

CORPORATE CREDIT UNION GUIDANCE LETTER

No. 2003-06

DATE: September 30, 2003

SUBJ: Interest Rate Sensitivity Analysis in Low Rate Environments

TO: The Corporate Credit Union Addressed:

The low interest rate environment continues to persist and yield on some Treasury securities recently declined below one percent. Section 704.8(d)(i) of the National Credit Union Administration (NCUA) Rules and Regulations requires a corporate credit union to evaluate the impact of a shock in the yield curve of plus and minus 100, 200, and 300 basis points on its Net Economic Value (NEV) and NEV ratio. However, when points on the yield curve are less than three percent, a parallel interest rate decline of 300 basis points would result in negative yields. Corporate credit unions do not need to perform the interest rate sensitivity analysis for a decline of 100, 200 or 300 basis points required by Section 704.8(d)(i) to the extent the parallel shock in the yield curve would result in negative yields.

The Constant Maturity Treasury yields were selected as the benchmark because they are readily available and ensure consistency in reporting among all corporates. To avoid the use of negative 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. When interest rates fall below one percent, a corporate credit union need not report the impact of any downward shock tests.

5310 CALL REPORT INSTRUCTION FOR LOW RATE ENVIRONMENTS

Lowest Constant Maturity Treasury Yield*	Report 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, but greater than one percent	Minus 100 basis points
Less than or equal to one percent	No Report Required

* As reported for "Constant Maturity Treasuries" 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 yield curve when interest rates are less than three percent. Similarly, you may wish to prepare an analysis of a 500 basis point increase in the yield curve when interest rates 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 test on your monthly 5310 Call Report.

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This instruction supersedes Corporate Credit Union Guidance Letter No. 2001-03 dated October 5, 2001. If you have any questions, please contact the Office of Corporate Credit Unions at (703) 518-6640, or your state regulator.

Sincerely,

/S/

Kent Buckham
Director
Office of Corporate Credit Unions

cc: State Supervisory Authorities
NASCUS
NAFCU
ACCU