



BOARD ACTION MEMORANDUM

TO: NCUA Board **DATE:** November 21, 2013

FROM: Chief Financial Officer **SUBJ:** 2014 Operating Fee

ACTION REQUESTED: Board approval of the operating fee structure and the assessment scale for 2014.

DATE ACTION REQUESTED: November 21, 2013

OTHER OFFICES CONSULTED: Office of the Executive Director, Office of Examination and Insurance, Office of National Examination and Supervision, 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, 2013 year-end assets. Credit unions with assets less than \$1 million will not be assessed an operating fee. To set the assessment scale for 2014, federal credit union asset growth is projected to December 31, 2013. Based on the June 30, 2013, 5300 data, the annual growth is projected to be 5.1 percent at year end. The asset level dividing points will be increased by this same projected 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 decrease of 18.4 percent for natural person federal credit unions. Among these considerations was the July Board action to reduce the 2013 operating budget by \$2.6 million, as shown in item 6 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 from prior years.

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 2014 assessment cycle:

1. Increase the asset level dividing points for the natural person federal credit union operating fee scale by 5.1 percent, which is equal to the estimated asset growth.
2. Decrease the natural person federal credit union operating fee rates by 18.4 percent, which is equal to the rate adjustment indicated on attachment 1.
3. Require the Operating Fund to maintain sufficient cash reserves equal to one month of expenses plus any contingencies.
4. Collect operating fees by Tuesday, April 15, 2014.

Chief Financial Officer

Attachments

PROJECTED FISCAL YEAR 2014 OPERATING FEE REQUIREMENTS

(amounts in millions)

| | | |
|-----------|--|-------------------|
| 1 | Proposed Operating Budget | \$ 268.29 |
| 2 | Overhead Transfer Rate 69.20% | \$ (185.66) |
| 3 | Interest Income | \$ (0.03) |
| 4 | Miscellaneous (rents, publication fees, FOIA fees) | \$ (1.41) |
| 5 | Net | \$ 81.20 |
| 6 | Operating Fund Cash Balance Adjustment (Mid-year funds returned to FCUs) | \$ (2.60) |
| 7 | Accrued Annual Leave (based on historical annual increase) | \$ (1.00) |
| 8 | Depreciation (building, leasehold, equipment) | \$ (5.87) |
| 9 | Capital Acquisitions | \$ 6.13 |
| 10 | Payment of King Street Note Payable (scheduled principal payments) | \$ 1.42 |
| 11 | Budgeted Operating Fee Requirements | \$ 79.27 |
| 12 | Corporate Federal CU Operating Fees | \$ (0.30) |
| 13 | Natural Person FCU Operating Fees Required | \$ 78.97 |
| 14 | Fees projected with Asset Growth of 5.10% | \$ (96.78) |
| 15 | Difference | \$ (17.81) |
| 16 | Average Rate Adjustment Indicated (line 15 divided by line 14) | -18.40% |

PROPOSED 2014 OPERATING FEE SCALE

FY2013 Natural Person Federal Credit Union Scale

| <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 |

FY2014 (Proposed) Natural Person Federal Credit Union Scale

| | | |
|---------------------------------|---------|---------------------------------------|
| Projected FCU asset growth rate | 5.10% | Change in asset level dividing points |
| Operating fee rate change | -18.40% | Change in assessment rate percentages |

| <u>Asset Level</u> | | <u>Operating Fee Assessment</u> | | | |
|--------------------|-----------------|---------------------------------|--------------|---------------------|-----------------|
| \$0 | \$1,000,000 | \$0.00 | | | |
| \$1,000,000 | \$1,172,780,934 | \$0.00 | + 0.00018450 | X total assets over | \$0.00 |
| \$1,172,780,934 | \$3,548,817,485 | \$216,378.08 | + 0.00005377 | X total assets over | \$1,172,780,934 |
| \$3,548,817,485 | and over | \$344,137.57 | + 0.00001795 | X total assets over | \$3,548,817,485 |

FY2014 (Proposed) Corporate Federal Credit Union Scale

| <u>Asset Level</u> | | <u>Operating Fee Assessment</u> | | | |
|--------------------|---------------|---------------------------------|--------------|---------------------|---------------|
| \$50,000,000 | \$100,000,000 | \$10,606.50 | + 0.00019870 | X total assets over | \$50,000,000 |
| \$100,000,000 | and over | \$20,541.50 | + 0.00001230 | X total assets over | \$100,000,000 |