BOARD ACTION MEMORANDUM

TO: NCUA Board **DATE:** December 16, 2020

FROM: Chief Financial Officer Digitally signed by EUGENE SCHIED Date: 2020.12.16 20:12:07 -05'00' **SUBJ:** 2021 – 2022 Budget

ACTION REQUESTED: Board approval of the 2021 – 2022 Operating Budget, Capital Budget, and Share Insurance Fund Administrative Budget.

DATE ACTION REQUESTED: December 18, 2020

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 determination of the budgeted annual expenses for the agency's operations, the Board determines a fee schedule to assess federal credit unions. The Board 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 connection with federal credit unions.[3] 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.[4]

In accordance with its authority[5] to use the National Credit Union Share Insurance Fund to carry out a portion of its responsibilities, the Board approved an Overhead Transfer Rate (OTR)

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[1] *See* 12 U.S.C. 1752a(a).
[2] *See* 12 U.S.C. 1766(i)(2).
[3] *See* 12 U.S.C. 1755(a)-(b).
[4] *See* 12 U.S.C. 1755(d).
[5] *See* 12 U.S.C. 1783(a).

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.

At the end of the calendar year, NCUA's financial transactions are subject to audit in accordance with Generally Accepted Accounting Principles.[6]

SUMMARY:

The updated 2021 – 2022 Budget Justification is included as Attachment 1. Compared to the funding levels shown staff draft version of the budget published in the *Federal Register*, the total NCUA budget is reduced by $1,132,000 in 2021 and $20,728,000 in 2022. The Budget Justification has also been updated to respond to relevant comments from the public. The staff draft was posted to the NCUA website on November 13, 2020, and an identical version was published in the *Federal Register* on November 19, 2020. A number of revisions were made to the staff draft to provide more information about the NCUA's staffing decisions, programs, and fee calculations, which supports the agency's multi-year effort to improve the transparency of its budgets and programs. These revisions are described in more detail below.

The updated Budget Justification includes information about the NCUA's Operating Budget, Capital Budget, and Share Insurance Fund Administrative Budget.

The funding levels in the 2021 draft Operating Budget were reduced by $1,007,000, for a revised total of $314,560,000, which is 0.4 percent lower than the Board-approved 2020 Operating Budget. The 2021 budget for travel expenses was reduced by 10.1 percent, or $1,233,000, compared to the draft budget amount because the agency expects that lessons learned during the pandemic about remote and off-site work will lead to lower levels of travel in 2021. Funding for one of the two new Senior Staff Positions (SSP) proposed in the staff draft budget is now aligned to the Office of the Executive Director (OED) to support financial technology and access. This new Director of Financial Technology and Access position will be at the SSP 2 level, and one additional CU-15 position has been added to OED to support this function. The second SSP proposed in the staff draft budget has been aligned to OED[7] in anticipation of a new, full-time president of the Central Liquidity Facility (CLF), the salary for which will be paid at the SSP 2 level from the CLF.

Funding in the amount of $300,000 has been added to the OED budget for 2021 to develop and implement a mechanism(s), such as an examination survey, to get feedback from credit unions on their interactions with the agency. As noted below, the agency received a comment on the draft budget that the agency "improve accountability and reduce examination burden by adopting a formal feedback mechanism." Other modest adjustments were made to the staff draft to correct for administrative errors in several office budgets and to reflect updated information that was not available at the time of publication.

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[6] *See* 12 U.S.C. 1783(b) and 12 U.S.C. 1789.

[7] It should be noted that the CLF President reports to the NCUA Board, but the new SSP position has been aligned to OED for budget presentation purposes only.

The draft 2022 Operating Budget estimates were adjusted downward by $24,876,000 to reflect continued lower levels of employee travel in 2022, a return to the NCUA's more typical vacancy rate among its career staff, and a reclassification of a portion of the 2022 contracted services budget to the 2022 Capital Budget.

The 2021 Capital Budget is unchanged from the staff draft version, and remains at $18,845,000. The 2022 Capital Budget was increased $4,273,000 compared to the staff draft budget.

The funding levels in the 2021 and 2022 draft Share Insurance Fund Administrative Budget were reduced by $125,000 to $7,973,000 to reflect the actual cost of support contracts for the NCUA Guaranteed Notes (NGN) program.

Total 2021 funding presented in the updated Budget Justification is $341,378,000, a decrease of 5.2 percent from the 2021 level approved by the Board in December 2019 and a decrease of 1.7 percent from the Board-approved 2020 level.

Total 2022 funding presented in the updated Budget Justification is $343,490,000, which represents an increase of 0.6 percent compared to the updated 2021 funding level, but which is a decrease of 5.7 percent from the 2022 level presented in the staff draft.

In addition to funds presented in the updated Budget Justification, the Office of the Chief Financial Officer estimates that approximately $10.4 million in funding made available for travel costs in 2020 will not be spent before the end of the year. Approximately $3.7 million of these funds can be used to retire the Central Office note by the end of 2020. The remaining balance of unspent 2020 travel budget can be used in 2021 to offset approximately $5.8 million in anticipated travel costs, and $0.9 million in anticipated costs related to the COVID-19 pandemic.

PROVISIONS FOR THE 2021 – 2022 BUDGET:

In approving the 2021 – 2022 Budget, the NCUA Board approves the following provisions:

<u>Staffing Levels</u>

Unless otherwise approved by the NCUA Board, at any time in 2021 the agency may not exceed 1,192 full time equivalents (FTEs) and may not have more than 1,229 federal employees onboard. The six remaining overhire positions provisioned as part of the 2017 agency reorganization may not be filled when vacated by the incumbents, and any of the positions vacated by the incumbents during 2021 are to be deducted from the maximum number of federal employees that may be onboard during 2021. Any staff hired in 2021 for the Credit Union Examiner 0580 occupational series using the temporary COVID-19 hiring authority provided below are exempt from these limits.

Unless otherwise approved by the NCUA Board, at any time in 2022 the agency may not exceed 1,187 full time equivalents (FTEs) and may not have more than 1,224 federal employees onboard. The limit on the total number of federal employees onboard shall be reduced by the number of 2017 agency reorganization overhire positions vacated by the incumbents in 2021 or 2022. Any staff hired in 2021 or 2022 for the Credit Union Examiner 0580 occupational series using the temporary COVID-19 hiring authority provided below are exempt from these limits.

Temporary COVID-19 Hiring Authority

Addressing the impact of COVID-19 on credit unions and the NCUA is one of the agency's top priorities. To be better positioned to respond to the uncertainties associated with the COVID-19 pandemic, the NCUA Board delegates to the Executive Director temporary hiring authority to prepare for and address how the pandemic and associated economic conditions may affect the safety and soundness of credit unions. This temporary hiring authority expires on December 31, 2021.

On August 21, 2020, the Office of Personnel Management (OPM) granted the NCUA delegated dual compensation reduction (salary offset) waiver authority to provide the agency with additional hiring flexibility to address the financial and operational impacts of the COVID-19 pandemic on credit unions. This authority provides the NCUA the ability to hire, without a reduction to their federal annuity, up to 30 individuals who have retired from federal service into a position classified in the Credit Union Examiner 0580 occupational series. This authority allows the NCUA to add staff who are already trained and have experience examining depository financial institutions so as to be better prepared to respond to any elevated levels of problem institutions that occur in 2021 or 2022. These positions are two-year, not-to-exceed appointments, meaning that any employees hired under this program can serve a maximum of two years, and the appointments can be ended prior to the end of the two-year term if they are no longer needed.

Under this temporary COVID-19 hiring authority, the NCUA Board authorizes the Executive Director, working in consultation with the Chief Human Capital Officer, Regional Directors, and ONES Director, to fill with qualified, retired federal employees, as many of the 30 positions that can be funded by using any 2020 unspent Operating Budget funds not already reprogrammed in 2020 or made available to offset the costs of 2021 agency operations (remaining 2020 Operating Budget funds). The NCUA Board expects that the agency staff will make concerted efforts during the first half of 2021 to fill as many of the 30 positions that can be funded by using remaining 2020 Operating Budget funds. Staff will present as part of the 2021 mid-year budget briefing a plan for NCUA Board approval to fill any remaining positions, as well as any additional positions needed to address the condition of the credit union system and any economic challenges present or reasonably foreseeable, through hiring new or retired federal employees and/or contractors. The plan will also consider whether any outstanding positions vacant at that time are no longer needed, or should be repurposed to address emerging needs and priorities. The staff plan will be based on the best information available at that time, and will take into account funding available from any remaining 2020 Operating Budget funds and any 2021 funds available for reprogramming.

The actual level of remaining 2020 Operating Budget funds will be available by February 2021 after completion of the annual financial statement audit, and based on updated estimates, is anticipated to be sufficient to fund all 30 positions in 2021. These positions may only be used to conduct examination and supervision work, or to supervise such work, under the NCUA's existing Small Credit Union Examination Program and Risk-Focused Examination Program. Unless otherwise approved by the NCUA Board, positions filled using this temporary COVID-19 hiring authority may not be used to staff any new, or other than routine modifications to, examination, supervision, or other agency programs, nor as a substitute for existing personnel so as to be able to use the existing personnel to staff any such new or modified program.

ACCESS Initiative

It is the policy of the NCUA Board that the Advancing Communities through Credit, Education, Stability, and Support (ACCESS) initiative is one of the top agency priorities for 2021. Specific objectives and deliverables for ACCESS in 2021 will be addressed in the NCUA's 2021 Annual Performance Plan to be presented for Board approval at the January 2021 Board meeting.

Director of Financial Technology and Access

With the creation of the Director of Financial Technology and Access, the NCUA Board retains certain personnel authority for the position, consistent with the same authority retained by the NCUA Board for the Regional Directors and Director of Examination and Insurance. As a result, delegation HR 1C is amended to include the Director of Financial Technology and Access.

Reorganization Plan

In 2018, the NCUA Board approved funding to pay for expenses related to the NCUA's most recent reorganization plan, including the costs of renovating the NCUA Central Office building. At that time, the NCUA Board also delegated authority through 2020 for the Executive Director to reallocate funding within the approved reorganization funds. Because of delays related to the COVID-19 pandemic, the agency has not completed the entirety of the renovations planned for 2020. The authority to spend the remaining balances of the previously approved reorganization budget, and the delegated authority for the Executive Director to reallocate any such funding, is extended until December 31, 2021.

Consumer Compliance Program Officer

The additional Consumer Compliance Program Officer position to be added to the Office of Consumer Financial Protection (OCFP) in 2021 is intended to provide an additional resource to aid in developing a proposal to enhance consumer compliance examination procedures for the largest credit unions that are not primarily examined for consumer financial protection by the CFPB. This will be a temporary position with a term not to exceed 1 year. An additional existing NCUA staff member will be detailed to OCFP to support this project. The Director of OCFP will deliver a report to the NCUA Board no later than October 15, 2021, with options regarding the enhanced procedures and the cohort of credit unions that would be subject to them. The report will also include associated considerations and cost estimates for each option identified, a summary of results from any pilot testing of examination procedures, and a recommendation regarding the options identified in the report from the Director of OCFP, the Director of the Office of Examination and Insurance, the Director of the Office of National Examinations and Supervision, and from each Regional Director. Staff will also seek the views of the state supervisory authorities in developing the recommendations, as appropriate. Any changes to the NCUA's examination and supervision procedures and program related to consumer financial protection that are not routine – that is they would have a material budget impact, or require a material reallocation of resources within the existing budget, and are not required by changes in applicable laws and regulations – must be approved by the NCUA Board.

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 2, 2020 to discuss the draft budget, which was streamed live on the NCUA website. At that meeting, representatives from three independent national associations presented their views on the draft budget. The NCUA also received several written statements from organizations that did not make presentations at the budget briefing. All written submissions were collected and posted to the NCUA website (see: https://www.ncua.gov/about/budget-strategic-planning/budget-supplementary-materials).

Many of the general comments received from the public about the 2021 – 2022 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.

One commenter requested additional information about the new staff positions proposed in the 2021 budget. The attached Budget Justification explains in more detail the new positions recommended for 2021.

One commenter expressed 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 2021 to "support low-income designated credit unions, minority credit unions, and any credit union seeking to expand its field or membership or to pursue these designations." Another commenter noted dissatisfaction with the level of support provided in NCUA budgets for chartering *de novo* credit unions. The 2021 budget includes $250,000 in the Office of the Executive Director for support of the ACCESS initiative, and provides sufficient resources for CURE to carry out its responsibilities, which includes chartering credit unions.

One commenter recommended that the NCUA use cost-benefit analysis to make budget decisions and include the results of such analyses in future budget documents. As noted in response to a similar comment made about the 2020 – 2021 budget, cost-benefit analysis is a useful tool for evaluating many policy decisions that impact the public directly, and the NCUA already conducts detailed cost-benefit analyses of rulemakings that have a significant economic impact. From the perspective of the NCUA's executive management, however, rigorous cost-benefit analysis of annual budgetary decisions would be unlikely to offer substantial benefit compared to the cost of establishing such an analytical function within the Office of the Chief Financial Officer. Many of the changes in the annual budget are the result of general price inflation or specific contractual price escalation, and the NCUA already has several business processes focused on containing such cost growth, such as cyclical contract re-solicitation and the annual budget review that evaluates each year the necessity of office programs and associated support costs. In addition, because over 75 percent of the Operating Budget pays for employee compensation, the agency conducts a yearly review of its projected workload to ensure that its workforce will be able to carry out its statutory and mission requirements efficiently and effectively. Finally, as the agency makes strategic decisions about its operations and programs – either through the budgetary process or in response to changing economic or financial conditions impacting the credit union system – it uses an Enterprise Risk Management (ERM) approach to evaluate its responses to risks and opportunities in order to ensure its decisions are consistent with its strategic plans, statutory responsibilities, and mission goals.

One commenter discouraged the NCUA Board from charging premium assessments for the National Credit Union Share Insurance Fund (SIF), noting that "the SIF's annual investment income must be sufficient to cover, among other things, the difference between the equity ratio and credit unions' one percent capitalization deposit." The NCUA is only authorized to invest SIF deposits in securities issued by the U.S. Treasury. Current returns on the SIF investment portfolio are lower than historic performance given the generally low interest rate environment, and the NCUA has no authority to pursue alternate investment strategies in debt or equity securities. Generally speaking, the NCUA Board charges SIF premium assessments only after a thorough public review of the fund's financial performance and outlook, and only in order to maintain the health of the fund or to meet the statutorily-required minimum equity ratio.

One commenter raised concerns about growth in the NCUA's contracted services budgets, specifically noting that "[t]his portion of the Operating Budget continues to see one of the largest percentage increases in 2021." It is true that the contracted services portion of the operating budget did increase in 2021 by the largest percentage of all of the budget categories. However, and as explained in the Budget Justification, growth in the contracted services budget category is the result of completing new information technology capital projects and the transition of these new systems to an operating and maintenance stage. Given the growing complexity of the agency's information technology systems, the planned deployment of additional new systems in future years, and the need for constant reinvestment in such systems to maintain their functionality and efficacy, the agency expects continued increases in the contracted services budgets in future years. It should be noted that NCUA's capital budget will decrease for 2021.

Two commenters encouraged the NCUA Board to continue to identify cost-savings opportunities by conducting more virtual examinations, with one of those commenters adding that the Board should not use unspent 2020 travel funds to pay for travel in 2021 and instead apply an across-the-board reduction to the agency's travel budget. The NCUA Board is interested in how lessons learned during the pandemic can improve the agency's virtual examination posture and in November 2020 allocated $700,000 in unspent 2020 travel funding to a project intended to improve the agency's ability to conduct virtual credit union examinations. Given the time it will take to institute the recommendations that result from the virtual examination project, and the uncertain economic outlook for 2021, the attached Budget Justification recommends that a portion of 2020 travel funding be made available in 2021 if required. Even when including these 2020 balances, the 2021 travel budget is approximately 33 percent lower than the comparable 2020 level, and if the agency is able to conduct its work with less travel than the past, any unspent funds can be repurposed for other emergent priorities in 2021 or to reduce 2022 funding needs.

One commenter requested the NCUA continue to find ways to reduce its Capital Budget as it rolls out MERIT and keep credit unions informed of the progress of the rollout. Another commenter raised related questions about how the NCUA measures the results of investments in the Enterprise Solution Modernization (ESM) program. The NCUA's rollout of MERIT is scheduled for the third quarter of 2021. Once NCUA and State Supervisory Authority users are trained on MERIT and the associated applications, the agency anticipates phased access for credit unions to NCUA Connect and MERIT. The NCUA will provide user guides and training materials to assist with this transition, and is committed to communicating about these changes and anticipates the following in 2021:

- A Letter to Credit Unions about the modernization and new applications;
- Updates to the Enterprise Solution Modernization webpages on the NCUA website; and
- Training on MERIT and the related systems.

One commenter noted that since state regulators and state credit unions alone will bear the capital cost of computers and computer software going forward, the SIF should carry a much smaller percentage of NCUA's computer, software and other capital charges than NCUA allocates to its role as the FCU chartering authority. To clarify the NCUA's approach for capital costs, the SIF Administrative Budget only covers the cost of computers or other technology expenses provided directly to state supervisory authorities, and the Capital Budget covers agency-wide capital expenditures. To allocate the NCUA budget more equitably across the credit union system, capital project budgets are now included in the OTR calculation. The 2021 capital budget includes $807,000 for enterprise laptop leases for all NCUA examiners and staff. The laptop capital expenditure and the remaining $18 million of capital expenditures are necessary for NCUA's function as both regulator and insurer of the majority of the credit union industry, and thus are shared proportionately among charter types in the OTR calculation. The OTR calculation ensures that only the insurance-related portion of these costs is funded by the SIF. The cost distribution among charter types for these expenditures is based on each charter's proportion of insured shares to total insured shares.

Two commenters expressed concerns regarding any expansion in consumer projection activity and expressed the opinion that altering the agency's risk-focused examination process and substantially increasing examination-related expenditures is not warranted. The NCUA's Mission Statement says the NCUA will provide, <u>through regulation and supervision</u>, a safe and sound credit union system. Within the NCUA *Strategic Plan*, strategic goal two strives to effectively manage the balance between regulatory flexibility and responsible oversight. A key strategic objective is to <u>enforce federal consumer financial protection laws and regulations in</u>

federal credit unions. This is accomplished by the stated Performance Goal 2.2: Assess compliance with consumer lending and deposit laws and regulations.

The NCUA's examination process is not designed to exclusively assess safety and soundness risk; the agency also has a clear mandate to protect the members who own the credit unions and enforce compliance with applicable laws and regulations. In fact, Congress has specifically charged the NCUA to enforce most consumer financial protection laws and supervision of such laws is a key factor in properly executing this enforcement mandate. The 2021 budget would add one position in OCFP to assist in developing a report to the NCUA Board no later than October 15, 2021, with options regarding enhanced consumer compliance examination procedures and the cohort of credit unions that would be subject to them.

One commenter encouraged the NCUA to establish a formal feedback mechanism to improve accountability and reduce examination burden, further suggesting it could be akin to the Federal Deposit Insurance Corporation's (FDIC) post-examinations survey. The 2021 budget has been revised to include $300,000 for the purpose of studying and developing feedback mechanisms.

One commenter recommended the agency explore additional opportunities to leverage existing cybersecurity expertise from other regulators through the Federal Financial Institutions Examination Council (FFIEC) to help eliminate overlap and knowledge gaps within the agency that may be hard to fill. The commenter also noted that to the extent the NCUA may be contemplating additional examination powers through legislative changes, the industry requests greater transparency regarding the budgetary impact of such proposals, regardless of their merits.

In the 2021 budget, the NCUA's cybersecurity examination programs – the Information Systems and Assurance Program (ISAEP) – are focused on maintenance of the Automated Cybersecurity Evaluation Toolbox (ACET) self-assessment solution, training all examiners on critical security control implementation and effectiveness and providing cybersecurity examination specialist with advanced research and advisory resources as to the latest industry insights, advice and tools to keep pace with the emerging information technology and assurance trends.

In addition to the ACET self-assessment, the ISAEP also contains the new Information Technology Risk Examination for Credit Unions (InTREx-CU). The NCUA has not required any additional funds for this solution as the agency already maximized the previous capabilities of the FDIC and the FFIEC. Instead of building a new tool, the agency utilized a working group of NCUA examiners to tailor the InTREx-CU solution to accomodate the breadth of credit information security program sizes and complexities. Furthermore, the NCUA's use of the FFIEC Cybersecurity Assessment Tool (CAT), its adoption of the InTREx solution, and its attempts to leverage the Federal Banking Agency (FBA) Significant Service Provider Review Program, illustrate how the NCUA is committed to providing cost-effective and harmonized supervision and examination solutions. However, the NCUA is not contemplating requesting other agencies conduct its statutorily-mandated mission.

One commenter requested additional analysis regarding certain cybersecurity related investments, and questioned whether security-related expenses associated with MERIT, InTREx-

CU, and ongoing Federal Information Security Management Act (FISMA) compliance are mainly one-time costs reflecting the need to upgrade systems or whether they are expected to be ongoing costs. The commenter also encouraged the NCUA to explain how it determines whether IT or cybersecurity related costs are proportional to the agency's overall risk tolerances. Because FISMA requirements are established in law and apply to the NCUA like any other federal agency, the NCUA itself does not have flexibility in determining whether it can accept more cybersecurity risk in exchange for reducing the cost of FISMA compliance. Just as the level of cybersecurity threats that could impact credit unions continue to evolve and grow, federal agencies must protect themselves from similar cybersecurity threats that become more complex as time passes. In future briefing materials and budgets the agency will seek to provide additional information on how cybersecurity investments address the evolving threat and the combination of one-time investments and recurring costs.

One commenter noted that despite several years of public budget briefings and testimony from interested parties, it is difficult to identify changes made to the NCUA's budgets based on public input. In response to this comment, it is important to note that each Budget Justification presented to the Board for consideration is accompanied by a Board Action Memorandum (BAM), which summarizes the agency's responses to public comments on the draft budgets. These BAMs are posted on the NCUA's public website, which provides a historic record of the specific actions taken by the agency in response to public comments on the 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 PROGRAMS:

The NCUA's expenses are funded primarily through fees paid by federal credit unions and transfers from the SIF using the Overhead Transfer Rate (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.

In July 2020, the NCUA Board approved publication in the *Federal Register* and requested public comment about several proposed changes to the NCUA Operating Fee regulation and the methodology for calculating the Operating Fees charged to Federal Credit Unions. The Board also approved for publication in the *Federal Register* an explanation of the OTR methodology and requested public comments about that methodology. The estimates and calculations below are predicated upon the revisions proposed by the agency, and are subject to final Board approval.

To promote transparency about how the NCUA finances its programs, pages 55 through 63 of the updated Budget Justification include a discussion of the methodology for calculating the OTR and the current and proposed methodologies for calculating the Operating Fee.

The OTR estimates presented in the updated Budget Justification have not changed. The final

2021 Overhead Transfer Rate remains at 62.3 percent. This is an increase of 100 basis points from the 61.3 percent rate calculated for the 2020 budget. The residual 37.7 percent of the 2021 budget will be collected through the Operating Fee.

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 on pages 62 and 63. Based on the revised Operating Fee methodology expected to take effect in 2021, the Operating Fee charged to federal credit unions will decrease 19.6 percent compared to 2020, a 19 basis point reduction from the estimate provided in the staff draft. Under the proposed methodology, the Operating Fee will be assessed on federal credit unions based on the average of Call Report data filed on December 31, 2019, March 30, 2020, June 30, 2020, and September 30, 2020. Based on the same Call Report data for the same quarters of the corresponding previous years, annual asset growth is calculated at 12.1 percent.

As shown on page 60 of the updated Budget Justification, federal credit unions cover 69.0 percent of the costs of the NCUA's operations, while federally insured state-chartered credit unions pay 31.0 percent. 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 fee rate applied to assets under $1.5 billion will decrease from $272 per one million dollars of assets in 2020, to $219 per one million dollars of assets in 2021, a decrease of $53 per million, or 19.6 percent. Federal credit union assets between $1.8 billion and $5.5 billion would be assessed at a rate of $64 per million, and assets above $5.5 billion would be assessed at $21 per million, both of which are also 19.6 percent lower than the comparable 2020 levels. The fees estimated for 2021 are approximately the same as the levels presented to the NCUA Board in the staff draft budget.

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

1. The 2021 Operating Budget of $314,560,000 and 1,187 FTEs and the 2022 Operating Budget of $316,890,000 and 1,182 FTEs.

2. The 2021 Capital Budget of $18,845,000 and the 2022 Capital Budget of $18,845,000.

3. The 2021 Share Insurance Fund Administrative Budget of $7,973,000 and five FTEs and the 2022 Share Insurance Fund Administrative Budget of $7,755,000 and five FTEs.

4. The requirements discussed in the "Provisions for the 2021 – 2022 Budget" section of this memorandum.

5. That $3,700,000 from unspent 2020 travel balances is available for payment of the Central Office note in 2020.

6. That $6,700,000 from unspent 2020 travel balances is available for expenditure in 2021 from the Operating Fund for travel and pandemic-related expenses.

7. That unspent 2020 Operating Budget funding shall be available for expenditure in 2021 from the Operating Fund for employees hired using the temporary COVID-19 hiring authority as described in this memorandum, and use of this authority is delegated to the Executive Director.

8. That delegation HR 1C is amended to include the Director of Financial Technology and Access.

9. An extension through December 31, 2021, of the availability for expenditure of previously-approved reorganization funds, and an extension through December 31, 2021, of the Executive Director's authority to reallocate such reorganization funds.

ATTACHMENT:

2021 – 2022 Budget Justification