



Kulm Office | PO Box 310 | Kulm, ND 58456
701.647.2448 | Fax 701.647-2449 | 877.304.0035
Ashley Office | PO Box 230 | Ashley, ND 58413
701.288.3439 | Fax 701.288.3430 | 877.588.3439
Hazleton Office | PO Box 225 | Hazleton, ND 58544
701.782.6841 | Fax 701.782.6831 | 866.782.6841

April 26, 2016

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

RE: Comments on OTR Methodology

Dear Mr. Poliquin:

My name is Harold Hagen and I am the President/CEO of the Hometown Credit Union in Kulm, ND. We are a small state chartered Credit Union that operates 3 branches in rural North Dakota. Our communities are small, with the largest having a population of about 800 and the smallest a population of about 200. We primarily serve farm and ranch members in south central North Dakota.

I would like to thank you for the opportunity to comment on the Overhead Transfer Rate and the assessment methodology utilized by NCUA to calculate this assessment. I firmly believe that the methodology used to calculate the OTR is broken and needs to be substantially changed, so as to restore fairness to all Credit Union's.

If you go back to 1986 through 2000, roughly 50% of NCUA's budget was paid for using the Overhead Transfer Rate. Today, it is estimated that 73% of the NCUA budget will be paid by via the OTR. This expenditure is now being unfairly assessed against State chartered credit unions and subsequently used to subsidize Federally chartered credit unions. In fact, I have calculated that if our Hometown Credit Union was being fairly assessed, our cost to fund the NCUA would be reduced by nearly \$18,000 per year. Now this may not be a lot of money to a large credit union but for our credit union this is significant. The OTR methodology is being unfairly used to shift the financial burden of operating the NCUA and this is having a very real financial impact on our credit union. I feel that you should respect a credit union's choice regarding whether to be state or federally chartered and not use the OTR to subsidize the federal charters. This inequity must end, it is unjustifiable and extremely unfair.

The NCUA is using a flawed assumption to support the mechanics of the methodology. It is assumed that all safety and soundness related rules and activities are solely insurance related. This flawed logic is not supportable, defies reason, and acts to distort the true cost to examine a Federally chartered credit union. I believe that we must correct the public policy related assumptions and effectively adjust the cost accounting allocations of overlapping safety and soundness expense. The application of these assumptions must be consistent with Congressional intent and also must also be consistent with the application applied by other state and federal regulatory agencies.

I feel strongly that the insurance regulatory related expenses for safety and soundness need to be allocated on a 50/50 basis between the chartering and insurance related examinations costs incurred during FCU examinations. This cost accounting allocation would essentially assign the safety and soundness costs to both the insurance and chartering roles of the NCUA.

When I look at the historical cost trends it is very obvious that the OTR assessment is being unfairly applied. The most drastic increase in this assessment came between 2013 and 2014. In that one year the State Chartered Credit Union's share of the NCUA budget increased by \$18.6 million dollars (a 27.8% increase), while the Federally Chartered Credit Union's total share of the NCUA budget increased, but by only \$10.6 million (a 5.80% increase). The NCUA effectively shifted a substantial portion of its total operating expenses to the NCUSIF and this enabled the NCUA to actually reduce the Federally Chartered Credit Unions operating fees by \$10.5 million. This begs the question: How can FCU operating fees decrease while the NCUA's overall budget increased by \$26.5 million? Furthermore, how can FCU operating fees decrease while the operating fees that the FDIC assessed against banks rose. The costs to enforce consumer compliance related changes alone, should have caused FCU operating fees to increase.

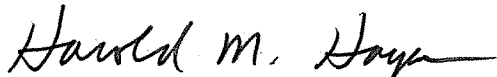
Now the worst part is that in 2014 the OTR assessment increased from 59.1% to 69.2% of NCUA's total budget, but today the OTR assessment is even higher, it is now roughly 73% of NCUA's total budget. This runaway train must reverse direction, because State Chartered Credit Union's are sick and tired of paying more than our fair share!

In closing, I would like to state that our credit union supports the dual chartering system and feels that it does a superior job in the examination process. We consult regularly with the ND Department of Financial Institutions and feel that our State Supervisory Authority is much more in tune with the needs of our credit union, and as such is able to provide fairer and more accurate risk assessments. I feel they reduce overall examination costs to the industry and are a very valuable resource in protecting our members and the NCUSIF.

Now, all I ask is that you restore equity, in the costs borne by State Chartered Credit Unions.

Thank you for your consideration.

Sincerely,



Harold M. Hagen
President/CEO
Hometown Credit Union
Kulm, ND