCUA's website.
[3] These have been paraphrased for space considerations. See the full report posted on www.NCUA.gov.
[4] The pre-decisional staff proposal is now posted on NCUA's website.

	• Meetings with industry representatives and stakeholders were held on the new proposal, with several recommended improvements incorporated into the proposal.[5] • In October 2003, GAO issues report (GAO-04-91) entitled *Credit Unions: Financial Condition has Improved, but Opportunities Exist to Enhance Oversight and Share Insurance Management*. GAO recommends continuously improving the process for and documentation of the overhead transfer rate, updating the rate annually, and completing surveys with full representation. Noting the task force review initiated in 2002, NCUA agrees to setting the rate annually, improving the methodology and documentation, and ensuring survey sampling is statistically valid. • Staff provides a comprehensive explanation of the entire formula for the proposed new methodology at the November 20, 2003, NCUA Board meeting. The new methodology takes into consideration the: o Value to the NCUSIF of the insurance-related work performed by state supervisory authorities. o Cost of NCUA resources and programs with different allocation factors from the examination and supervision program. o Operational costs charged directly to the share insurance fund. • The NCUA Board approves adoption of the new methodology and an OTR of 59.8 percent. All board action and briefing materials were posted on NCUA's website following the meeting.[6]
2004-2008	Annual survey results range from 57.35 to 69.54 resulting in OTRs ranging from 52.0 percent to 57.2 percent.
2009	• During the November 19, 2009, NCUA Board meeting presentation on the OTR, staff notes an increase in the survey sample size and funding and approval for an independent review of the OTR. • The OTR was calculated and set at 57.2 percent.
2010	• During the November 18, 2010, NCUA Board meeting presentation on the OTR, staff notes NCUA contracted with PriceWaterhouseCoopers (PwC) to review the OTR methodology.

[5] A summary of the input from the meeting with the credit union trade organizations is now posted on NCUA's website.

[6] The Board Action Memorandum, associated PowerPoint presentation, detailed explanation of the new method, and transcript from the Board meeting have also been posted in the budget section of NCUA's website.

	• The OTR was calculated and set at 58.9 percent.
January 20, 2011	• PwC issues final report to NCUA entitled *Overhead Transfer Rate Review.*[7] The report finds the following: *The current definition of insurance and regulatory related activities is appropriately communicated to the examiners through well-structured tools and training modules. The process provides enough resources for examiners to learn how to fill the Examination Time survey properly.* *The statistical methodology used by NCUA to estimate the non-insurance percentage of workload hours for each program in order to determine the OTR can be considered reasonable.* *Application of the overall percent of "insurance-related" hours based on the Examination Time Survey implemented for Federal Credit Unions ("FCUs") to the total examination hours imputed for FISCUs in order to calculate an estimate of the total "insurance-related" hours for FISCUs was found to be reasonable given that the distributions of FCUs and FISCUs across asset sizes and CAMEL ratings is not dissimilar.* *The use of the share of insured assets as the basis to allocate the insurance costs between FCUs and FISCUs was found to be reasonable and appropriate.* ***There was no reasonable basis to conclude that the OTR methodology ex-ante and for reasons beyond the control of credit unions, favours or disadvantages any one type of credit unions (i.e. federal versus state chartered) over another. [emphasis added]*** • The report does note the following issues: o The OTR methodology "was considered lacking in terms of the extent to which the classification of NCUA's activities … represents a consensual view on such classifications in the industry." NCUA disagreed with the premise that achieving consensus is a proper standard upon which to evaluate the methodology, and notes consensus on this matter is highly improbable. Further, the NCUA Board has the sole responsibility for properly allocating agency costs to its dual role as regulator and insurer. o "There was found to be dissatisfaction within the industry with respect to NCUA's efforts to communicate and explain the OTR methodology in adequate detail." PwC goes on to recommend NCUA take additional steps to improve communication and transparency on the OTR. NCUA had provided a high degree of transparency on the methodology, but continued to add information to the agency's website, produce articles for

[7] Based on the agency's FOIA process, a redacted version was subsequently posted to NCUA's website. An **un-redacted** version is now available on NCUA's website.

	the NCUA Report,[8] and provide at open NCUA Board meetings all the data and assumptions used each year in the calculation, as well as elaborate on any new developments or commonly misunderstood aspects of the OTR. o PwC recommended NCUA solicit feedback from industry groups on the reasonableness and accuracy of the classification of activities. NCUA did reach out to industry groups in May 2011 for input on the classification of insurance and non-insurance related activities. Based on industry feedback and additional staff research, updated definitions were implemented and made public in 2013. o PwC recommended asset size and CAMEL rating considerations be incorporated into the survey process, as well as increasing the sample of supervision contacts. NCUA maintained a random sampling approach, but increased the sample size to ensure it is representative of the credit union population and includes sufficient numbers of supervision contacts. The agency also monitors the survey samples to ensure they approximate the population for a given survey cycle. o The report also recommended NCUA adopt a more formal and documented process for determining Other Allocation Factors. NCUA subsequently developed and incorporated a formal protocol specific to each office to classify and report activities. o PwC recommended the Imputed SSA (State Supervisory Authority) Value reflect an estimate of the “insurance-related costs incurred by SSAs … through the operating fees paid by them,” by incorporating SSA overhead-type costs into the calculation. NCUA disagreed in part with this recommendation. Each SSA’s varying degrees of, and potentially excess, overhead is not relevant for purposes of the calculation. The imputed SSA value is intentionally designed to reflect the replacement cost to NCUA if the agency had to do the insurance-related work it relies on the SSAs to conduct. However, NCUA did update the OTR calculation to reflect in the imputed SSA value greater overhead cost for the agency’s Office of the Chief Financial Officer and Office of the Chief Information Officer. o The report recommends NCUA “check if the OTR decisions are subject to the Administrative Procedure Act and if formal notice or comments are required on its OTR calculation process and results.” The agency’s General Counsel had already opined in 2001 on this matter.

[8] For example, the December 2010 and April 2011 issues of the NCUA Report contain articles discussing the overhead transfer rate.

Overhead Transfer Rate (OTR) - Timeline

May 2011	• As a follow up to the PwC review, NCUA solicited comments from representatives of key stakeholders on proposed changes to the definitions of the agency's activities associated with the OTR.[9]
Nov. 2011	• During the November 17, 2011, NCUA Board meeting presentation on the OTR, staff notes NCUA received the independent report from PwC, that the report concluded the OTR methodology overall was valid, and the agency was in the process of implementing the report's recommendations. • The OTR was calculated and set at 59.3 percent.
2012	• Based on the PwC report, the definitions used in the examination time survey were modified to more clearly define the work of NCUA's examination staff. All relevant NCUA Rules and Regulations were explicitly mapped to the survey classifications to provide more uniformity and consistency of reporting. • During the November 15, 2012, NCUA open Board meeting staff noted an independent review of the definitions will be obtained. • The OTR was calculated and set at 59.1 percent.
2013	• PwC finalized its report entitled *Analysis of Examination Time Survey Modifications*. The report concludes: *The NCUA Rules and Regulations matrix aligns consistently with the insurance and regulatory activities and provides a documented basis supporting the allocation of examiner time between insurance and regulatory activities. The resulting reclassification matrix and mapping of activities to the refined categories is comprehensive and complete for the parts of the NCUA Rules and Regulations deemed examination related.* • The PwC report identified three minor recommendations, which the agency promptly addressed. • An **un-redacted** copy of the 2013 PwC report was attached to the OTR Board Action Memorandum for the November 21, 2013, open Board meeting, and therefore made publicly available. The report is posted on NCUA's website. • The OTR was calculated and set at 69.2 percent.

[9] This included CUNA, NAFCU, NASCUS, and the National Federation of Community Development Credit Unions.

Overhead Transfer Rate (OTR) - Timeline

2014	• During the November 20, 2014, NCUA open Board meeting staff elaborated on the 2013 PwC report and the mapping of regulations to the survey classifications. • The OTR was calculated and set at 71.8 percent.
June 2015	• NCUA received and reviewed NASCUS' legal memo on the OTR as it relates to the Administrative Procedure Act. • NCUA responded it is in compliance with the Administrative Procedure Act. Nevertheless, the agency will carefully consider NASCUS' conclusions to determine whether more formalized stakeholder input about the OTR methodology is warranted.
July 2015	• Chairman Matz's July 23, 2015 written congressional testimony before the House Financial Institutions and Consumer Credit Subcommittee states NCUA will solicit comments on the overhead transfer rate methodology every three years in conjunction with the public review of the agency's strategic plan.