

National Credit Union Administration
SUPPORTING STATEMENT

Capital Planning and Stress Testing
12 CFR Part 702, Subpart E
OMB No. 3133-0199

The NCUA is proposing to amend its regulations regarding capital planning and stress testing for federally insured credit unions with \$10 billion or more in assets (covered credit unions). The proposal would reduce regulatory burden by removing some of the capital planning and stress testing requirements currently applicable to certain covered credit unions. The proposal would also make the NCUA's capital planning and stress testing requirements more efficient for covered credit unions and the NCUA by, among other things, authorizing credit unions to conduct their own stress tests in accordance with the NCUA's requirements and allowing those credit unions to incorporate the stress test results into their capital plan submissions.

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.¹ 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.² 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).

¹ 76 FR 74631 (Dec. 1, 2011)

² 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).

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 May 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 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.

The proposed changes to the NCUA's capital planning requirements would more closely align the agency's regulatory requirements with its current supervisory expectations for covered credit unions. Under the proposal, covered credit unions would be subject to new tiered regulatory requirements that would permit the NCUA to focus its supervisory efforts on ensuring covered credit unions develop their capital plans in relation to their size, complexity, and financial condition.

- For a tier I credit union, which is a covered credit union that has completed fewer than three capital planning cycles and has less than \$20 billion in total assets, review of its capital plan would be incorporated into the NCUA's supervisory oversight of that covered credit union.
- For a tier II credit union, which is a covered credit union that has completed three or more capital planning cycles and has less than \$20 billion in total assets, or is otherwise designated as a tier II credit union by the NCUA, review of its capital plan also would be incorporated into the NCUA's supervisory oversight of that covered credit union.
- For a tier III credit union, which is a covered credit union that has \$20 billion or more in total assets, or is otherwise designated as a tier III credit union by the NCUA, review of its capital plan would still be subject to the current requirement that the NCUA formally approve or reject it.

Stress testing requirements under the proposal also would be tiered. Tier I credit unions would not be subject to any stress testing requirements. Once a tier I credit union satisfies the criteria for becoming a tier II credit union, which generally would be three years after it reaches total assets of \$10 billion or more, that covered credit union would be required to conduct stress testing. Unlike their larger counterparts in tier III, however, tier II credit unions would not be

subject to a 5% minimum stress test capital threshold. Further, under the proposal, the NCUA would no longer conduct the annual supervisory stress tests on applicable covered credit unions. Rather, the covered credit unions themselves would conduct the stress tests. Since stress testing standards were first adopted in 2014, the NCUA has conducted annual supervisory stress tests on all covered credit unions.

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 October 30, 2017, at 82 FR 50094, soliciting comments from the public, including the information collection requirements. Comments received on the information collection requirements in this proposed rule will be addressed in a subsequent PRA submission at the final rule stage.

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.

Proposed change amend § 702.506 to require tier 2 and 3 credit unions to conduct stress tests in a manner prescribed by NCUA. This reporting requirement will have an effect on five credit unions by increasing the information collection burden by an estimated 100 hours for each.

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
702.506	Tier 2 & 3 CUs; Conduct Stress Test	5	1	5	100	500
Total		7		7	393	2,750

Based on the labor wage rate \$90 per hours, the cost to respondent is \$247,500.

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 revision to a currently approved collection. The increase of 500 burden hours is due to a program change. The proposed rule would amend part 702, subpart E, to require tier 2 and 3 credit unions to conduct stress tests in a manner prescribed by NCUA.

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.

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.