

National Credit Union Administration  
**SUPPORTING STATEMENT**

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

Summary of Action:

The NCUA published a final rule on April 25, 2018, at 83 FR 17901, amending regulations regarding capital planning and stress testing for federally insured credit unions with \$10 billion or more in assets (covered credit unions). The final rule reduces regulatory burden by removing some of the capital planning and stress testing requirements currently applicable to certain covered credit unions. The final rule also make the NCUA’s capital planning and stress testing requirements more efficient by authorizing covered credit unions to conduct their own stress tests in accordance with the NCUA’s requirements and permitting covered credit unions to incorporate the stress test results into their capital plans.

**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 in place to monitor and maintain their capital adequacy. Subpart E of Part 702 of NCUA’s regulations codifies the capital planning and stress testing requirements for federally insured credit unions with \$10 billion or more in assets (covered credit unions).

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)

The NCUA is issuing this final rule pursuant to its authority under the Federal Credit Union Act (FCUA) (12 U.S.C. 1751 et seq.). Section 120(a) of the FCUA (12 U.S.C. 1766(a)) authorizes the Board to “prescribe rules and regulations for the administration of” the FCUA. Section 204 of the FCUA (12 U.S.C. 1784(a)) authorizes the Board, through its examiners, “to examine any

---

<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).

[federally] insured credit union . . . to determine the condition of any such credit union for insurance purposes.” Section 206(e) of the FCUA (12 U.S.C. 1786(e)) authorizes the Board to take certain actions against a federally insured credit union, if, in the opinion of the Board, the credit union “is engaging or has engaged, or the Board has reasonable cause to believe that the credit union or any institution affiliated party is about to engage, in any unsafe or unsound practice in conducting the business of such credit union.”

## 2. Purpose and Use of the Information

A Capital Plan is a written presentation of a covered credit union’s capital planning strategies and capital adequacy process that includes mandatory elements set forth in §702.504. Stress testing is needed to assess the potential impact of expected and stressed economic conditions on the consolidated earnings, losses, and capital of a covered credit union over the planning horizon, taking into account the current state of the covered credit union and the covered credit union’s risks, exposures, strategies, and activities.

The rule establishes a tier system tailored to reflect a covered credit union’s size, complexity, and financial conditions to differentiate the capital planning and stress testing requirements applicable to covered credit unions:

Tier	Description	Stress Test	Capital Plan Review
I	A credit union with \$10 billion or more in total assets, but less than \$15 billion in total assets	Not required.	Capital plan is not submitted to the NCUA; but is required to be done annually. Review is part of the NCUA supervisory oversight.
II	A credit union with \$15 billion or more in total assets, but less than \$20 billion in total assets.	Credit unions run stress tests using the NCUA stress-test scenarios and NCUA guidance, but are not subject to the 5% minimum stress-test ratio. [Financials as of Dec. 31 <sup>st</sup> ; Due date of May 31 <sup>st</sup> ]	Capital plan is not submitted to the NCUA; but is required to be done annually. Review is part of the NCUA supervisory oversight.
III	A credit union with \$20 billion or more in total assets.	Credit unions run stress tests using the NCUA stress-test scenarios and NCUA guidance, and are subject to the 5% minimum stress-test ratio. [Financials as of Dec. 31 <sup>st</sup> ; Due date of May 31 <sup>st</sup> ].	The NCUA accepts or rejects credit union capital plans—qualitative and quantitative assessment.

- *Tier I.* A tier I credit union is not subject to any supervisory stress testing requirements, nor is it required to incorporate the NCUA’s stress test scenarios in its capital plan. This approach allows a tier I credit union time after it reaches the \$10 billion threshold to obtain the policies and processes necessary to develop sound capital plans and analyses prior to incorporating supervisory stress testing. Once a covered credit union has \$15 billion in total assets, it is required to meet all tier II requirements described below.
- *Tier II.* A tier II credit union is subject to supervisory stress testing requirements. In addition, a tier II credit union must incorporate the NCUA’s annual stress test scenarios into its capital plan, even though the capital plan is not required to be submitted to the NCUA on May 31st.

- *Tier III.* A tier III credit union to incorporate the NCUA’s stress test scenarios into its capital plan submission. Because a tier III credit union poses the greatest level of systemic risk to the NCUSIF, it must also submit a plan to build capital or mitigate the risk if the credit union shows that its stress test capital ratio would fall below the 5 percent minimum stress test capital threshold.

The rule applies the asset thresholds as of the March 31<sup>st</sup> measurement date of each year. If a credit union crosses any of the tier I, II, or III asset thresholds by March 31<sup>st</sup>, then the credit union’s new classification is effective at the beginning of the next capital planning cycle, which begins on June 1<sup>st</sup> of that year and runs until the covered credit union has completed a capital plan the following year.

### **3. Use of 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 covered credit union. It is not duplicated elsewhere.

### **5. Efforts to Reduce Burden 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. Efforts to Consult with Persons 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 rule have been summarized and addressed in the preamble of the final rulemaking. The NCUA received a total of 17 comment letters from federally insured credit unions, credit union leagues, and credit union trade organizations. Those comments having information collection concerns have been set-out below.

Capital Planning and Stress Testing Tiers. Under the proposal, covered credit unions would be subject to tiered regulatory requirements that would further ensure their capital plans and stress testing requirements are tailored to reflect their size, complexity, and financial condition. The proposal would divide covered credit unions into three tiers, with each tier subject to different regulatory requirements. Nearly all of the commenters recommended changing the threshold levels for tier I, II, and III covered credit unions by increasing the size threshold levels for each tier. Several commenters suggested incorporating prudential factors into the threshold levels.

A majority of commenters encouraged the NCUA to increase the asset thresholds to be more consistent with the thresholds for banks. To achieve parity with banks, commenters generally recommended two different approaches to establishing size thresholds. (1) A number of commenters recommended that the NCUA take the size thresholds established for banks and reduce that threshold to reflect the proportionately smaller size of the National Credit Union Share Insurance Fund (NCUSIF). The commenters explained that the NCUSIF is approximately one-seventh the size of the Deposit Insurance Fund (DIF), therefore, the appropriate threshold for credit unions would be about \$36.5 billion (one-seventh of the proposed \$250 billion threshold for banks). Such comments are based on the premise that the DIF and NCUSIF are equivalent, but the DIF and NCUSIF are not structured similarly. For example, the NCUSIF has an equity deposit base which can lead to an undesirable pro-cyclical impact for all credit unions if a large loss were to occur. In addition, the NCUSIF has an operating equity ratio of 1.39 percent, whereas the DIF has a target reserve ratio of 2.0 percent. Therefore, the NCUA does not consider the size of the DIF as an appropriate benchmark for determining the asset thresholds for covered credit unions to conduct stress tests and capital planning exercises. (2) The second approach suggested by commenters to ensure parity between banks and covered credit unions was to emulate the asset thresholds adopted by the banking agencies. The size threshold, however, for most banks is currently set at \$10 billion.

Additionally, as discussed above, the NCUA does not consider the risks that banks pose to the DIF as analogous to the risks that covered credit unions pose to the NCUSIF, and therefore, does not believe that at this time the size thresholds for banks are appropriate for covered credit unions. While commenters consistently recommended increasing the size threshold levels, there were mixed opinions on the appropriate size thresholds that the NCUA should establish for each tier.

As compared to the proposed rule, the Board in the final rule has partially revised the thresholds for tier I and II covered credit unions. In the final rule, a tier I credit union is a covered credit union that has less than \$15 billion in total assets and a tier II credit union is a covered credit union that has \$15 billion or more in total assets, but less than \$20 billion in total assets (or is otherwise designated as a tier II credit union by the NCUA). Therefore, in the final rule, a covered credit union that remains under \$15 billion will not conduct annual stress tests, even if it has been subject to capital planning requirements for over three years. For such covered credit unions, the final rule provides additional regulatory relief from supervisory stress testing. However, a tier I credit union that crosses the \$15 billion threshold in less than three years after becoming a covered credit union, will have to conduct stress tests earlier under the final rule than as proposed.

Several commenters recommended that the NCUA incorporate an additional grace period between the time when a covered credit union becomes a tier I credit union and when it becomes a tier II credit union. Commenters stated that such additional time would allow tier I covered credit unions to focus on building strong capital planning and capital adequacy assessment processes before having to incorporate supervisory stress testing programs. The NCUA agrees with commenters that it is important for tier I covered credit unions to focus on building strong capital planning and capital adequacy assessment processes before incorporating supervisory stress testing programs. Therefore, as discussed above, in the final rule, a tier I credit union will not be automatically subject to stress testing requirements after a three-year phase in period. Instead, a tier I credit union will only be subject to stress testing requirements after its total assets exceed \$15 billion. The NCUA believes that the \$15 billion threshold provides credit unions additional control over their timeline for beginning supervisory stress testing. In recent years, covered credit unions have grown an average of 10 percent per year.

A few commenters recommended removing the proposed language allowing the NCUA the discretion to designate a credit union as a tier II or tier III credit union. Alternatively, the commenters suggested setting clear criteria, along with examples, to delineate the situations when this could happen. The NCUA recognizes that size alone does not provide a complete view of risk at a credit union. Each credit union is unique and matters of complexity and financial condition are nuanced. To maintain flexibility, to avoid creating a “one size fits all” rule, and to incorporate the unique attributes of individual credit unions, the Board is retaining in the final rule the ability to elevate a credit union’s tier designations. Thus, in the final rule, asset size establishes the baseline for determining the credit union’s tier designation, but a credit union’s financial condition, complexity, and other environmental matters may be considered by the Board to elevate its tier designation. In addition, the NCUA does not believe that codifying a strict set of conditions to delineate when this discretion is to be exercised is prudent given the highly fact specific nature of the determination.

*Capital Planning Requirements.* Under the proposed rule, a covered credit union would continue to annually develop and submit to the NCUA a capital plan. For tier I and II covered credit unions, however, review of their capital plans would be incorporated into their supervisory oversight. For tier III covered credit unions, review of their capital plans would continue to be subject to the current requirement that the NCUA formally approve or reject them. A few commenters specifically expressed support for the proposed changes to the capital planning requirements. Several other commenters, however, recommended specific changes to further reduce the burden of capital planning requirements.

Specifically, several commenters stated that the NCUA should reduce the frequency of capital planning requirements. For example, a commenter recommended that the NCUA eliminate the requirement that covered credit unions provide annual capital plans. Instead, the commenter recommended that the NCUA use the supervisory process to evaluate capital. Other commenters suggested that for certain covered credit unions, capital plans should only be required every two to three years. The NCUA believes that capital adequacy considerations and capital actions should be regular and ongoing activities at covered credit unions and viewed alongside the credit union’s strategic and financial plans. Annual revisions and more frequent reviews of capital

plans are appropriate so that the credit union has a current view of threats to capital and can take timely mitigating action. The NCUA does not consider annual capital plan preparation, even with incorporated supervisory stress tests, to be an excessive burden, and therefore, the final rule continues to require annual development of capital plans for all covered credit unions.

Additionally, a few commenters recommended tailoring capital planning requirements to complement the stress testing changes by providing tiered expectations for capital planning requirements. The NCUA notes that it will review tier I and tier II credit union capital plans through the supervisory process and those plans are not subject to formal approval by the NCUA.

Commenters also had different opinions on whether the NCUA should formally approve or reject any covered credit union's capital plan. For example, a commenter recommended that the NCUA review all capital plans through the supervisory process, while another commenter supported the proposal to retain the requirement that the NCUA approve or reject a tier III credit union's capital plan. The final rule's tiered approach enables the NCUA to tailor capital plan expectations to the individual credit union, reserving the highest expectations and most critical assessment for the tier III credit unions. For tier III credit unions, which pose the most systemic risk to the NCUSIF, it is prudent to establish formal triggers requiring action to mitigate NCUSIF risk exposure. Therefore, in the final rule, capital plans for tier III credit unions will continue to be subject to formal approval requirements.

*Stress Testing Requirements.* 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 according to the NCUA's instructions, which ensures that the stress tests performed by credit unions are conducted in a consistent and comparable manner. Covered credit unions also would be subject to tiered stress testing requirements. Tier I credit unions would no longer be subject to stress testing requirements, and tier II and III credit unions would conduct annual stress tests. Additionally, unlike their larger counterparts in tier III, tier II credit unions would not be subject to a 5 percent minimum stress test capital threshold.

Commenters had mixed opinions on whether the proposed changes to stress testing requirements provided meaningful regulatory relief. Commenters also had varied opinions on whether the NCUA or covered credit unions should conduct the required stress tests. Several commenters specifically stated their support for allowing covered credit unions to conduct their own stress tests. Other commenters, however, stated that such a change would increase operational burden and expense for credit unions. Another commenter recommended retaining the current opt-in approach to conducting stress tests.

The NCUA believes that credit unions are better informed of risk when they perform their own capital adequacy assessments. Having covered credit unions conduct their own supervisory stress tests further informs their capital analysis. Also, it eliminates any negative consequences that could result from the NCUA conducting the tests, namely that a covered credit union might abdicate its responsibility to perform rigorous capital analyses to the NCUA. Furthermore, the NCUA views the production and reporting of supervisory stress test results as incidental given the expectation that credit unions have sound capital adequacy assessment processes. Therefore,

the NCUA is not changing the proposed requirement to have tier II and III covered credit unions conduct their own supervisory stress tests.

Many commenters encouraged the NCUA to consider providing more substantial regulatory relief, including reducing or eliminating stress testing requirements. Several commenters recommended eliminating the stress testing requirements altogether. Others suggested reducing the frequency of testing or waiving certain requirements based on the credit union's risk profile. The primary objective of stress testing is for the NCUA and the covered credit union to have an understanding of the credit union's ability to absorb the impact of significant economic stresses and to determine with a high degree of confidence when a covered credit union does not have sufficient capital to protect the NCUSIF from losses. Annual supervisory stress testing is an important prudential tool that provides the NCUA an aggregate view of the covered credit union's financial condition and capital resiliency. Therefore, in the final rule, tier II and III credit unions will continue to be required to conduct annual stress tests.

Commenters also had specific recommendations for the stress testing process. For example, a few commenters objected to the proposed timeline for conducting stress tests and completing capital plans. The commenters believed that the May 31st submission date provides insufficient time to complete the stress tests and incorporate results into the capital planning process. Instead, commenters suggested submission dates of July 31st or August 31st. As recently as 2015, the NCUA considered the timing of capital planning and stress test elements.

In July 2015, the NCUA adopted a revised capital planning and stress testing schedule, which included consideration of the potential for credit union run stress testing. In that final rule, the NCUA amended the capital planning and stress testing rule to establish a due date of May 31st for covered credit unions to submit their capital plans. This change provided covered credit unions with five months from the as-of date (and three months from the scenario release date) to prepare their capital plans, as commenters requested. The NCUA continues to believe that the release date of supervisory stress test scenarios and the due date for credit union capital plans provide ample time for a credit union to produce and report credible stress test results. Therefore, the final rule retains the May 31<sup>st</sup> submission date for annual stress tests. A number of commenters also encouraged the NCUA to provide stress testing instructions earlier in the capital planning process.

The NCUA agrees with the commenters. The NCUA intends to post instructions on its website that will generally remain the same each year. If any modifications are necessary to the instructions due to a particular year's scenarios, such modifications will be released at the same time as the scenarios.

A minority of commenters discussed the scenarios required for stress testing. For example, a commenter recommended that tier II covered credit unions be exempt from the baseline and adverse stress test scenarios. The NCUA believes that each scenario is necessary for the NCUA and a credit union to have a complete understanding of the credit union's risks and that each scenario serves a distinct purpose in the stress test exercise. Specifically, the baseline scenario, conducted under the NCUA's instructions, serves as a benchmark to evaluate results under the stress scenarios. The stress scenarios are used to stress different aspects of a credit union's

positions under unfavorable conditions and may be designed to focus on different risk characteristics of a credit union's portfolio. The spectrum of scenarios is necessary to have a complete understanding of a credit union's capital position in different economic conditions.

Therefore, the NCUA believes that all stress tests should include all scenarios. Furthermore, consistent testing parameters ensure that credit union results are comparable to each other. Another commenter recommended that the NCUA continue utilizing the Federal Reserve Board's stress test assumption scenarios rather than designing its own unique tests. The commenter believed that standardization across the financial services industry is preferable. The NCUA agrees with this commenter. Consistent with past practice, the NCUA intends to publish scenarios that are consistent with the scenarios published by the banking agencies. However, the NCUA reserves the right to modify scenarios or produce unique scenarios to ensure risk at covered credit unions is sufficiently captured in the exercise.

*Data Submission.* Covered credit unions are currently required to submit data to the NCUA as part of the stress testing process, and the proposal did not include any changes to these requirements. Several commenters, nevertheless, encouraged the NCUA to eliminate or substantially reduce the data submissions. Commenters, however, generally did not offer specific data items that they considered unnecessary or burdensome. Data collection is part of the NCUA's strategic initiative to enhance supervision and is used to inform qualitative and quantitative assessments and ratings of covered credit unions. The data currently collected for the NCUA to conduct supervisory stress tests will continue to be used by the agency to assess a covered credit union's capital adequacy through review of its capital plan and supervisory stress tests results. Also, the collected data can drive supervisory efficiencies that reduce regulatory burden for covered credit unions. For example, the data may lead to more targeted supervisory work resulting in less time on-site at covered credit unions. Therefore, the final rule retains the current data collection requirements.

A few commenters also stated that given the enterprise-wide nature of the capital planning and supervisory stress testing regime, the NCUA should consider whether certain generally applicable requirements that must be met for a credit union to be eligible for insurance coverage are unnecessarily redundant when applied to covered credit unions. The commenters specifically noted liquidity and risk-based capital standards. Capital planning and stress testing are distinctive supervisory tools that the NCUA uses in the supervision of risk at covered credit unions. They complement, but do not replace, other regulatory and supervisory tools used by the agency.

## **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

§702.504 Capital Planning –

- All covered credit unions must develop and maintain a capital plan; however, tier III credit unions are required to submit their capital plan and policy to NCUA annually. Data from the most current Call Report identify 9 covered credit unions that fall within the \$10 billion threshold.
- It is estimated that 1 credit union may fall within the threshold for the first time, which would requirement this covered credit union to develop their initial capital plan.
- Current tier I and II credit unions are required to maintain their capital plans for review during the supervisory review process.

§702.506 Annual Stress Testing –

Tier II and III credit unions are required to conduct an annual stress tests in a manner prescribed by NCUA. The results are periodically collected with final data provided to NCUA by May 31<sup>st</sup> annually.

12 CFR	Information Collection	Number of Respondents	Annual Frequency	Annual Responses	Hours per Response	Total Annual Burden Hours
702.504	Initial development: Capital Plan (Recordkeeping)	1	1	1	750	750
	Maintain Capital Plan – Tier I and II (Recordkeeping)	7	1	7	240	1,680
	Submit plan annually to NCUA – Tier III only (Reporting)	2	1	2	250	500
702.506	Tier II & II CUs; Conduct Stress Test; results to NCUA by May 31 of each year.	5	1	5	100	500
Total		10		15		3,430

Based on the labor wage rate \$90 per hours, the cost to respondent is \$308,700.

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

There are no capital start-up or maintenance costs.

## 14. Annualized 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 2 covered credit union capital plans is \$11,900.

## **15. Change in Burden**

As of March 31, 2018 call reporting, 3 additional credit unions crossed the \$10 billion threshold and are subject to the recordkeeping requirements prescribed by §702.504 on tier I credit unions. The increase of 720 burden hours is due to an adjustment.

The removal of the requirement for tier I and II credit unions to formally submit capital plans to the NCUA is a change from the proposed rule. The Board believes that removing the submission requirement for tier I and II covered credit unions provides such smaller credit unions additional flexibility to incorporate their annual capital plan into their strategic plan; a process that may not correlate to the current May 31st submission date for stress tests. Capital plan reviews for tier I and II credit unions will be conducted as part of the NCUA's supervision of the credit union.

- The reduction of 40 burden hours is due to a program change.

The final rule adopts the incremental approach to supervisory stress testing requiring tier II and III credit unions to conduct stress tests in a manner prescribed by NCUA, and submit results to NCUA by May 31<sup>st</sup> annually.

- The increase of 500 burden hours is due to a program change.

A total of 3,430 burden hours are requested. A total reduction of 460 burden hours is attributed to this regulatory action and an increase of 720 is an adjustment attributed to the increase in the number of respondents designated as tier I.

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

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.