

# NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION  
1775 Duke Street, Alexandria, VA 22314

**DATE:** October 2016 **LETTER NO.:** 16-CU-08

**TO:** Federally Insured Credit Unions

**SUBJ:** Revised Interest Rate Risk Supervision

**ENCL:** Fact Sheet: Revised Interest Rate Risk Supervision  
*Revised Examiners Guide*  
*Interest Rate Risk Review Procedures Workbook*  
*Guide to Using NCUA's Interest Rate Risk Exam Procedures Workbook*

Dear Board of Directors and Chief Executive Officer:

Effective January 1, 2017, NCUA will institute changes to the agency's interest rate risk review procedures and adopt a standardized measurement of interest rate risk to scope and rate interest rate risk assessments more efficiently and effectively. Field staff will implement these changes using the enclosed *Interest Rate Risk Review Procedures Workbook* and *Guide to Using NCUA's Interest Rate Risk Procedures Workbook*. NCUA also revised the chapter of the *Examiner's Guide* that provides comprehensive and educational interest rate risk information. You should review all of these materials to learn more about the agency's supervisory expectations. You also may access this material on the new [Examiner's Guide webpage](#).

Interest rate risk is a potentially significant risk that arises from credit union activities and is inherent to some degree in all credit unions. Therefore, it is critical that your credit union adopt safe and sound practices associated with interest rate risk management.

Given the potential impact interest rate risk can have on the credit union system and the National Credit Union Share Insurance Fund, we revised our interest rate risk supervision process. NCUA developed these new procedures after extensive staff research, analysis, vetting, and testing over the last two years. Consulted stakeholders included representatives from credit unions, state regulators, external service providers, and NCUA staff.

Key changes to NCUA's interest rate risk supervision include:

- The development of the *Interest Rate Risk Review Procedures Workbook*;

- The updating of interest rate risk tolerance thresholds in the *Net Economic Value Supervisory Test*;<sup>1</sup>
- The creation of an estimated net economic value tool for credit unions with total assets of \$50 million or less; and
- The revision of the interest rate risk chapter in the [Examiner's Guide](#).

The *Net Economic Value Supervisory Test* measures the relative degree of market risk inherent in a credit union's balance sheet under a prescribed interest rate shock scenario using standardized non-maturity share values. The test measures interest rate risk exposure relative to capital. It also establishes a uniform and transparent measure of market risk that allows field staff to scale the interest rate risk scope and review procedures to match the credit union's level of risk. If the test should result in an extreme risk level, this will typically require your credit union management to implement a de-risking strategy until the exposure is less than extreme. Based on the resolution prospects, an extreme rating could trigger the administrative process for a potential downgrade of your credit union's net worth classification; however, we anticipate such circumstances to be very rare.

NCUA designed these interest rate risk supervision changes to increase the agency's efficiency and effectiveness and to focus resources toward higher-risk credit unions while reducing the scope, attention, and time for lower-risk credit unions. The new procedures also will provide greater consistency in the identification and application of risk assessment across the system.

As with any change in the supervisory approach for a major area of risk, we understand that credit unions and other stakeholders will have important questions. I encourage you to review the attached fact sheet for more information about these changes and to visit our [extensive online resources on interest rate risk](#). Your regional office or state supervisory authority can assist with any questions you may have about this important subject.

Sincerely,

/S/

Rick Metsger  
Chairman

Enclosures

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<sup>1</sup> The revised thresholds (low, moderate, high and extreme) were developed in conjunction with the NCUA Board's mandate to address interest rate risk supervision concern as outlined in the [final risk-based capital rule](#) in October 2015.