

Regulatory Cost Calculator Guide and Instructions

Introduction

This Regulatory Cost Calculator is a tool to help credit unions estimate their regulatory costs and compare them to a peer group. The design of the tool and groupings of results are based on the CUNA sponsored Regulatory Financial Impact Study conducted by Cornerstone Advisors.¹ The Calculator accepts information from categories based on the study findings in order to produce an overall scorecard. This document is a guide on how to collect and input data into the tool and interpret the results.

The Regulatory Cost Calculator is an Excel file with two tabs: Data Collection and Scorecard, which presents the results. Later in this guide are the instructions for completing the Data Collection section. We begin with an overview of the Scorecard. We recommend that before collecting the data, you familiarize yourself with the Scorecard.

Scorecard Overview

The Scorecard shows your credit union's regulatory costs broken down into two types: staff costs and third-party expenses. In addition to dollar values, regulatory costs are shown as a percent of assets. Your credit union's costs are compared to data from other credit unions in your relevant peer group from the formal study. The peer group comparisons are by quartile: 25th percentile, median and 75th percentile.² In addition, the scorecard shows overall median results, from all study participants. The peer and overall results from the study are for costs reported during the 2016 calendar year. We recommend that you estimate your costs for the latest available calendar year. Because the Scorecard presents your results as a percentage of assets, the comparisons will be relevant even if your data is for a year other than 2014. The peer groups are divided into the following asset categories:

Category	Asset Range
Small	Less than \$115 million
Medium	\$115 million - \$1 billion
Large	Greater than \$1 billion

The scorecard also displays the composition of costs between staff and third party, and comparisons to the average for your peers and all study participants. Lastly, the relative staff impact on your credit union is compared to the average for peers and all study participants. For example, the total regulatory staff time for an individual credit union may represent 20% of the total full-time equivalent (FTE) time in the organization compared to 17% for peers. The following is an example of an individual scorecard.

¹ Available at cuna.org/regburden

² 25% of peer credit unions in the study had regulatory expense-to-asset ratios lower than the 25th percentile value and 25% had ratios above the 75th percentile value.

Amount of Regulatory Costs	
Total Regulatory Costs	\$2,228,825
Regulatory Staff Costs	\$2,091,000
3rd Party Regulatory Costs	\$137,825

	Sample CU	Small Peer Group			All Participants
Regulatory Costs as % of Assets		25th Percentile	Median	75th Percentile	Median
Total Regulatory Costs as % of Assets	2.32%	0.30%	0.69%	1.07%	0.54%
Regulatory Staff Costs as % of Assets	2.18%	0.38%	0.61%	0.72%	0.40%
3rd Party Regulatory Costs as % of Assets	0.14%	0.12%	0.22%	0.24%	0.11%

	Sample CU	Small Peer Group			All Participants
Regulatory Costs as % of Total Operating Expense		25th Percentile	Median	75th Percentile	Median
Total Regulatory Costs as % of Total Oper Exp	78.2%	12.0%	19.9%	29.1%	14.2%
Regulatory Staff Costs as % of Total Oper Exp	73.4%	8.5%	14.2%	19.8%	9.5%
3rd Party Reg Costs as % of Total Oper Exp	4.8%	1.9%	4.2%	7.8%	2.8%

	Sample CU	Small Peer Group	All Participants
Composition of Total Regulatory Costs		Average	Average
Staff Costs	93.8%	77%	74%
3rd Party Costs	6.2%	23%	26%

	Sample CU	Small Peer Group	All Participants
Staff Cost Impact		Average	Average
Regulatory FTE as % of Total FTE	83.6%	32%	39%

Once you have carefully entered your data and the Calculator has generated the Scorecard, pay particular attention to the comparisons of costs to your peer group. The higher your ratios are above your peer group median, the greater the opportunities to lower those costs with management, and vice versa.

Regulatory Cost Calculator Data Collection

The Calculator will provide valuable information about the extent and type of regulatory costs at your credit union, and how those costs compare to other credit unions. In order to generate that information, the Calculator requires careful data collection. This will not be a trivial task, and will involve staff in many areas of the credit union. The rest of this guide, and the construction of the calculator itself are designed to clarify, simplify and minimize that effort. However, substantial work will be required to collect the necessary input data.

You will collect three types of data for the Calculator: general information about the credit union, data on how many employees are involved in various regulatory activities, and data on third party expenses related to the same regulatory activities. An example of a completed data collection worksheet is shown below. (NOTE: the data in this worksheet is for illustration purposes only; it is NOT typical or representative of any credit union). You will complete four columns in the worksheet: # of FTEs, % Regulatory Related FTE, Total 3rd Party Cost, and % 3rd Party Regulatory Related. The rest of the worksheet is filled in by the Calculator.

General Information	
Credit Union Name	Sample CU
Assets	\$96,000,000
Total FTE	50
Total Salary & Benefit Expend	\$2,500,000
Average Salary & Benefits Ex	\$50,000
Annual Noninterest Expense	\$2,850,000

Credit Union Function	Activity	# of FTEs	% Regulatory Related FTE	Calculated FTE	Total 3rd Party Cost	% 3rd Party Regulatory Related	Calculated 3rd Party Expense
Risk	Compliance	1.9	85%	1.62	\$15,500	70%	\$10,850
	Internal Audit	1.2	70%	0.84	\$8,000	60%	\$4,800
	BSA/AML	27	100%	27.00	\$10,200	100%	\$10,200
	Enterprise Risk Management	0.8	80%	0.64	\$6,500	50%	\$3,250
	Vendor Management	1	40%	0.40	\$12,900	80%	\$10,320
Lending	Mortgage Originations	5.2	40%	2.08	\$31,400	40%	\$12,560
	Mortgage Servicing	0.8	20%	0.16	\$3,000	20%	\$600
	Consumer Loan Originations	7.1	25%	1.78	\$22,100	35%	\$7,735
	Consumer Loan Servicing	1	15%	0.15	\$3,000	20%	\$600
	Business Loan Originations	0	0%		\$0	0%	
	Business Loan Servicing	0	0%		\$0	0%	
	Collections	1.5	30%	0.45	\$9,800	60%	\$5,880
Member Services	Branches	10	25%	2.50	\$41,600	20%	\$8,320
	Retail Administration	2.1	15%	0.32	\$3,000	5%	\$150
	Call Center (including VRU)	7.5	20%	1.50	\$15,400	15%	\$2,310
	Deposit Operations	3	15%	0.45	\$6,400	15%	\$960
Support	Finance & Accounting (inclu	1.3	60%	0.78	\$10,900	65%	\$7,085
	IT (including ATM, Mobile & A	1.4	35%	0.49	\$85,700	15%	\$12,855
	Legal	0	0%		\$43,000	80%	\$34,400
	HR (including Training)	1.5	45%	0.68	\$19,800	25%	\$4,950

You will collect data on total staffing and third-party expenses in a number of areas or functions of the credit union, covering a variety of activities. You will then estimate the proportion of those FTEs or expenses that occurred due to regulation. A detailed description of the functions or areas and the activities can be found later in this guide.

In some credit unions, the listed functions or activities occur within separate departments. At other credit unions, many of these functions may be conducted within a single department, which may have other non-regulatory responsibilities too. The Data Collection Tab is designed to make it easy for the credit union to have each department or line of business provide data on just each its own area of responsibility. Each person responsible for a portion of the data collection should read this guide.

Those responsible for data collection in each area should report all FTEs and third-party expenses in their area, and the proportion of each that are related or due to regulations. They or the person responsible for overall data collection can enter the data on the appropriate line on the Data Collection tab. It is important that each area perform its own data collection to avoid overlaps, or excluding some costs. For example, BSA/AML activities can occur in more than one area (Risk and Branches for example) and that time or expenses should be recorded where they occur, i.e., in more than one area.

When CUNA commissioned Cornerstone Advisors to conduct the study, we instructed them to adopt a conservative approach so as not to overstate the cost of regulation. Our goal was to include all costs related to regulation, without overstating the case. One example of this is the treatment of expenses or activities that might address a regulatory requirement, but that the credit union would conduct in the same way even without the regulation. Therefore, to make your estimates comparable to the study's results, any activity that might be regulatory related but is considered a 'good business practice' should

be excluded from regulatory related estimates, so long as you would perform that activity in the same way even if the regulation did not exist. In other words, only include as regulatory time or costs those extra expenses incurred in the performance of an activity because of the existence of one or more regulations. For activities that you perform solely because of the existence of a regulation, include all the time or costs. For others, estimate the extra time or cost of the activity due to regulation.

General Information.

Data for the General Information section of the Data Collection tab can be found on your 5300 Call Report or from your HR department. Report assets as of the end of the year, average FTEs during the year, and Annual Salary and Benefits Expense (NCUA Account Code 210) and Annual Noninterest Expense (Account Code 671) for the full year.

The Two Cost Components

Regulatory cost data will be collected in two categories: staff and 3rd party costs. Staff costs represent the fully loaded costs of the appropriate FTEs and 3rd party costs are simply expenses paid to third parties. For staff costs you will only need to enter data on staff time spent in each activity. The program will convert staff time to dollar costs based on average compensation per FTE. The regulatory impact is only the time or cost required specifically for regulatory compliance needs. The table below provides more detailed descriptions for FTE and 3rd party costs.

Cost Category	Description
Full-Time Equivalent (FTE)	<ul style="list-style-type: none"> • A measure of HR capacity within an organization that takes into account both full-time and part-time staff <ul style="list-style-type: none"> ○ A part-time employee who works 20 hours per week would be considered 0.5 FTE while a full-time employee would be one FTE • This is different from “Headcount” which measures each employee as one person regardless of whether they are part-time or fulltime • Overtime is not considered in this measure; an employee who routinely works overtime is considered one FTE • Include approved positions, even if not currently filled • Do not include temporary employees (temps) in FTEs
3rd Party Costs	<ul style="list-style-type: none"> • Costs paid to third parties for regulatory compliance for expenses including, but not limited to: <ul style="list-style-type: none"> ○ Consulting fees including for regulatory risk reviews ○ Outsourced fees (e.g., audit functions) ○ Hardware / software costs to meet regulatory compliance (do not include expenditures the CU would have made anyway as a good business practice) ○ Temporary employees • Amounts should only include direct costs to each area and exclude any allocated overhead expenses • Amounts should be for the full calendar year

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| | <ul style="list-style-type: none">• Do not include capital expenditure but do include depreciation expense• Example: Compliance software was purchased with a 5-year agreement in January of 2016 with a one-time \$50,000 fee and an annual maintenance fee of \$7,500. The following should be included in the reported 3rd party costs in 2016:<ul style="list-style-type: none">○ \$7,500 maintenance fee○ Depreciation expense, presumably \$10,000• If a 3rd party cost included both regulatory and non-regulatory components, then estimate the amount due to regulation |
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Credit Union Function Categories

The Regulatory Cost Calculator takes staff and 3rd party costs from four general credit union business function categories (Risk, Lending, Member Services, and Support). Each function includes several activities. In some credit unions, the listed functions or activities occur within separate departments. At other credit unions, many of these functions may be conducted within a single department. Refer to the following tables for descriptions of the relevant regulatory-related activities to include within each function. These credit union function categories are intended to be a guide to assist in the data collection. The precise classification of costs into the respective categories is not critical to the final results. However, the exercise will help prevent duplication of costs as estimates are developed.

Risk

Risk Activities	Regulatory-Related Activities / Processes
Compliance	<ul style="list-style-type: none"> • Monitoring of new regulations • Policy and procedure updates due to regulatory change • Regulatory reporting • Compliance reviews related to a regulation <p>Exclude:</p> <ul style="list-style-type: none"> • Compliance reviews and policy changes related to internal policies or business decisions (e.g., underwriting standards, etc.) that would be conducted absent any regulation
Internal Audit	<ul style="list-style-type: none"> • Audits to review compliance against regulations • Regulatory reporting <p>Exclude:</p> <ul style="list-style-type: none"> • Audit reviews related internal controls that are good business practices (e.g., segregation of duty, etc.)
Bank Secrecy Act (BSA) / Anti-Money Laundering (AML)	<ul style="list-style-type: none"> • Assume all FTEs allocated to this function are 100% regulatory
Enterprise Risk Management	<ul style="list-style-type: none"> • Activities imposed by regulatory mandate • Regulatory reporting • Policy and procedure updates due to regulatory change <p>Exclude:</p> <ul style="list-style-type: none"> • Policy and procedure updates due to a business decision • Governance and processes that are good business practice (e.g., monitoring / managing operational and reputational risks, etc.)
Vendor Management	<ul style="list-style-type: none"> • Activities imposed by regulatory mandate, including implementation and management of software required by regulators as well as regulatory required vendor reviews <p>Exclude:</p> <ul style="list-style-type: none"> • Vendor reviews and other processes that would be done as good business practice without regulation (e.g., managing service level agreements, regular meetings with top vendors, etc.) • Contract administration and negotiations

Lending

Lending Activities	Regulatory-Related Activities / Processes
Mortgage Originations	<ul style="list-style-type: none"> • Disclosures • Application / loan file compliance reviews • HMDA reporting • CRA reporting (State credit unions in MA) • Appraisal management (e.g., use of Appraisal Management Companies due to regulation) but not appraisals themselves
Mortgage Servicing	<ul style="list-style-type: none"> • Disclosures • Loan file compliance reviews • Regulatory flood insurance activities (e.g., National Flood Insurance Program) • Mortgage Servicing Rights (MSR) valuations • Regulatory reporting (e.g., portfolio reporting that exceeds good business practice, etc.)
Consumer Loan Originations	<ul style="list-style-type: none"> • Disclosures • Application / loan file compliance reviews
Consumer Loan Servicing	<ul style="list-style-type: none"> • Disclosures • Loan file compliance reviews • Credit reporting reviews • CARD Act compliance
Business Loan Originations	<ul style="list-style-type: none"> • Disclosures • Application / loan file compliance reviews • Regulatory reporting
Business Loan Servicing	<ul style="list-style-type: none"> • Disclosures • Loan file compliance reviews • Regulatory flood insurance activities (e.g., National Flood Insurance Program)
Collections	<ul style="list-style-type: none"> • Disclosures • Loan modification regulatory reviews • Calling restrictions including TCPA

Member Services

Service Activities	Regulatory-Related Activities / Processes
Branches	<ul style="list-style-type: none"> • BSA / AML processes including CTRs • Customer Identification Program (CIP) processes • Policy / procedures updates due to regulatory changes, including regulatory disclosure updates • Time spent explaining / disclosing regulatory requirements (e.g., Reg D transfer limits, etc.)
Retail Administration	<ul style="list-style-type: none"> • BSA / AML processes including CTRs • Policy / procedures updates due to regulatory changes, including regulatory disclosure updates • Functions / roles that are regulatory related and support the Member Services (particularly to the branch network) including: <ul style="list-style-type: none"> ○ Line of business head and regional managers ○ Sales and product managers ○ Retail delivery support that include internal help desk and administration of branch policies and procedures ○ Project management dedicated to Member Services
Call Center (including voice response unit)	<ul style="list-style-type: none"> • BSA / AML processes including CTRs (if monetary transactions are performed in call center) • CIP processes (if new account opening is performed in call center) • Policy / procedures updates due to regulatory changes, including regulatory disclosure updates • Time spent explaining / disclosing regulatory requirements (e.g., Reg D transfer limits, etc.)
Deposit Operations	<ul style="list-style-type: none"> • BSA / AML processes including CTRs • CIP processes • Tax reporting 1099s, etc. • Regulatory compliance reviews • Research for regulatory requests

Support

Support Activities	Regulatory-Related Activities / Processes
Finance & Accounting	<ul style="list-style-type: none"> • Regulatory reporting (include call reporting and proposed risk-based capital) • Stress testing newly imposed in last 5 years • Reports or analysis required by examiners beyond normal good business practice
IT	<ul style="list-style-type: none"> • Core and other application updates related to tax and other regulatory changes
Legal	<ul style="list-style-type: none"> • Regulatory reviews (e.g., impact of new regulations) • Regulatory compliance reviews (e.g., disclosures, customer communications) • Regulatory disputes and interactions
HR (including Training)	<ul style="list-style-type: none"> • ACA compliance • Department of Labor compliance including reporting • Compliance training (development and delivery)

Contact Information

If you have any questions about the Regulatory Cost Calculator or your credit union’s individual scorecard, send an email to regrelief@cuna.coop and an analyst from CUNA or Cornerstone Advisors will contact you.

Follow Up.

Once you have completed the Data Collection and analyzed the results, CUNA would very much appreciate you sharing the results with us. This will enable us to update the peer data, and track changes in regulatory costs as they occur. We will keep all individual results strictly confidential. To share your results, simply attached a copy of your completed Excel file to regrelief@cuna.coop. Sharing these results will strengthen our ability to influence policy makers in Washington and working with leagues in state capitals to reduce your regulatory burden in the future. We strongly encourage you to do so.

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