Mary Ann Woodson: Thank you.

Debbie Matz: Now we will hear about NCUA's proposed Overhead Transfer Rate. Staff presenting: Melinda Love, Director, Wendy Angus, Director of Risk Management, and Tim O'Quinn, Loss Risk Analysis Officer, Office of Examination and Insurance. Good morning, everybody.

Melinda Love: Good morning. We are here to present the 2011 Overhead Transfer Rate recommendation. Wendy will provide a brief overview of the methodology used to compute the rate and then Tim will walk through some slides that discuss the primary components of 2011's rate calculation. Wendy?

Wendy Angus: Thank you. As you know the NCUA Operating Fund is financed primarily through two sources. First, all federal credit unions are assessed an annual operating fee. And second, the Federal Credit Union Act authorizes NCUA to extend funds from the Share Insurance Fund for administrative and other expenses related to insurance activities, in other words safety and soundness activities, performed for all federally insured credit unions, both federal charters and federal insured state-charters.

On a monthly basis the Office of the Chief Financial Officer transfers funds from the Share Insurance Fund to the NCUA Operating Fund to cover the percentage of the actual operating expenses related to these insurance activities. This percentage is the Overhead Transfer Rate. The 2010 Overhead Transfer Rate was 57.2%. So each month this year, the Office of the Chief Financial Officer transferred 57.2% of the actual operating expenses from the Share Insurance Fund to the NCUA Operating Fund.

In 2003 the board approved the methodology we currently use to calculate the Overhead Transfer Rate. Since then the board has set the rate annually based on the results of our approved methodology. The process was designed to equitably distribute costs between NCUA's two roles as regulator of federal credit unions and insurer of shares in all federally insured credit unions.

This year we contracted Price Waterhouse Cooper's to evaluate our methodology approved in 2003. And the firm's draft report indicates they found the methodology to be equitable and no material weaknesses.

The formula incorporates four key factors. The first are the results of the exam time survey conducted between June 2009 and May 2010, NCUA's 2011 resource workload budget and financial budget, the distribution of insured shares between federal charters and federally insured state-charter credit unions, and the value of insurance related work conducted by state regulators.

The approved method has provided consistent means for equitably distributing costs between federal credit unions and federally insured state-chartered credit unions by taking all of these factors into consideration. Tim will go over in more detail the specific items that went into our formula for the 2010 transfer rate. Thank you.

Tim O'Quinn: The formula includes 104,000 additional hours budgeted for examination supervision work in all credit unions, the budget changes approved for the cost of NCUA resources and programs, the slight change in the insured share distribution and the imputed value of insurance related work completed by state regulators.

Included within the 104,000 hours is 38,000 additional exam and supervision hours in federally insured state-chartered credit unions which materially impacts the calculation. The first slide illustrates the increase in core program budget hours for 2011.

The next slide shows the increase in NCUA exam and supervision time in state-chartered credit unions. The examination time survey process is another key factor that goes into the formula to calculate the Overhead Transfer Rate. We used all principal examiners and randomly selected supervisory groups from each of our five regions. The next slide illustrates the increase in insurance related activity during this survey period.

After factoring these changes into the approved formula of the Overhead Transfer Rate increased from 57.2% approved for 2010 to the recommended level of 58.9% for 2011. The next slide shows the increase in the 2011 Overhead Transfer Rate.

Next slide, thank you.

The final two slides illustrate the funding sources of the $225.4 million NCUA operating budget for 2011. $86.08 million or 38.2% of the overall 2011 budget will be paid by federal credit unions through the operating fee.

An additional $132.8 million is funded from the Overhead Transfer. The Overhead Transfer is distributed between federal credit unions and federally insured state-charter credit unions based on the percentage of insured assets. Federal credit unions hold 54.4% of insured assets while federally insured state chartered credit unions hold 46.6% of insured assets.

Christiane Gigi Hyland: 45.6%.

Tim O'Quinn: 45.6%, excuse me. I apologize for that. Based on the distributions, $72.2 million of the Overhead Transfer is allocated to federal credit unions in addition to the $86.08 million in operating fees. This results in a total of $158.2 million or 70.2% of the overall 2011 budget paid by federal credit unions. $60.6 million of the Overhead Transfer is allocated to federally insured state-chartered credit unions. This results in 26.9% of the overall 2011 budget is paid by federally insured state-chartered credit unions.

We would be happy to answer any questions that you have at this time.

Debbie Matz: Thank you. This is very interesting, particularly this slide because I think it is not intuitive. People always think of the Overhead Transfer Rate as only affecting FISCUs. So this is a very illuminating slide that not only doesn't just affect FISCUs but the federal credit unions, in fact, pay more absolute dollars and more as a percentage than the FISCUs in terms of the Overhead Transfer Rate. So that is very interesting. Thank you very much. I have no questions. Board member Hyland?

Christiane Gigi Hyland: Thank you, Chairman. Just one question or two. You mentioned that you do the time survey and traditionally that really hasn't involved too many people. Traditionally how many folks have we had participate in a time survey?

Tim O'Quinn: For this period 31 principal examiners participated in the 2009/2010 cycle and there were a total of 265 surveys.

Christiane Gigi Hyland: Okay. So it is a little bit more. Traditionally it has been about 25 or so people as I remember. And you mentioned Wendy that, I think a couple of years ago, I think in 2009 we sought to have really an independent review of our methodology because we did our methodology in 2002. And we wanted to essentially double check it a couple of years ago. Obviously a lot of things happened; it took awhile for us to hire somebody and to get them on. But now you have a draft report if I understand from that review and you are looking at that and obviously seeing how our methodology will change if at all going forward. What was great to hear was that the company that we hired essentially, not certified, but said that our methodology is sound. Is that correct? And is equitable?

Wendy Angus: Yes, correct. And Price Waterhouse Cooper – we anticipate a final report towards the end of the year. And they do have some suggestions for refining our methodology. One of those, as you mentioned, is the number of surveys. And they would like to see us increase our randomly selected sample so we have a larger population. And we can do that beginning in the second quarter of 2011 without a problem. I would be happy to incorporate their refinements.

Christiane Gigi Hyland: That's great. Thanks for following up on that. I think it is really important that with the significant change in the economy and the significant change really of what we are seeing happen to credit unions and certainly in the corporate credit unions, I think it is really important that we look at our methodology on a regular basis just to make sure that it is comprehensive enough to really give us the calculations that we need, so thanks for following up on that. No further questions, thank you, Chairman.

Debbie Matz: Board member Fryzel?

Michael Fryzel: I have no questions.

Debbie Matz: Is there a motion?

Michael Fryzel: Yes, I move that the board establish an Overhead Transfer Rate of 58.9% for 2011.

Debbie Matz: Is there a second?

Christiane Gigi Hyland: Second.

Debbie Matz: All in favor say Aye.

Matz/Hyland/Fryzel: Aye.

Debbie Matz: The Ayes have it; motion carries. Thank you very much. And finally, NCUA's operating fee scale. Staff presenting: Chris McGrath, Budget Analyst, Office of the Chief Financial Officer. Good morning Chris.

Chris McGrath: Good morning. We have just finished board approval for the 2011 operating budget and the Overhead Transfer Rate. This presentation is the final piece of the 2011 budget. The funding of the budget by federal credit unions through the operating fee. This is a final piece because once we have the budget and the Overhead Transfer Rate, the amounts can be dropped into our model and we can determine the fee scale.

This is the same process as last year. The calculation model is set forth on attachment 1 of the Board Action Memorandum. The best way to view the operating fee requirements is [involved] to attachment 1. Please turn to attachment 1 which is on page 3.

NCUA believes its operations should be funded only for its cash needs. At the top of the page the first number you will see is $225.4 million which is the budget previously approved. Then the Overhead Transfer Rate which you previously approved is 58.9%. That is applied. This represents the amount of the budget that is paid for by the Share Insurance Fund. Line item three represents the [unfunded costs] of the Office of Corporate Credit Unions, explained on page 2 of the Board Action Memorandum. $3 million will be paid directly by the Share Insurance Fund.