

National Credit Union Administration  
**SUPPORTING STATEMENT**

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

**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 issued regulations under subpart E to part 702 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 [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.”

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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).

## 2. Purpose and use of the information collected.

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 31<sup>st</sup>.
- *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 in 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 60-day notice was published in the *Federal Register* on July 27, 2021, at 86 FR 40213, soliciting comments from the public. The NCUA received one comment in response to the PRA renewal of the information collection for Part 702, Subpart E, Capital Planning and Stress Testing.

The commentor recommends the NCUA institute at least a three year phase in period for tier I credit unions to ascend to tier II status under part 702, Subpart E, and retain the tier II asset threshold for as long as the credit union's total assets remain below \$15 billion after three years. The letter acknowledges that the NCUA Board's March 2021 temporary interim final rule suspending regulatory asset thresholds gives needed relief, it also asserts the timing of the relief expiration strains credit union resources due to other

compulsory deadlines. These deadlines include the implementation of the NCUA's Risk Based Capital Rule and implementing Current Expected Credit Loss accounting standard.

Since the onset of the COVID-19 Pandemic, the NCUA took several actions to prudently ease regulatory burden enabling credit unions to focus on safely meeting member needs. As noted in the commentor's letter, one such action is the NCUA Board issued a temporary interim final rule in March 2021 to mitigate the regulatory burden on consumer credit unions of unexpectedly crossing capital planning and stress testing asset thresholds earlier than expected. The Board action allows federally insured credit unions to use asset data as of March 31, 2020, for the applicability of asset thresholds during calendar years 2021 and 2022. For example, if a credit union remained under the asset threshold on March 31, 2020, it is not subject to capital planning and stress testing regulations until January 1, 2023. This relief enables credit unions to address pandemic related uncertainties and either reduce their balance sheets or to prepare for higher regulatory standards. The NCUA Board already extended the time effected credit unions have to meet capital planning and stress testing requirements.

The commentor also notes the NCUA Board previously considered a fixed three-year period for tier I credit union status in the October 2017 proposed rule to revise the NCUA capital planning and stress testing regulations. After receiving, and deliberating on, credit union comment, the NCUA revised credit union tier criteria and exempted tier I credit unions from the supervisory stress test in the April 2018 final rule. The revised tiering removed the three-year phase-in period in favor of a strict asset-size threshold and provided significant regulatory relief to tier I credit unions, notably exempting tier I credit unions from the NCUA's supervisory stress test. The NCUA believes that size is an indicator of systemic risk to the NCUSIF and that a \$15 billion threshold balances the goal of providing regulatory relief to tier I credit unions and risk to the NCUSIF.

The commentor's final suggestion is the NCUA reconsider Part 702 Subpart E's asset thresholds. They note the NCUA's several years of supervisory experience with capital planning and stress testing and that should allow informed reconsideration of the tiers and associated thresholds. The NCUA is committed to review all its existing rules and regulations every three years on a rolling review schedule. The next time Part 702 is scheduled for review, public notice will be provided, and all relevant information will be considered.

**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 Call Reporting period subject to the NCUA’s interim final rule; request for comments published on 19 April 2021 identify 11 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)                        | 4                     | 1                | 4                | 250                | 1,000                     |
| 702.506(e) | Tier II & III CUs; Conduct Stress Test; results to NCUA by May 31 of each year. | 6                     | 1                | 6                | 100                | 600                       |
| Total      |   | 12                    | 1.5              | 18               | 223.888            | 4,030                     |

Based on the labor wage rate \$90 per hours, the cost to respondent is \$362,700.

**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**

Adjustments are attributed to updated data since the previous submission. A total of 4,030 burden hours are requested, increasing the burden of Part 702 Subpart E by 600 hours:

- One credit union is projected to enter covered status at the end of the current interim final rule. Burden for initial development remains at 750 hours.
- Two credit unions entered covered status since the last statement keeping the number of tier I and tier II credit unions at seven and the burden estimate at 1,680 hours.
- Two credit unions migrated to tier III status increasing the category burden by 500 hours to 1,000 hours.
- One credit union migrated to tier II and tier III supervisory stress test result reporting status increasing the category burden by 100 hours to 600 hours.

**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 site 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.