

## **INTERNET ARCHIVE FEDERAL CREDIT UNION SUBMISSION FOR “COST OF COMPLIANCE CONTEST”**

### **Overview:**

As a De novo Credit Union our cost of compliance (over \$100,000/year) is more than we could hope to earn from operations\* making us reliant on grants. Though in September the NCUA testified before congress that they were easing the regulatory burden on the small credit unions\*\* we have seen anything but. Because the burden of compliance falls on the most expensive resources (CEO – Operations Head – Compliance Officer) 40% of our annual budget goes to compliance.

Our contest application consists of two parts:

- 1) A spreadsheet facilitated by our compliance officer who modified it from a tool used in another life. It is detailed and can be used by other CUs to judge and track compliance costs.
- 2) A word table showing our compliance costs (at a high level) with an explanation of why.

### **PART ONE: THE SPREADSHEET.**

Please refer to enclosed spreadsheet and note the four tabs: General Management, Lending, Deposit Taking, and Results. Start with the 1st tab: General Management and complete all relevant fields with data from the credit union financials. Repeat this process for tabs Lending & Deposit Taking. Once the first three tabs are complete all data will flow to the last tab called Results. This is used to update the GL's.

We would expense items both Covert and Overt on a monthly basis and show how they are going against an estimated budget based on input into the spreadsheet. As to whether to create sub-GLs – we think it is important to let the board and the NCUA know just how much is spent on compliance by overtly carrying costs as GL codes for compliance costs.

## PART TWO: COSTS (ROUNDED TO NEAREST \$500)

### OVERT COSTS

WHAT	COST	REASON
Deposit and loan forms	\$5,500	Examiners like paper
BSA annual review	\$2,500	Required
Internal independent audit	\$2,000	Required for new CUA
PT compliance officer	\$15,000	“Encouraged by examiners” Formerly done by fixed cost staff - me
PT loan officer	\$10,000	“Encouraged by examiners” Formerly done by fixed cost staff - me
Notices	\$500	Including ordering and putting up
BSA Training	\$1,000	Training plus peoples time to attend
Daily Log Management	\$3,000	Paper required by NCUA examiner 4 hours a week
Audit Link	\$4,000	
Monthly Reporting	\$3,000	Required of new CUs – combined 6 hours
<b>TOTAL</b>	<b>\$46,250</b>	

### COVERT COSTS

WHAT	COST	WHY
Prep for 8 NCUA visit in last year	\$25,000	20% of CEOs time, 10% of VP Ops, and 5% CSRs
Annual exam including prep and follow up	\$10,000	5% of CEOs time, 5% of VP Ops, 7% of Compliance officer, 5% Loan off, 5% CSRs
NCUA bulletin review	\$5,000	CEO and Compliance officer time
Policy re-writes post audit	\$2,000	CEO and Compliance officer time
Third Party Risk Assessment	\$2,000	CEO and Compliance

		officer time
Online security review	\$1,000	CEO time
OFAC compliance	\$2,500	CEO and Compliance officer time + pay vendor
Call Reports	\$5,500	Including Xtend and CEO review
Recruiting & training supervisory committee members	\$2,000	CEO time
<b>TOTAL</b>	<b>\$55,000</b>	

OUR TOTAL OF COMPLIANCE = \$101,500

\* The NCUA will only allow us to do loans up to \$5,000. Therefore even at a loan loss adjusted spread of 600 BPS we would have to make 338 loans just to pay for compliance.

\*\* NCUA press release on easing regulatory burden.

<http://www.ncua.gov/News/Pages/NW20140916FazioTestimony.aspx>