



3138 10th Street North
Arlington, VA 22201-2149
P: 703.842.2215 | 800.336.4644
F: 703.522.2734
dberger@nafcu.org

B. Dan Berger
President & Chief Executive Officer

National Association of Federal Credit Unions | nafcu.org

April 22, 2016

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

RE: Comments on NCUA's Operating Fee Methodology

Dear Mr. Poliquin:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only national trade association focusing exclusively on federal issues affecting the nation's federally insured credit unions, I am writing to you regarding the National Credit Union Administration's (NCUA) Operating Fee methodology. NAFCU appreciates this opportunity to provide comments on the methodology by which NCUA determines the aggregate amount of Operating Fees charged to federal credit unions (FCUs) to cover non-insurance related activities. NAFCU strongly believes that a full and transparent system is the only way to produce an objective mechanism for funding agency operations.

Under section 105 of the *Federal Credit Union Act* (FCU Act), the NCUA Board has the authority to assess an Operating Fee on FCUs to finance non-insurance related expenses incurred in carrying out its responsibilities under the FCU Act. Pursuant to the FCU Act, the Board creates the methodology to accomplish this, determining the period for the fee, the method of assessment, and the date of payment. As the agency is aware, the foundation for the current Operating Fee methodology has remained largely consistent since 1979.

Under the FCU Act, the Board has three requirements in connection with assessing an Operating Fee on FCUs:

- (1) The fee must be assessed according to a schedule or schedules, or other method that the Board determines to be appropriate, which gives due consideration to NCUA's responsibilities in carrying out the FCU Act and the ability of FCUs to pay the fee;
- (2) The Board must determine the period for which the fee will be assessed and the due date for payment; and
- (3) The Board must deposit collected fees into the Treasury to defray the Board's expenses in carrying out the FCU Act.

In regards to the first requirement of considering a FCU's ability to pay, FCUs with less than \$1 million in assets are exempted from the annual Operating Fee, whereas FCUs with more than \$1 million in assets pay annual Operating Fees scaled to asset size.

The first step in determining the Operating Fee schedule is to increase each asset tier from the prior year by the projected asset growth rate. Assets are indexed annually to preserve the same relative relationship of the scale to the applicable asset base. In order to annually index asset sizes, the Office of Chief Economist uses three different methods to forecast asset growth, and thereby, readjust the annual Operating Fee asset thresholds. The agency then combines these different forecast models in order to increase its accuracy and decrease the likelihood of forecast errors.

While NAFCU appreciates the agency's efforts to be transparent and objective as it forecasts and indexes the Operating Fee asset thresholds, we urge the agency to conduct a thorough third-party review of its forecast models, similar to the review of the agency's Overhead Transfer Rate methodology. NAFCU believes that this review is necessary in order to achieve third-party validation of an objective methodology. This will have the added benefit of increasing the accuracy of agency forecasts, and thus, reducing the need for subsequent fee adjustments.

Finally, although NAFCU supports formula-based methodologies that remove subjectivity from the Operating Fee calculation, we remain disappointed by the Board's November 2015 vote, which delegated authority to agency staff to approve and administer the Operating Fee schedule without Board oversight. Allowing for annual Board oversight of the Operating Fee enables the Board to consider policy implications that might not otherwise be considered or appreciated by staff. Accordingly, we strongly urge the agency to reinstate Board authority for final approval of the Operating Fee schedule.

NAFCU appreciates the opportunity to comment on the Operating Fee methodology. Should you have any questions or would like to discuss these issues further, please contact me, or Carrie Hunt, NAFCU's Executive Vice President of Government Affairs, at (703) 842-2234 or chunt@nafcu.org.

Sincerely,



B. Dan Berger
President & Chief Executive Officer