

National Credit Union Administration
SUPPORTING STATEMENT

Requirements for Insurance – Interest Rate Risk Policy
OMB Control No. 3133-0184

A. JUSTIFICATION

1. Circumstances that make the collection of information necessary.

Section 741.3 of NCUA’s rules and regulations addresses the requirements for insurance of accounts and requires federally-insured credit unions with assets of more than \$50 million to develop, as a prerequisites for insurability of its member deposits, a written interest rate risk management policy and a program to effectively implement the policy.

The term “interest rate risk” (IRR) refers to the current and prospective risk to a credit union’s capital and earnings arising from movements in interest rates. Although some IRR is a normal part of financial intermediation, it still may negatively affect a credit union’s earnings, net worth, and its net economic value, which is the difference between the market value of assets and the market value of liabilities. Changes in interest rates influence a credit union’s earnings by altering interest-sensitive income and expenses (*e.g.*, loan income and share dividends). Changes in interest rates also affect the economic value of a credit union’s assets and liabilities because the present value of future cash flows and, in some cases, the cash flows themselves may change when interest rates change.

NCUA had issued guidance on IRR management in the past; but federally-insured credit unions (FICUs) have experienced increased exposure to IRR due to changes in balance sheet composition and increased uncertainty in the financial markets. This increase heightened the importance for FICUs to have a strong policy and program explicitly addressing the credit union’s management of controls for IRR; as such, NCUA has codified these requirements under §741.3(b)(5), along with a comprehensive guidance on how to establish a written policy and an effective IRR management program as Appendix B to Part 741.

Section 741.3 is authorized pursuant to 12 U.S.C. §§1757, 1766(a), 1781—1790, and 1790d; 31 U.S.C. §3717.

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 recordkeeping 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. Use of Information Technology.

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

4. Duplication of Information.

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

5. Efforts to Reduce Burden 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.

The need for FICU to have a written policy to establish responsibilities and procedures for identifying, measuring, monitoring, controlling, and reporting, and establishing risk limits are essential components of safe and sound credit union operations and to ensure the security of the National Credit Union Share Insurance Fund (NCUSIF).

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 with Persons Outside the Agency.

A 60-day notice was published in the *Federal Register* soliciting comments from the public on December 19, 2017, at 82 FR 60219 and no comments were received in response to this notice.

9. Payment or Gifts to Respondents

No payment or gifts are provide for this information collection requirement.

10. Assurance of Confidentiality

There are no assurances of confidentiality other than those provided by law. 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. Questions of a Sensitive Questions Nature

No questions of a sensitive nature are asked. Personally identifiable information (PII) is not collected.

12. Burden of Information Collection

As of June 2017, there were 5,696 FICUs, of which 2,298 had assets over \$50 million. These credit unions would have an established IRR policy and program in accordance with §741.3(b)(5). It is estimates that these 2,298 FICUs would take approximately 15 minutes annually to maintain these records.

It is also estimated that 10 new credit union may fall within the threshold annually and would be required to establish a formal IRR policy and corresponding program. While the burden may vary depending on the size and complexity of a credit union, NCUA calculated the weighted average hours to 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 is estimated at 16 hours per affected credit union.

Information Collection	No. of Respondents	No. Responses per Respondent (Frequency)	Total Annual Responses	Hours per Response	Total Annual Burden Hours
Established a written IRR Policy/Program	10	1	10	16	160
Maintain IRR Policy/Program	2,298	1	2,298	0.25	574.5
TOTAL	2,308	1	2,308	0.32	734.5

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

13. Capital Start-up or On-going Operation and Maintenance Costs

There are no capital start-up or maintenance costs.

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

This is an extension of a currently approved collection. Since the promulgation of the rule, FICUs have an established policy and program in place. This is reflected by the reduction in the number of respondents to account for only new FICUs that meet the threshold. The majority of the burden is attributed to recordkeeping requirements by FICUs with more than \$50 million in assets. Additional adjustments have been made to reflect the current number of credit unions complying with this rule. A total of 734 burden hours is requested.

16. Information Collection Planned for Statistical Purposes

The information collection is not used for statistical purposes.

17. Request Non-display 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 Certification for Paperwork Reduction Act Submissions

There are no exceptions to the certification statement.

B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS

This collection does not involve statistical methods.