

**7535-01-U**

**NATIONAL CREDIT UNION ADMINISTRATION**

**National Credit Union Administration Operating Fee Schedule Methodology**

**AGENCY:** National Credit Union Administration (NCUA).

**ACTION:** Notice.

**SUMMARY:** The NCUA Board (Board) is amending its methodology for computing the annual operating fees it charges to federal credit unions (FCUs). First, for purposes of calculating the annual operating fee, the Board will increase the current asset exemption threshold from \$1 million to \$2 million. Second, the Board will adjust the asset exemption threshold annually in future years by the computed rate of aggregate asset growth at FCUs. Third, in response to comments from the public, as part of future reviews of the Operating Fee Schedule methodology the Board plans to analyze options to adjust the distribution of operating fee costs.

**DATES:** This methodology is effective on [INSERT DATE 30 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER].

**FOR FURTHER INFORMATION CONTACT:** James Holm, Supervisory Budget Analyst, Office of the Chief Financial Officer, at (703) 518-6570.

## **SUPPLEMENTARY INFORMATION:**

### **I. Introduction**

### **II. Summary of the Proposed Changes to the Operating Fee Schedule Methodology and Public Comments**

### **III. Summary of the Operating Fee Schedule Methodology**

#### **I. INTRODUCTION**

At its June 2023 meeting, the Board issued a notice requesting public comment about amendments to its methodology for computing the annual operating fee charged to FCUs.<sup>1</sup> For purposes of calculating the annual operating fee, the Board requested views from the public about: (1) increasing the asset threshold used to determine which FCUs are exempt from paying an operating fee from \$1 million to \$2 million; (2) updating the exemption threshold in future years based on annual asset growth at FCUs; and (3) whether and how the Board should modify the current three-tier Operating Fee Schedule to distribute the operating fee cost burden more equitably across FCUs subject to paying it.

Currently, FCUs reporting average assets of \$1,000,000 or less during the preceding four calendar quarters are exempt from paying an operating fee because the Board determined that

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<sup>1</sup> 88 FR 43149 (July 6, 2023).

such credit unions do not have the ability to pay the fee. The \$1,000,000 average asset exemption level has been in place since 2012 and has not been adjusted since that time. In the intervening 11 years, average assets across FCUs have approximately doubled. To account for this growth in the size of the credit union system, the Board proposed raising the average asset exemption level for FCUs to \$2,000,000 and to adjust the exemption threshold annually in future years by the computed rate of asset growth among FCUs.

#### *A. Background on the NCUA Annual Budget and Fees Paid by FCUs*

The NCUA charters, regulates, and insures deposits in FCUs and insures deposits in federally insured, state-chartered credit unions (FISCUs) that have their shares insured through the National Credit Union Share Insurance Fund (Share Insurance Fund). To cover expenses related to the NCUA's tasks, the Board adopts an annual budget for each year. The Federal Credit Union Act (FCU Act) provides two primary sources to fund the budget: (1) requisitions from the Share Insurance Fund, referred to as the overhead transfer rate (OTR);<sup>2</sup> and (2) operating fees charged against FCUs.<sup>3</sup> The Board uses an allocation formula to calculate the OTR and determine the amount of the budget that it will requisition from the Share Insurance Fund. Remaining amounts needed to fund the annual budget are charged to FCUs in the form of operating fees, based on each FCU's total assets.<sup>4</sup>

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<sup>2</sup> *See, e.g.*, 12 U.S.C. 1783(a) (making the Share Insurance Fund available "for such administrative and other expenses incurred in carrying out the purpose of [Title II of the FCU Act] as [the Board] may determine to be proper.>").

<sup>3</sup> 12 U.S.C. 1755(a) ("In accordance with rules prescribed by the Board, each [FCU] shall pay to the [NCUA] an annual operating fee which may be composed of one or more charges identified as to the function or functions for which assessed.") and 12 U.S.C. 1766(j)(3). Other sources of income for the operating budget include interest income, funds from publication sales, parking fee income, and rental income.

<sup>4</sup> 12 CFR 701.6(a).

With regard to the operating fee, the FCU Act requires each FCU to, “in accordance with rules prescribed by the Board, . . . pay to the [NCUA] an annual operating fee which may be composed of one or more charges identified as to the function or functions for which assessed.”<sup>5</sup> The fee must “be determined according to a schedule, or schedules, or other method determined by the Board to be appropriate, which gives due consideration to the expenses of the [NCUA] in carrying out its responsibilities under the [FCU Act] and to the ability of [FCUs] to pay the fee.”<sup>6</sup> The statute requires the Board to, among other things, “determine the periods for which the fee shall be assessed and the date or dates for the payment of the fee or increments thereof.”<sup>7</sup>

Accordingly, the FCU Act imposes three requirements on the Board related to 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. Once collected, operating fees “may be expended by the Board to defray the expenses incurred in carrying out the provisions of [the FCU Act,] including the examination and supervision of [FCUs].”<sup>8</sup> The NCUA’s regulations govern certain aspects of the operating fee processes.<sup>9</sup> The regulation establishes: (i) the basis for charging operating

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<sup>5</sup> 12 U.S.C. 1755(a).

<sup>6</sup> 12 U.S.C. 1755(b).

<sup>7</sup> *Id.*

<sup>8</sup> 12 U.S.C. 1755(d).

<sup>9</sup> 12 CFR 701.6.

fees; (ii) a notice process; (iii) rules for new charters, conversions, mergers, and liquidations; and (iv) administrative fees and interest for late payment, among other principles and processes.<sup>10</sup>

The Board first proposed its Operating Fee Schedule methodology in 1979, after Congress passed the Financial Institutions Regulatory and Interest Rate Control Act of 1978.<sup>11</sup> This legislation permitted the Board to consolidate previously separate chartering, supervision, and examination fees into a single operating fee, charged “in accordance with schedules, and for time periods, as determined by the Board, in an amount necessary to offset the expenses of the Administration at a rate consistent with a credit union’s ability to pay.”<sup>12</sup> In combination with a proposed change to § 701.6 of the NCUA’s regulations in 1979, the Board proposed an initial fee schedule in the *Federal Register*, including rates for 12 asset tiers.<sup>13</sup> It later published a final rule in the *Federal Register*, which included a finalized fee schedule for 1979.<sup>14</sup>

Other aspects of and adjustments to the operating fee process, such as changes to which FCUs are exempt from operating fees or the multipliers used to determine fees applicable to FCUs that fall within designated asset tiers, have not always been published in the *Federal Register* and are not included in the Code of Federal Regulations. Instead, in November 2015, the Board delegated authority to the NCUA’s Chief Financial Officer to administer the Board-

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<sup>10</sup> *Id.*

<sup>11</sup> 44 FR 11785 (Mar. 2, 1979).

<sup>12</sup> *Id.* at 11786.

<sup>13</sup> *Id.* at 11787.

<sup>14</sup> 44 FR 27379 (May 10, 1979).

approved Operating Fee Schedule methodology and to set the operating fees as calculated per the approved methodology during each annual budget cycle beginning with 2016.<sup>15</sup>

Although it is not required to do so under the Administrative Procedure Act,<sup>16</sup> in January 2016, the Board published an updated methodology in detail in the *Federal Register* and solicited comment.<sup>17</sup> The Board made no changes in response to comments on the methodology published in 2016.

The Board provided notice of several revisions to the Operating Fee Schedule methodology in July 2020 and revised the methodology concurrently with approving a final operating fee rule in December 2020. The Board adopted three revisions to the methodology: (1) including the budget for capital projects within the total annual budget subject to the OTR; (2) including projected miscellaneous revenues within the total annual budget subject to the OTR; and (3) for purposes of determining the annual adjustment to the rate tier thresholds, comparing the average of total FCU assets reported in Call Reports for the four quarters available at the time the Board approves the budget to the average of total FCU assets in Call Reports for the four quarters of the respective previous years.

Since 2020, the Chief Financial Officer has applied the published Operating Fee Schedule methodology and explained its application in the NCUA's annual budget documents.

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<sup>15</sup> See Board Action Memorandum on 2016 operating fee (Nov. 19, 2015), <https://www.ncua.gov/About/Documents/Agenda%20Items/AG20151119Item6a.pdf>. Since that time, the operating fee schedule has been published in the NCUA's annual budget.

<sup>16</sup> 5 U.S.C. 551 *et seq.*

<sup>17</sup> 81 FR 4674 (Jan. 27, 2016).

Historically, the Board has not used *Federal Register* notices in connection with annual adjustments to the asset tiers and rates of the Operating Fee Schedule. Instead, the Board has opted to adopt such changes at its open meetings. As recently as 2012, for example, the Board increased the asset threshold used to exempt FCUs from operating fees from \$500,000 to \$1 million at an open meeting, without requesting advance comment in the *Federal Register*.<sup>18</sup> While the Board has varied its practice with respect to Operating Fee Schedule changes, it has done so within the FCU Act's broad directive that the Operating Fee Schedule should be as "determined by the Board to be appropriate," subject to its consideration of its expenses and the ability of FCUs to pay.<sup>19</sup> In addition, the NCUA's regulation on operating fee processes includes a standing invitation for written comments from FCUs on existing Operating Fee Schedules.<sup>20</sup> Each year the Board also invites comments on the draft NCUA budget, which includes a detailed explanation of how the operating fee is calculated and how changes to the operating fee rates are determined based on application of the published methodology.

## **II. SUMMARY OF THE PROPOSED CHANGES TO THE OPERATING FEE SCHEDULE METHODOLOGY AND PUBLIC COMMENTS**

At its June 2023 meeting, the NCUA Board approved the issuance of a notice and request for comment about adjustments to the methodology the NCUA uses to determine how it apportions operating fees charged to FCUs. The proposal provided for a 60-day comment

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<sup>18</sup> Board Action Memorandum on 2013 operating fee (Nov. 15, 2012).

<sup>19</sup> 12 U.S.C. 1755(b).

<sup>20</sup> 12 CFR 701.6(c).

period, which ended on September 5, 2023. The NCUA received five comment letters in response to the notice and request for comments. In general, all letters received from commenters expressed broad support for the Board's proposals. A few of the commenters, however, did raise concerns for the NCUA's consideration, which are discussed in more detail in the following portion of the preamble.

Issue: The Board proposed to raise the asset exemption threshold level below which FCUs are not charged an operating fee. Currently, FCUs reporting average assets of \$1 million or less during the preceding four calendar quarters are exempt from paying an operating fee because the Board determined that such credit unions do not have the ability to pay the fee. The \$1 million average asset exemption level has been in place since 2012 and has not been adjusted since that time. In the intervening 11 years, average assets across FCUs have approximately doubled. To account for this growth in the size of the credit union system, the Board proposed to raise the asset exemption level for FCUs to \$2 million.

Comments Received: None of the commenters objected to this change. One of the five commenters supported the increase, and one other commenter did not take a specific position about the exemption level but noted that any change to the exemption should not be offset by changes in the amounts transferred from the Share Insurance Fund through the OTR. The three remaining commenters supported increasing the exemption threshold and urged the Board to consider raising it further to \$5 million. In addition, two of the remaining three commenters recommended the Board reduce the NCUA budget by the amount of any revenue that would not be collected from FCUs newly exempt from paying the operating fee.



NCUA Response: In response to the one comment about any increase to the exemption threshold level not being offset by an adjustment to the OTR, the OTR methodology would not change in response to adjusting the exemption threshold. Because the Operating Fee Schedule methodology allocates the non-OTR portion of the NCUA budget to all FCUs subject to it, changes to the Operating Fee Schedule methodology do not lower total operating fee collections.

With respect to the three comments that urged the Board to raise the exemption threshold to \$5,000,000, the Board determined not to make that change. Such a change is beyond the scope of the proposal. The NCUA, however, does plan to evaluate the feasibility and impact of such alternate exemption levels in its next cyclical review of the Operating Fee Schedule methodology.

In response to the two comments suggesting that the NCUA Board reduce the agency budget by the amount of the operating fee not collected from FCUs newly exempt from paying the operating fee, the agency does not plan to change its budget formulation processes. The NCUA determines the resources it requires to carry out its responsibilities for a given year and then, as explained earlier in this notice, computes how those costs should be distributed based on the Board-approved OTR and Operating Fee Schedule methodologies. Changing the operating fee exemption threshold reallocates the share of the budget paid by FCUs between those required to pay it and has no direct impact on the resources the NCUA Board determines are necessary for the NCUA to fulfill its statutory responsibilities.

Issue: To maintain consistency with the growth of FCU assets throughout the credit union system, the Board proposed adjusting the exemption threshold annually in future years by the computed rate of FCU asset growth. This inflationary adjustment would be included in the operating fee calculation presented in the annual draft NCUA budget published by the Chief Financial Officer pursuant to 12 U.S.C. 1789(b). The NCUA would adjust the exemption threshold by the percentage by which average quarterly assets reported for FCUs for the most-current four quarters have increased compared to the previous four quarters, using the Call Report data available at the time the NCUA budget is published. For example, when the Board approved the 2023–2024 operating budget in December 2022, the average FCU assets for the four most-current quarters (*i.e.*, the third and fourth quarters of 2021 and the first two quarters of 2022) were 8.5 percent higher than the previous four quarters (*i.e.*, the third and fourth quarters of 2020 and the first two quarters of 2021). This increase in assets can be expressed as an inflation multiplier (1.085 in the example given) and applied to the exemption threshold to determine the adjusted level.

Comments Received: None of the commenters objected to this change. Three of the five commenters specifically expressed support for this change while two of the five did not comment on the issue. One commenter questioned whether the exemption threshold would decrease if the annual asset levels in the credit union system fell.

NCUA Response: In response to the question about the average asset exemption threshold decreasing if annual asset levels in the credit union system fell, the Board will take this

comment under advisement and may, in the future, consider whether it is necessary to amend the methodology to address this contingency.

Issue: The Board has not substantially modified the current three-tier Operating Fee Schedule since 1993. The current Operating Fee Schedule is regressive; that is, credit unions with a larger amount of total assets pay a lower marginal rate on those assets above the threshold levels for the lower tiers. Given growth and consolidation in the credit union system, the Board requested views from the public about whether such an approach is an equitable method for allocating the operating fee.

Comments Received: None of the commenters offered any specific recommendations or views regarding proposed adjustments to the operating fee tiers. Three of the five commenters requested that the NCUA provide additional information about any proposed fee tier adjustments before they would comment on any proposals.

NCUA Response: The Board will review the current fee structure as part of its next cyclical review of the Operating Fee Schedule methodology. No changes to the current fee structure will be made as part of this final notice.

### **III. SUMMARY OF THE REVISED OPERATING FEE SCHEDULE METHODOLOGY**

For the reasons discussed, the Board will revise the Operating Fee Schedule methodology by raising the threshold at and below which FCUs do not pay an operating fee to \$2 million and will adjust this threshold annually by the aggregate rate of asset growth at FCUs.

By the National Credit Union Administration Board on December XX, 2023.

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Melane Conyers-Ausbrooks

Secretary of the Board