Dow Chemical
Employees' Credit Union

April 26, 2016

Sent electronically to: boardcomments@ncua.gov

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

RE: Comments on the NCUA's Overhead Transfer Rate Methodology

Dear Mr. Poliquin:

Dow Chemical Employees' Credit Union (DCECU) would like to thank the National Credit Union Administration (NCUA, "Agency") for their communication and transparency regarding the Overhead Transfer Rate (OTR) Methodology and for providing the opportunity to comment as an invested stakeholder. We strongly believe that a full and transparent system is the only way to produce an objective mechanism for funding agency operations.

DCECU, a nearly $1.6 billion institution serving 57,000 members via a charter issued by the state of Michigan and federal insurance through the NCUSIF, remains concerned about the methodology utilized to essentially charge state-chartered, federally-insured credit unions (SCFICUs) for insurance-related activities of the Agency. We support the concepts previously shared by Chairperson Debbie Matz in that we desire to support an OTR Methodology that is transparent, objective, equitable and neutral with respect to charter type. Our goal is to ensure fair distribution of the charges for supervision and insurance-related oversight.

TRANSPARENCY:

We applaud the agency for open communication and full transparency of the OTR Methodology so that those impacted stakeholders may provide feedback. We encourage the NCUA to continue this model of providing notice and allowing comment prior to amending or changing the OTR Methodology in the future. In addition, we have concerns that the delegation of the OTR Methodology from the Board to NCUA staff may have an adverse impact on transparency. Please reconsider this recommendation.

P.O. Box 1649 • Midland, MI 48641-1649
989.835.7794 • 800.835.7794 • Fax: 989.832.2622
www.dcecu.org

OBJECTIVE:

DCECU supports formula-based methodologies that remove subjectivity from the OTR calculation. The present OTR calculation, however, presumes that virtually all safety and soundness related examination costs are insurance related costs. There is an assumption that there is no safety and soundness oversight as it relates to the NCUA role as prudential regulator. We recommend that the NCUA rely on their examinations of FCUs, as well as state supervisory authority examinations as a cost savings to the insurance fund.

EQUITABLE:

DCECU maintains that the calculation and administration of the OTR methodology should not favour or disadvantage one type of credit union over another. We understand that NCUA relies on 12 USC 1783(a) to take funds from the NCUSIF to pay for its operations that are related to supervision of federally insured credit unions. However, the current OTR formula used by the NCUA, in essence, states that they have no responsibility for "safety and soundness" of FCUs that it charters since 100% of the costs are considered "insurance-related" and thus removed from the NCUSIF. These same costs would be incurred by NCUA solely as regulator of FCUs. Therefore it would seem appropriate that only costs associated with additional review/oversight of these institutions related to insurance concerns would be removed from the NCUSIF. We would request that a fair distribution of the charges for supervision of credit unions exists that would ensure that the state system would not subsidize the federal regulatory system.

Historical analysis of the OTR suggests that something may be amiss. The OTR has been increasing since the year 2000 and the ratio of OTR to total NCUA budget continues to climb to over 70% in 2016 without justification. In fact, from 2011 to 2015, the number of CAMEL 4/5 credit unions has decreased by almost half, logically reducing the cost of insurance-related activities. Since 2013, FCU operating fees have declined by nearly $15 million. An imbalance of the allocation between the insurance fund and the declining fees collected from FCUs has an inadvertent discriminatory effect on state charters that pay into the insurance fund.
Please review and ensure that the funding of safety and soundness examinations of FCUs is provided fully by FCU operating fees.

NEUTRAL:

Further, the NCUA is a federal regulator and should develop and implement policies in an impartial manner, yet the inexorable increase in the OTR over the past several years generally favors federally chartered credit unions through a reduction in operating fees. This creates the appearance of a conflict of interest between a federal regulator and federally chartered credit unions to the particular detriment of state-chartered credit unions.

To that end, we would discourage any NCUA action which would create a competitive advantage for one charter over the other. This issue was identified in a 2011 PricewaterhouseCoopers report that found: "lower federal operating fee makes the federal charter more attractive" and "extends a competitive edge to the federal charter over the state charter."

We thank and commend the NCUA for opening the Overhead Transfer Rate Methodology for comment and further encourage the Agency to continue allowing for notice and comment prior to amending or changing the OTR Methodology in the future. We respectfully ask the NCUA to evaluate the OTR Methodology to ensure objectivity, equity and neutrality with respect to charter type. We believe it is imperative that the NCUA ensure that operating fees fully fund the supervision and safety and soundness examinations of FCUs, leaving the OTR to fund insurance-related expenses only. Ideally, and in accordance with the Federal Credit Union Act, the NCUA shall examine FCUs as the charter supervisor and utilize FCU examinations and state supervisory authority examinations to reduce costs to the insurance fund.

Sincerely,

Dennis M. Hanson
President/CEO