Indiana Credit Union League

The association of Indiana credit unions

August 29, 2017

Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Comments on Revised Overhead Transfer Rate Methodology

Dear Mr. Poliquin:

The Indiana Credit Union League (ICUL) appreciates the opportunity to submit comments on the National Credit Union Administration's (NCUA) proposed changes to the Overhead Transfer Rate Methodology. The ICUL member credit unions represent 99 percent of assets and members of Indiana's credit unions, with those memberships totaling more than 2.4 million consumers. We represent 36 state-chartered credit unions and 100 federally chartered credit unions (FCUs) in the state of Indiana. Although we have more federally chartered credit unions than state-chartered credit unions, the state-chartered credit unions represent 55 percent of Indiana's CU total deposits.

We are in agreement with the approach of continuing to use a formula to calculate the overhead transfer rate (OTR) with the objective of creating a fair and equitable system to establish the OTR. We do have concerns with certain aspects of setting the percentages of NCUA's operating budget to be covered by the OTR. Per NCUA's write up on the proposed changes, under the revised methodology federal credit union operating fees would increase by 24%. We believe that an increase of this size would not be received positively by FCUs, regardless of how much the new methodology "reduces the complexity of the OTR methodology" or "reduces the resources needed to administer the OTR."

The proposed change that we have the greatest concern with is the allocation of time spent examining and supervising federal credit unions as 50 percent insurance related costs (and covered by the OTR). Since this is the largest percentage of costs covered by the OTR we want to see a more detailed analysis on how this percentage was determined. The only justification provided is that this "mathematically emulates an examination and supervision program design where NCUA would alternate examinations, and/or conduct joint examinations, between its insurance function and its prudential regulator function if they were separate units within NCUA." Additionally, NCUA states that "this is consistent with the alternating examinations FDIC and state regulators conduct for insured, state-chartered banks..." The current OTR methodology allocates examination expenses based on time surveys completed by the examiners. While the time surveys are potentially subjective, and we believe ongoing training is needed to ensure the proper allocations are made in the surveys, they do provide additional detail necessary to more correctly allocate these expenses. We encourage NCUA to take the additional time to better analyze the data to establish the percentage allocations utilizing more precise data rather than a simple 50/50 split that emulates a non-existent structure within NCUA or is an attempt to be consistent with the structure at the FDIC.

As an organization that represents both federally and state-chartered credit unions, we are strong proponents of a fair and equitable system to determine the overhead transfer rate so that neither group will be unduly burdened or disadvantaged. We believe that the proposed methodology is a step in the right direction; however, we believe that the proposal could be improved with additional time spent on further analysis to more accurately allocate the examination expenses.

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Thank you for the opportunity to comment on the proposed change to the Overhead Transfer Rate Methodology. If you have any questions about our letter, please do not hesitate to give me a call at (317) 594-5320.

Sincerely,

John McKenzie

John McKenzie
President, Indiana Credit Union League