

CORPORATE CREDIT UNION GUIDANCE LETTER

No. 2001-03

DATE: October 5, 2001

SUBJ: Interest Rate Sensitivity Analysis in Low Rate Environments

TO: The Corporate Credit Union Addressed:

Recently, many Treasury security yields have been less than three percent. Section 704.8(d)(i) of NCUA's Rules & Regulations requires a corporate credit union to evaluate the impact of a shock in the Treasury yield curve of plus and minus 100, 200, and 300 basis points on its NEV, NEV ratio, and net interest income. However, when Treasury yields are less than three percent, a theoretical rate decline of 300 basis points would result in negative Treasury yields. Corporate credit unions do not need to perform the interest rate sensitivity analysis for a decline of 200 or 300 basis points required by §704.8(d)(i) to the extent the parallel shock in the Treasury yield curve would result in a negative Treasury yield.

To avoid use of negative Treasury yields, you should report on the 5310 Call Report the impact of a rate decline of 200 or 100 basis points when the yield on any Constant Maturity Treasury is three percent or less at month end, as shown in the table below.

5310 CALL REPORT INSTRUCTION FOR LOW RATE ENVIRONMENTS

Lowest Constant Maturity Treasury Yield*	Report the Impact of a Shock of:
Less than or equal to three percent, but greater than two percent	Minus 200 basis points
Less than or equal to two percent	Minus 100 basis points

* As reported for "Treasury constant maturities" in the Federal Reserve Statistical Release, H.15 Selected Interest Rates, <http://www.federalreserve.gov/releases/H15/update/>.

For management and asset/liability committee information purposes, we suggest you prepare an analysis of a 400-basis-point increase in the Treasury yield curve when Treasury yields are less than three percent. Similarly, you may wish to prepare an analysis of a 500-basis-point increase in the Treasury yield curve when Treasury yields are less than two percent. However, NCUA does not require these suggested, additional analyses. You should continue to report the impact of the plus 300-basis-point shock on the 5310 Call Report.

If you have any questions, please contact the Office of Corporate Credit Unions at (703) 518-6640, or your state regulator.

Sincerely,

Dennis Dollar
Chairman

cc: State Supervisory Authorities
NASCUS
NAFCU
ACCU

bcc: Reading File
Regional Directors
All OCCU Staff
Office of General Counsel

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