

National Credit Union Administration  
Supporting Statement

**Capital Planning and Stress Testing**  
**12 CFR Part 702, Subpart E**  
**OMB No. 3133-NEW**

**A. Justification**

**1. Circumstances that make the collection of information necessary**

The NCUA Board (Board) has determined, to protect the National Credit Union Share Insurance Fund (NCUSIF) and the credit union system, that the largest Federally Insured Credit Unions (FICUs) should have systems and processes to monitor and maintain their capital adequacy. This rule requires FICUs with assets of \$10 billion or more (covered credit unions) to submit capital plans annually to NCUA. The Board has also determined that stress testing of these larger FICUs would provide useful information for both NCUA and the FICUs.

The Board of Governors of the Federal Reserve System (Federal Reserve) requires large bank holding companies to submit capital plans to the Federal Reserve.<sup>1</sup> The requirement supports the Federal Reserve's expectation that large bank holding companies have robust systems and processes that incorporate forward-looking projections of revenue and losses to monitor and maintain their internal capital adequacy. The Federal Reserve, the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) have issued regulations, pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), requiring their supervised institutions to conduct annual stress tests.<sup>2</sup> NCUA issues these regulations under the authority of Sections 120(a) and 216 of the Federal Credit Union Act (12 U.S.C. 1766a and 1990d).

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

The rule requires covered credit unions to develop and maintain a capital plan and submit this plan to NCUA by March 31 of each year. NCUA took into account the risk to the NCUSIF of the largest FICUs as it considered the need for capital plans at these institutions. The size of these institutions relative to the NCUSIF makes capital planning essential.

As of June 2017, NCUSIF equity was \$13.2 billion, and the assets of the largest FICUs that would be covered by this rule totaled \$184 billion—nearly 10 times the size of the NCUSIF. The net worth of these FICUs was \$19.2 billion as a cushion against the risks of these assets. At the same time, NCUA must maintain the NCUSIF against the risks of all FICUs, large and small. As of June 2017, the aggregate assets of all FICUs in the system was \$1.35 trillion, with a net worth of \$142 billion. The concentration of the NCUSIF's exposure to risks at the largest FICUs

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<sup>1</sup> 76 FR 74631 (Dec. 1, 2011)

<sup>2</sup> See 77 FR 61238 (Oct. 9, 2012); 77 FR 62378 (Oct. 12 2012); 77 FR 62396 (Oct. 12 2012); 77 FR 62417 (Oct. 15, 2012).

is therefore clear, as is the associated need for safe and sound capital planning at these FICUs to ensure the adequacy of their net worth. Losses by FICUs with assets of \$10 billion or more would likely require replenishment of the NCUSIF by all FICUs through assessments. NCUA is protecting the NCUSIF and the interests of all FICU members by making this rule applicable to the largest FICUs.

Under the rule, mandatory elements of the covered credit unions' capital plans start with an assessment of each credit union's sources and levels of capital over the planning horizon, taking into consideration its financial condition, size, risk profile, scope of operations, and existing capital. The credit union must assume both expected and adverse conditions. The credit union must also discuss in its capital plan how it will maintain ready access to funding to meet its obligations and continue to serve as an intermediary for its members. The capital plan must also take into account any expected changes to the credit union's business plan that will materially affect the capital adequacy or liquidity of the credit union.

The rule requires a covered credit union to perform specific capital analyses. At a minimum, covered credit unions must conduct a sensitivity analysis to evaluate the effect on capital of changes in variables, parameters, and inputs used by the credit union in its capital plans. Covered credit unions must also analyze the impact of credit risk to capital under unfavorable conditions, both separately and in combination with unfavorable interest rate scenarios.

The rule applies to all FICUs that report \$10 billion or more in assets on their March 31 Call Report.

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

Covered credit unions may use any information technology that permits review by NCUA examiners.

### **4. Efforts to Identify Duplication**

The collection of information is unique to the circumstances of each credit union. It is not duplicated elsewhere.

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

Not applicable. The information collection affects only large institutions that are greater than \$10 billion in assets.

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

Conducting the collection is required by law to be on an annual basis. Conducting the collection less frequently would also present safety and soundness risks.

**7. Inconsistent with Guidelines 5 CFR §1320.5(d)(2)**

The collection of information is conducted in a manner consistent with the guidelines in §1320.5(d)(2).

**8. Consultations Outside of the Agency**

A notice of proposed rulemaking was published on November 1, 2013, at 78 FR 65583, soliciting comments from the public, including the information collection requirements. Comments received in response to the rule were addressed in the final rule published April 30, 2014, at 79 FR 24311.

**9. Payment or Gift to Respondents**

No payment or gift to respondents are made.

**10. Assurance of Confidentiality**

To the extent NCUA collects information during an examination of a credit union, confidential treatment may be afforded to the records under exemption 8 of the Freedom of Information Act, 5 U.S.C. 552(b)(8).

**11. Questions of a Sensitive Nature**

No questions of a sensitive nature are being asked; no personally identifiable information (PII) is collected.

**12. Estimated Burden of Information Collection**

Section 702.504 prescribes the information collection requirements and mandatory elements to be covered in a capital plan.

It is estimated that zero to one credit union may fall within the definition of a “covered credit union” whose assets are \$10 billion or more within a 3-year cycle. This credit union would be required to develop an initial capital plan. For the purposes of the PRA, NCUA is reflecting one respondent annually.

Data from the most current Call Report identify six covered credit unions that fall within the \$10 billion threshold. These credit unions have a plan in place and are required to update data and submit to NCUA annually.

12 CFR	Information Collection	Number of Respondents	Annual Frequency	Annual Responses	Hours per Response	Total Annual Burden Hours
702.504	Develop initial Capital Plan	1	1	1	750	750
	Submit plan annually to NCUA	6	1	6	250	1,500
Total		6		7		2,250

Based on the labor wage rate \$90 per hours, the cost to respondent is \$202,500.

### **13. Estimates of Capital Start-up and Maintenance Costs**

There are no capital start-up or maintenance costs.

### **14. Costs to the Federal Government**

NCUA estimates that, on average, approximately 70 employee-hours will be spent in the review and assessment of a single credit union's capital plan. The wage rate for the processing is approximately \$85 per hour. Estimated total cost to NCUA for the review and assessment of a single capital plan is \$5,950. The estimated aggregate annual cost for NCUA to review and assess 7 covered credit union capital plans is \$41,650.

### **15. Change in Burden**

This is a request for emergency approval. The information collection requirements prescribed under subpart E of part 702 was published as final on April 30, 2014, at 79 FR 243111 (effective May 20, 2014), and were set-out in the preamble. The public was provide an opportunity to comment on the proposed collection (NPRM November 1, 2013, at 78 FR 65583) and comments were summarized and addressed in the final rule; but no formal PRA submission was made to the Office of Management and Budget (OMB). These regulations were promulgated in the wake of the Dodd-Frank Act (Pub.L. 111-203, H.R. 4173) and were put in place to protect the National Credit Union Share Insurance Fund (NCUSIF) and the credit union system. Changes are being proposed to this subpart that would impact paperwork burden. NCUA requests emergency consideration to bring the information collection requirement into compliance under the PRA.

### **16. Plans for Publication**

The information is not planned for publication.

### **17. Request Non-display of the Expiration date of the OMB Control Number**

The OMB control number and expiration date associated with this PRA submission will be displayed on the Federal Government's electronic PRA docket at [www.reginfo.gov](http://www.reginfo.gov).

### **18. Exceptions to the Certification for the Paperwork Reduction Act Submission**

There are no exceptions to the certification statement.

## **B. Collections of Information Employing Statistical Methods.**

This collection does not employ statistical methods.