

National Credit Union Administration
SUPPORTING STATEMENT

Capital Planning and Stress Testing
12 CFR Part 702, Subpart C
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 C 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.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)

The NCUA issued regulations under subpart C 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.”

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 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 st ; Due date of May 31 st] | 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 st ; Due date of May 31 st]. | 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 results of self-run stress tests using 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 must incorporate the results of self-run stress tests using 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 31st measurement date of each year. If a credit union crosses any of the tier I, II, or III asset thresholds by March 31st, then the credit union's new classification is effective at the beginning of the next capital planning cycle, which begins on January 1st of 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 (Section to be updated by OGC).

A 60-day notice was published in the *Federal Register* on September 12, 2023 at 88 FR 62604, soliciting comments from the public. The NCUA received one comment in response to that notice.

The commenter requested that NCUA provide additional clarification regarding the use of the standard form results reporting templates for purposes of reporting results of internal capital planning and analysis. The commenter noted that multiple items requested in the SST schedules were not applicable to internal capital analysis conducted by the credit union. As an example, the commenter cited Stress Test Capital and the Stress Test Capital Ratio currently required to be reported in the standard form templates were not

applicable to their internal capital planning and analysis. The commenter also stated they felt use of the standard form reporting templates was redundant and ineffective whereas their capital plan includes commentary, analysis and supporting schedules that bring important context to the results of that analysis.

NCUA agrees that some revision and clarification in the reporting instructions may be necessary to use the standard form results reporting templates for purposes of reporting results of both annual Supervisory Stress Testing results as well as results of internal capital adequacy assessment analysis and planning. We disagree, however, with the example provided by the commenter, because Section 702.304(b)(1) of the Rules and Regulations requires covered credit unions to include, as a mandatory element in their annual capital planning, “a quarterly assessment of the expected sources and levels of stress test capital over the planning horizon that reflects the covered credit union's financial state, size, complexity, risk profile, scope of operations, and existing level of capital, assuming both expected and unfavorable conditions”. The requirement to measure stress test capital as defined in section 702.302 of the Regulations aside, NCUA acknowledges that credit unions, as part of their internal capital adequacy assessment analysis and planning, may target different measures. NCUA has made revisions to the standard form templates to accommodate reporting of different capital measures in the balance sheet tab of the templates. Instructions and definitions were adjusted accordingly as well. Furthermore, NCUA disagrees with the commenter's statement that reporting results of internal capital analysis using the standard form templates would be inefficient and redundant as compared to the detailed analysis, commentary and supporting schedules contained in their annual capital plan. As stated in the initial PRA notification, reporting of internal capital analysis results in a standard form manner will allow NCUA to more efficiently and fairly review benchmarks and opine on the strength and reasonableness of credit unions analyses serving as the foundation of the capital adequacy assessment and planning. NCUA acknowledges there would be some initial burden placed on credit unions to revise and update systems and applications used to generate results of internal capital analysis in a form exportable to the reporting templates; however, NCUA believes that the benefits obtained in efficiency and fairness of review and assessment of capital analysis results outweigh these initial burdens.

The commenter also stated that NCUA's inclusion of investment data as part of the revised annual data request is duplicative because ONES credit unions submit other investment data on a quarterly basis. NCUA agrees with the commenter that ONES credit unions are required to submit some instrument-level investment data to the ONES supervisory team on a quarterly basis. However, this only covers a portion of credit union investment activities. The annual collection of investment data covered by the PRA notice also captures instrument-level investment information in credit union employee benefit and charitable donation accounts. These additional instrument-level investment data are needed to model the credit union's balance sheet and income statement under stress scenarios. This information has historically been collected by NCUA on an annual basis. While NCUA agrees that future efforts should work to combine both investment data collections, continuing to collect this data as part of the current annual collection is still needed.

A 30-day notice was published in the *Federal Register* on December 26, 2023 at 88 FR 88978.

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 final rule (March 31, 2023) identify 22 covered credit unions that fall within the \$10 billion threshold.
- It is estimated that 3 credit unions will fall within the threshold for the first time, which would require these covered credit unions 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.
- Current Tier III credit unions are required to submit their capital plans for NCUA review.
- Going forward NCUA will request that all Tier II and III credit unions report the results of both internal capital analysis and self-run supervisory stress tests using the results reporting template required by NCUA (stress testing template for self-run supervisory stress tests and capital planning template for internal capital analysis).

§702.506 Annual Stress Testing –

Tier II and III credit unions are required to conduct self-run supervisory stress tests in a manner prescribed by NCUA. The results are reported to NCUA using the standard form

results reporting template provided by May 31st annually. The table at the top of the next page estimates the annual burden hours.

| 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) | 3 | 1 | 3 | 750 | 2,250 |
| | Maintain Capital Plan – Tier I and II (Recordkeeping) | 17 | 1 | 17 | 240 | 4,080 |
| | Report Results of Capital Plan using standard form results reporting templates – Tier II and III only (Reporting) | 12 | 1 | 12 | 25 | 300 |
| | Submit plan annually to NCUA – Tier III only (Reporting) | 5 | 1 | 5 | 250 | 1,250 |
| 702.506(e) | Tier II & III CUs; Report stress test results to NCUA by May 31 of each year. | 12 | 1 | 12 | 125 | 1,500 |
| Total | | 12 | 1 | 12 | 781.67 ³ | 9,380 |

Based on the labor wage rate \$90 per hour, the cost to respondent is \$844,200.

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 240 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 \$20,400. The estimated aggregate annual cost for NCUA to review and assess the five Tier III credit union capital plans is \$102,000.

15. Change in Burden

A total of 9,380 burden hours are requested, increasing the burden of Part 702 Subpart C by 5,350 hours. The increase in burden is largely attributable to an increase in the number of credit unions meeting the asset size threshold for capital planning and self-run stress testing since the previous submission. The estimated burden also increased marginally because of the updated self-run SST results reporting template, as well as reporting of internal capital analysis results on a template functionally equivalent to the self-run SST template on a go forward basis as well (the data collection worksheets are functionally equivalent, but the overview worksheets of the templates refer either stress testing or capital planning as applicable. The capital planning worksheet also allows credit unions to include any additional internal capital measures on the Balance Sheet worksheet that they feel are applicable based on their internal capital policies.). In detail, the burden changed due to:

³ Total annual burden hours of 9,380 divided by number of responses of 12.

- Three new credit unions transitioned into Tier I for the first time, increasing the burden by 1,500 hours relative to the single credit union transitioning into Tier 1 in the prior burden analysis.
- A net of 10 additional credit unions transitioned into Tier I or Tier II status, which had a net increase of 2,400 burden hours.
- One credit union migrated to Tier III, leading to an increase of 250 burden hours.
- Six additional credit unions migrated to tier II and tier III supervisory stress test result reporting status. Based on the previous burden estimate of 100 hours, this increases the total burden hours by 600 hours, all else equal.
- Adding a requirement to report results of internal capital analysis, in addition to supervisory stress test results, using the standard form results reporting templates, increases total burden hours by 300.
- The additional per credit union per year burden associated with reporting the stress test results to NCUA was increased from 100 to 125 hours (increasing burden by 25 hours per credit union per year), yielding an additional 300-hour burden.

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.

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.