



**BOARD ACTION MEMORANDUM**

**TO:** NCUA Board

**DATE:** February 23, 2011

**FROM:** Office of General Counsel

**SUBJ:** Amended Definition of  
PCA "Low-risk assets"

**ACTION ITEM:** That the NCUA Board issue a Final Rule permanently adopting an expanded definition of "Low-risk assets" for Prompt Corrective Action ("PCA") purposes in order to extend a zero percent risk-weighting to debt instruments guaranteed by NCUA and thus backed by the full faith and credit of the United States.

**ACTION DATE:** March 17, 2011

**OTHER OFFICES CONSULTED:** Office of Examination and Insurance

**VIEWS OF OTHER OFFICES CONSULTED:** Concur

**SUBMITTED TO THE INSPECTOR GENERAL FOR REVIEW:** Yes

**BUDGET IMPACT, IF ANY:** None

**RESPONSIBLE STAFF MEMBERS:** Steven Wideman, Trial Attorney, Office of General Counsel.

**SUMMARY:** In 2010, the NCUA Board issued an Interim Final Rule expanding the definition of "Low-risk assets," 12 C.F.R. 702.104(d), to include debt instruments on which the payment of principal and interest is unconditionally guaranteed by NCUA as an agency of the Executive Branch of the United States. 75 FR 66298 (October 28, 2010). The NCUA guaranty is backed by the full faith and credit of the United States. Assets in this category receive a risk-weighting of zero for PCA purposes to reflect the absence of credit risk. 12 C.F.R. 702.107(d).

A principal purpose of including NCUA-guaranteed debt in the "Low-risk assets" category was to extend the zero risk-weighting to the NCUA Guaranteed Notes offered to public investors, including credit unions, since October 2010. Prior to the Interim Final Rule, the NCUA Guaranteed Notes would have received a 3 percent risk-weighting, possibly discouraging credit union investors due to the adverse effect on their PCA net worth, even though the Notes are free of credit risk.

NCUA received two comment letters in response to the Interim Final Rule, both from national credit union industry trade associations. Both commenters supported the Interim Final Rule without reservation. Having considered the comments, there is no

reason to further revise the amended definition of "Low risk assets." Accordingly, we recommend that the NCUA Board issue the attached Final Rule permanently adopting the expanded definition of "low risk assets" as originally set forth in the Interim Final Rule.

### **RECOMMENDED ACTION**

That the NCUA Board issue a Final Rule permanently adopting the expanded definition of "Low-risk assets" to include debt instruments unconditionally guaranteed by NCUA.

### **ATTACHMENT**

Final Rule

OGC/SWW/bhs