

**SUPPORTING STATEMENT**  
**for the Paperwork Reduction Act Information Collection Submission for**  
**Secondary Capital for Low-Income Designated Credit Unions, 12 CFR 701**  
**(OMB 3133-0140)**

**A. JUSTIFICATION**

**1. Necessity of Information Collection**

Section 701.34 (b) of NCUA's regulations provide that designated low income credit unions (LICU) may accept secondary capital under certain conditions. This collection of information is necessary to obtain the information needed to ensure compliance with requirements related to acceptance and management of secondary capital.

**2. Purpose and Use of the Information Collection**

For those LICUs wishing to exercise their option to access secondary capital, NCUA requires that credit unions accepting secondary capital must develop and submit a plan for its acquisition, use and repayment. The information is used by NCUA to determine if the secondary capital will be managed by the credit union without risk to its financial condition, the U.S. government or the National Credit Union Share Insurance Fund.

**3. Consideration Given to Information Technology**

NCUA does not dictate the form or format for submitting the required information. A credit union may use any information technology available to prepare the plan or redemption request, and may submit them to NCUA electronically.

**4. Duplication**

The information collection under this requirement is unique, and proprietary, to the reporting credit union and is not duplicative of information already available.

**5. Effect on Small Entities**

The information collected represents the minimum required to allow NCUA to ensure that secondary capital is managed by the credit union without risk to its financial condition or the National Credit Union Share Fund.

Specific language and format for "Disclosure and Acknowledgement" is included as an appendix to the regulatory language. Availability of model language should reduce the burden associated with this provision of the regulations.

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

Once a designated LICU decides to accept secondary capital, this information is necessary for the NCUA to meet its oversight obligations. Without this standard information, oversight would be much more costly to both the credit unions and NCUA examiners.

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

A credit union may be required to report information to NCUA more often than quarterly if it decided to initiate multiple triggering events during the quarter (e.g. if a LICU entered into contracts with multiple institutional investors in a given quarter).

## **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 on April 11, 2016 (81 FR 21404).

We received one public comment in response to the notice. The commenter commended NCUA on its efforts to streamline the process covered by this ICR. The commenter further agreed with the NCUA's estimate of the average burden per respondent to this collection. However, the commenter also raised a concern that the number of respondents used in estimating the burden was too low.

The commenter cited the number of LICUs currently holding secondary capital as part of their net worth – 75 LICUs – as evidence that the NCUA's initial estimate of respondents – 72 respondents – was too low. This comparison confuses the “stock” of LICUs covered by the rule, with the “flow” of new respondents each year. The most burdensome collection under the ICR is the development of a secondary capital plan for LICUs that are proposing to seek secondary capital for the first time. The 75 LICUs already holding secondary capital do not face this cost. Instead, it is LICUs that are not yet holding secondary capital that face this burden. The number of respondents reflects the number of LICUs that will seek secondary capital for the first time and new secondary capital activities associated with the 75 LICUs already approved to operate in the secondary capital market.

NCUA reached out to its regional staff to obtain additional information on the level of activity experienced with the program, as well as to confirm the estimate of burden per response for each of the covered collections. The information gained through this outreach suggested that the initial estimate of the number of responses was, in fact, overestimated.

In 2015 there were 29 secondary capital plans received for review, seven secondary capital redemptions, and two disclosure and acknowledgements. Based on this additional data, we are using 30 secondary capital plans and five disclosure and acknowledgements as the basis for estimating annual burden. While only seven requests for redemption were received last year, we expect that there will be a short-term increase in the number of requests over the next year or two associated with changes to a Federal secondary capital program run by another agency. To

account for this potential increase in redemptions, we base our estimates of the burden of this information collection (IC) on 20 responses per year.

## **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**

NCUA estimates that 30 credit unions will voluntarily choose to offer secondary capital accounts annually. Section 701.34 only requires one plan from each credit union. Based on its experience with credit unions that have submitted secondary capital plans, NCUA estimates it will take 30 hours for each such credit union to prepare and submit the required information.

Based on its experience, NCUA receives an average of ten requests per year to redeem secondary capital. NCUA anticipates each respondent will make one response per year and that it will take eight hours for each credit union to satisfy the information collection requirements, for a total of 80 total annual burden hours.

NCUA does not collect Disclosure and Acknowledgement information, but the regions were aware of two such disclosures in 2015. We have used a conservative estimate of 5 occurrences per year for the purposes of estimating burden. Similarly, no specific information on the time it takes to make such a disclosure was made available to the regions. Therefore, we are assuming that it takes a credit union the same amount of time to comply with this requirement as it does to provide the documentation supporting a request redeem secondary capital (8 hours). This represents an increase in burden per response relative to the analysis that supported the estimate commented on by the public.

Information Collection Activity	Burden Type	Number of Respondents	Frequency of Response (Annual (1), Quarterly (4), etc.)	Number of Responses	Burden Hours per Response	Annual Hourly Burden
1. <i>Secondary capital plan approval</i>	Reporting	30	1	30	30 Hours	900 Hours
2. <i>Request to redeem secondary capital</i>	Reporting	20	1	20	8 Hours	160 Hours
3. <i>Disclosure and Acknowledgement</i>	Third Party Disclosure	5	1	5	8 Hours	40 Hours
<b>Total (Sum)</b>		<b>55</b>		<b>55</b>		<b>1,100 Hours</b>

Information Collection Activity	Annual Hourly Burden (see 12 above, item E)	Hourly \$ Rate per Response	Total \$ Amount
1. <i>Secondary capital plan approval</i>	900Hours	\$35	\$31,500
2. <i>Request to redeem secondary capital</i>	80 Hours	\$35	\$5,600
3. <i>Disclosure and acknowledgement</i>	40 Hours	\$35	\$1,400
<b>Total (Sum)</b>	<b>1,100 Hours</b>	<b>\$35</b>	<b>\$38,500</b>

### 13. Costs to Respondents

All equipment needed to collect, prepare, and submit financial statements, when required, is equipment used for the customary and usual business of the credit union. There is no special or additional equipment; therefore, there is no additional cost.

### 14. Costs to Federal Government

Both secondary capital plans and secondary capital redemptions are submitted to NCUA for review before they can be executed. On average it takes NCUA staff 14 hours to review and negotiate changes to a secondary capital plan and six hours to review a secondary capital redemption. Disclosure and acknowledgements are not submitted to or reviewed by NCUA, so there is no additional cost to the government associated with them.

At a loaded wage rate of \$80 per hour for NCUA employees, the cost to the federal government of this collection is \$38,400.

### 15. Changes in Burden

The adjustments are based on NCUAs most recent experiences under the program. While the number of credit unions requesting approval to accept secondary capital generally remains the same, the amount of time required to complete the plan was increased based on NCUA experience assisting credit unions with such requests. Additionally, NCUA has also experienced an increase in the number of credit unions requesting redemption of secondary capital. This later trend is expected to continue.

**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.