

**Supporting Statement for Paperwork Reduction Act Submission
Requirements for Insurance – Interest Rate Risk Policy
12 C.F.R. Part 741.3(b)(5)
OMB Control Number 3133-NEW
2011**

Justification

1. Explain the circumstances that make the collection of information necessary. Identify any legal or administrative requirements that necessitate the collection. Attach a copy of the appropriate section of each statute and regulation mandating or authorizing the collection of information.

Part 741.3(b) of NCUA's regulations addresses financial condition and policies as requirements for insurance and as regulations that apply to both federal credit unions and federally insured credit unions that are not codified elsewhere in NCUA regulations. Part 741.3(b)(5) requires written interest rate risk policies and an effective interest rate risk management (IRR) as part of asset liability management in all credit unions greater than \$50 million, and credit unions \$10-50 Million with total first mortgages and investments > 5 years that are > 100% net worth. Appendix A of the part provides guidance on how to establish an interest rate risk management policy and effective program.

Guidance specifies that policies should cover the following areas:

- Identify committees, persons or other parties responsible for review of the credit union's IRR exposure;
- Direct appropriate actions to ensure management takes steps to manage IRR so that IRR exposures are identified, measured, monitored, and controlled;
- State the frequency with which management will report on measurement results to the board to ensure routine review of information that is timely (e.g. current and at least quarterly) and in sufficient detail to assess the credit union's IRR profile;
- Set risk limits for IRR exposures based on selected measures (e.g. limits for changes in repricing or duration gaps, income simulation, asset valuation, or net economic value);
- Choose tests, such as interest rate shocks, that the credit union will perform using the selected measures;
- Provide for periodic review of material changes in IRR exposures and compliance with board approved policy and risk limits;
- Provide for assessment of the IRR impact of any new business activities prior to implementation (e.g. evaluate the IRR profile of introducing a new product or service); and

- Provide for annual evaluation of policy to determine whether it is still commensurate with the size, complexity, and risk profile of the credit union.

2. Indicate how, and by whom, and for what purpose the information is to be used. Except for a new collection, indicate the actual use the agency has made of the information received from the current collection.

The board of directors is responsible for ensuring the adequacy of an IRR policy and its limits. The policy should be consistent with the credit union's business strategies and should reflect the board's risk tolerance, taking into account the credit union's financial condition and risk measurement systems and methods commensurate with the balance sheet structure. The policy should state actions and authorities required for exceptions to policy, limits, and authorizations.

Credit unions have the option of either creating a separate IRR policy or incorporating it into investment, ALM, funds management, liquidity or other policies. Regardless of form, credit unions must clearly document their IRR policy in writing.

The scope of the policy will vary depending on the complexity of the credit union's balance sheet.

3. Describe whether, and to what extent, the collection of information involves the use of automated, electronic, mechanical, or other technological collection techniques or other forms of information technology, e.g., permitting electronic submission of responses, and the basis for the decision for adopting this means of collection. Also describe any consideration of using information technology to reduce burden.

Policies are for internal use by credit unions and this question is not applicable.

4. Describe efforts to identify duplication. Show specifically why any similar information already available cannot be used or modified for use for the purposes described in Item 2 above.

The information collection is unique to each credit union and is not duplicated in other collection requirements.

5. If the collection of information impacts small business or other small entities (Item 5 of OMB Form 83-1), describe any methods used to minimize burden.

The collection of information is for internal credit union use and this question is not applicable.

6. Describe the consequences to federal program or policy activities if the collection is not conducted or is conducted less frequently, as well as any technical or legal obstacles to reducing burden.

Generally, credit unions will only have to meet the basic requirement once, namely, create their initial policies and procedures. An annual review is also required since interest rates change and NCUA examiners must keep apprised of the credit unions' current interest rate risk policy.

7. Explain any special circumstances that would cause an information collection to be conducted in a manner inconsistent with 5 CFR §1320.5(d) (2).

There are no special circumstances that would cause an information collection to be conducted in a manner inconsistent with 5 CFR **§1320.5(d) (2)**.

8. Describe efforts to consult with persons outside the agency.

These information collection requirements are contained in Part 741 and the promulgation of this regulation and any amendments has been made in accordance with the Administrative Procedure Act. Notice of the proposed information collection was published in the Federal Register with comment periods. Only one comment pertaining to the PRA aspects of the rule was received and it is enclosed with this submission. The comment was received from Arkansas Federal Credit Union and the commenter believed that the PRA estimate was low but offered no alternative estimate.

9. Explain any decision to provide any payment or gift to respondents, other than remuneration of contractors or grantees.

There is no decision to provide any payment or gift to respondents.

10. Describe any assurance of confidentiality provided to respondents and the basis for the assurance in statute, regulation, or agency policy.

The information collection is for internal credit union purposes and this question is not applicable.

11. Provide any addition justification for a question of a sensitive nature.

There are no questions of a sensitive nature.

12. Burden Estimates.

The proposed rule would require a written interest rate policy and would apply to all federally insured credit unions (FICUs) with assets over \$50 million, and credit

unions \$10-50 Million with total first mortgages and investments > 5 years that are > 100% net worth. At the end of 2010, there were 7,339 FICUs, of which 3184 had assets over \$50 million or credit unions \$10-50 Million with total first mortgages and investments > 5 years. NCUA estimates, however, that approximately 25% of these credit unions already have interest rate risk policies in place as part of their lending and asset management policies and, therefore, will not have to undertake any additional burden as a result of this rulemaking. Therefore, NCUA estimates that approximately 800 credit unions will need to address this written interest rate risk policy requirement.

The proposed rule requiring a written interest rate risk policy is accompanied by guidance on how to establish this policy. The guidance describes eight segments the written policy should address. While the burden may vary depending on the size of a credit union and the quality of existing policies, NCUA estimates each of the eight segments of policy will have a burden of an equal weight of 2 hours (8 segments x 2 hours per segment). The maximum time for all segments of the policy is therefore sixteen hours. NCUA estimates the burden associated with this collection as follows: 800 x 16 hours = 12,800 hours.

The burden hours for correcting a policy exception will vary according to the size and complexity of a credit union. NCUA Call Report data provides the breakdown of the number of credit unions by asset size. NCUA calculated the weighted average hours to correct a policy exception estimated for each credit union, taking into account the asset size of the institution, and whether or not a credit union may lack a policy in entirety or only in part. This calculation of weighted average burden hours likewise indicated a burden of 16 hours per affected credit union. NCUA also took a limited sample of examiner findings at randomly selected credit unions across each category of credit unions that will be affected by the rule, measured by asset size. The sample also showed a burden per affected credit union of 16 burden hours.

13. Provide an estimate of the total annual cost burden to respondents or recordkeepers resulting from the collection of information.

Once a credit union has created policy this is Not Applicable.

14. Provide estimates of annualized cost to the federal government.

Written policies are reviewed as a routine part of credit union examination so we do not estimate any additional cost to the federal government.

15. Explain the reasons for any program changes or adjustments reported in Items 13 or 14 of the OMB Form 83-1.

This is a new information collection.

16. For collections of information whose results will be published, outline plans for tabulation, and any publication. Address any complex analytical techniques that will be used. Provide the time schedule for the entire project, including beginning and ending dates of the collection of information, completion of report, publication dates, and other actions.

There are no plans to publish results.

17. If seeking approval to not display the expiration date for OMB approval of the information collection, explain the reasons that display would be inappropriate.

We are not seeking to not display the expiration date.