

**SUPPORTING STATEMENT**  
**for the Paperwork Reduction Act Information Collection Submission for**  
**Requirements for Insurance – Interest Rate Risk Policy**  
**OMB Control No. 3133-0184**

**A. JUSTIFICATION**

**1. Necessity of Information Collection**

This is a request for extension of a currently approved collection of information. The OMB control number is 3133-0184.

Section 741.3 of NCUA's rules and regulations (12 C.F.R. §741.3) addresses the requirements for insurance of accounts. Section 741.3 is authorized pursuant to the following statutory provisions: 12 U.S.C. §§1757, 1766(a), 1781—1790, and 1790d; 31 U.S.C. §3717. The rule applies to both federal credit unions and federally insured credit unions (FICUs or credit unions). Section 741.3(b) addresses the financial condition and policies of FICUs to determine whether the financial condition and policies are both safe and sound. Section 741.3(b)(5) requires a written interest rate risk (IRR) policy and an effective IRR management program as part of asset liability management in all credit unions with assets of more than \$50 million. Appendix B to Part 741 provides guidance on how to establish a written IRR policy and an effective IRR management program.

Guidance specifies that a written policy 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. Purpose and Use of the Information Collection**

The FICU's 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, asset liability management, funds management, liquidity or other policies. Regardless of form, credit unions must clearly document their IRR policy in writing. This information collection is a recording requirement.

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

IRR policies are for internal use by credit unions. NCUA examines policies to evaluate credit union compliance with the rule and to determine credit unions' risk tolerances and whether the policies are consistent with credit unions' business strategies.

## **3. Consideration Given to Information Technology**

Credit unions may use any form of automated, electronic, mechanical, or other technological collection techniques to comply.

## **4. Duplication**

The information collection is unique to each credit union and is not duplicated elsewhere.

## **5. Effect on Small Entities**

NCUA defines a small credit union as having assets of \$50 million or less. The requirement for a written policy applies only to credit unions having more than \$50 million in assets.

## **6. Consequences of Not Conducting Collection**

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

## **7. Inconsistencies with Guidelines in 5 CFR 1320.5(d)(2)**

There are no special circumstances. This collection is consistent with the guidelines in 5 CFR 1320.5(d)(2).

## **8. Consultations Outside the Agency**

The required Federal Register notice with a 60-day comment period soliciting comments on this collection of information was published. No public comments were received.

## **9. Payment or Gift**

There is no intent by NCUA to provide payment or gifts for information collected.

## 10. Confidentiality

Credit union examination reports and any documents related thereto are exempt from the Freedom of Information Act disclosure, pursuant to exemption 8, 5 U.S.C. 552(b)(8).

## 11.

### Sensitive Questions

No questions of a sensitive nature are asked. The information collection does not collect any Personally Identifiable Information (PII).

## 12. Burden of Information Collection

The rule requires a written interest rate policy and applies to all FICUs with assets of over \$50 million. As of June 2014, there were 6,491 FICUs, of which 2,246 had assets over \$50 million. NCUA estimates, however, that approximately 90% (2,021) of these credit unions already have interest rate risk policies in place as part of their lending and asset management policies. NCUA estimates that approximately 225 credit unions must comply with the requirement to establish a written IRR policy.

The rule is accompanied by guidance on how to establish this policy. As discussed in Item 1 above, the guidance describes eight segments the written policy should address. While the burden may vary depending on the size and complexity of a credit union and the quality of any existing policies, NCUA Call Report data provides the breakdown of the number of credit unions by asset size. NCUA calculated the weighted average hours to correct or create a policy 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 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. NCUA estimates each of the eight segments imposes a burden of an equal weight of 2 hours (8 segments x 2 hours per segment equals 16 hours). The total hour burden for all segments of the policy is therefore sixteen hours. NCUA estimates the burden associated with this collection as follows: 225 credit unions x 16 hours = 3,600 hours.

NCUA estimates that the annual or periodic review of an existing interest rate risk policy requires minimal or no additional burden.

Information Collection Activity	Number of Respondents	Frequency of Response (Annual (1), Quarterly (4), etc.)	Number of Responses	Burden Hours per Response	Annual Hourly Burden
	(A)	(B)	(C)	(D)	(E)
1 <i>Establish written IRR policy</i>	225	1	225	16 Hours	3,600 Hours
<b>Total</b>	<b>225</b>	<b>1</b>	<b>225</b>	<b>16 Hours</b>	<b>3,600 Hours</b>

**13. Costs to Respondents**

There is no additional cost burden because preparation of an interest rate risk policy is part of a credit union’s usual and customary business practice.

<b>Information Collection Activity</b>	<b>Annual Hourly Burden</b> (see 12 above, item E)	<b>Hourly \$ Rate per Response</b>	<b>Total \$ Amount</b>
1. <i>Establish written IRR policy</i>	3,600Hours	\$0.00	\$0.00
<b>Total</b>	<b>3,600 Hours</b>	<b>\$0.00</b>	<b>\$0.00</b>

**14. Costs to Federal Government**

Written policies are reviewed as a routine part of credit union examination; therefore NCUA estimates there will be no annualized cost to the federal government.

**15. Changes in Burden**

The hour burden estimates in item 12, were revised to reflect compliance with the rule by more credit unions and a reduction in the number of credit unions affected. There were no changes to the already approved estimates for item 13.

**16. Information Collection Planned for Statistical Purposes**

Not applicable. The information collection is not used for statistical purposes.

**17. Approval to Omit OMB Expiration Date**

NCUA is not seeking approval to omit the expiration date.

**18. Exceptions to Certification for Paperwork Reduction Act Submissions**

This collection complies with the requirements in 5 CFR 1320.9.

**B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS**

This collection does not involve statistical methods.