



NCUA
National Credit Union Administration

Office of Examination & Insurance

Welcome!

While waiting for the program to begin, please take a moment to download files located in the “Resource List” section of your presentation console.

- Risk Weights At a Glance
- Complex Risk-Based Capital Calculator with Instructions
- eCFR_12 CFR Part 702 – Capital Adequacy
- Capital Adequacy Standards Industry Webinar_Feb23



NCUA
National Credit Union Administration

Office of Examination & Insurance

Capital Adequacy Standards Effective for 2022

Webinar

February 23, 2022

Future Webinars

- Call Report Changes March 8
- CAMELS March 10

(Registration information forthcoming)

Webinar Presenters

- Office of Examination & Insurance
 - Tom Fay – Director, Division of Capital Markets
 - Rick Mayfield, Senior Capital Markets Specialists, Division of Capital Markets
 - Brian Heitman, Senior Capital Markets Specialists, Division of Capital Markets
 - Kathryn Metzker, Risk Officer, Division of Risk Management
 - Susan Brown, Systems Officer, Division of Examination Systems

Training Agenda

1. Summarize the changes to NCUA's Capital Adequacy Standards effective for 2022
2. Review how the updated Regulatory Capital standards impact each credit union
3. Review the Risk-Based Capital Standards
4. Review the Complex Credit Union Leverage Ratio
5. Discuss other related changes.

Capital Adequacy Standards -History

- 1998 - The Credit Union Membership Access Act
- **2000** - Minimal capital standards implemented in regulation
- 2012 - GAO recommended changes to capital standards to better identify risks
- 2013 - Other federal banking agencies adopted new risk-based capital rules
- 2014 - The NCUA Board proposed an update to risk-based capital standards
- **2015** - The NCUA Board approved the final risk-based capital rule with an effective date of January 1, 2019
- 2018 - The NCUA Board proposed and finalized a supplemental rule to the 2015 final rule
- 2018/2019 - S.2155 enacted into law in 2018. Banking agencies issue related final rule in 2019 for CBLR
- 2019 – The NCUA Board proposed and finalized a second supplemental delaying the effective date of RBC to January 1, 2022
- **2021** – The NCUA Board proposed and finalized the CCULR rule and amendments to the RBC rule effective for January 1, 2022

Goals of a Risk-Based Capital Framework

1. Be faithful to Federal Credit Union Act mandate for risk-based net worth requirement
2. Protect the credit union system and the NCUSIF from future losses
3. Incorporate a modern approach to calculating the risk-based capital ratio
4. Ensure credit unions can continue to lend during time of economic distress without government intervention

Capital Adequacy Requirements

Previous Capital Adequacy Requirements (through 2021)

Total Assets	Net Worth Ratio	RBNW Ratio
Less than or equals \$50 million	Yes	No
Greater than \$50 million	Yes	Yes

Effective for 2022 Capital Adequacy Requirements

Total Assets	Net Worth Ratio	RBC Framework	CCULR Framework
Less than or equals \$500 million	Yes	No	No
Greater than \$500 million	Yes	Yes	Option

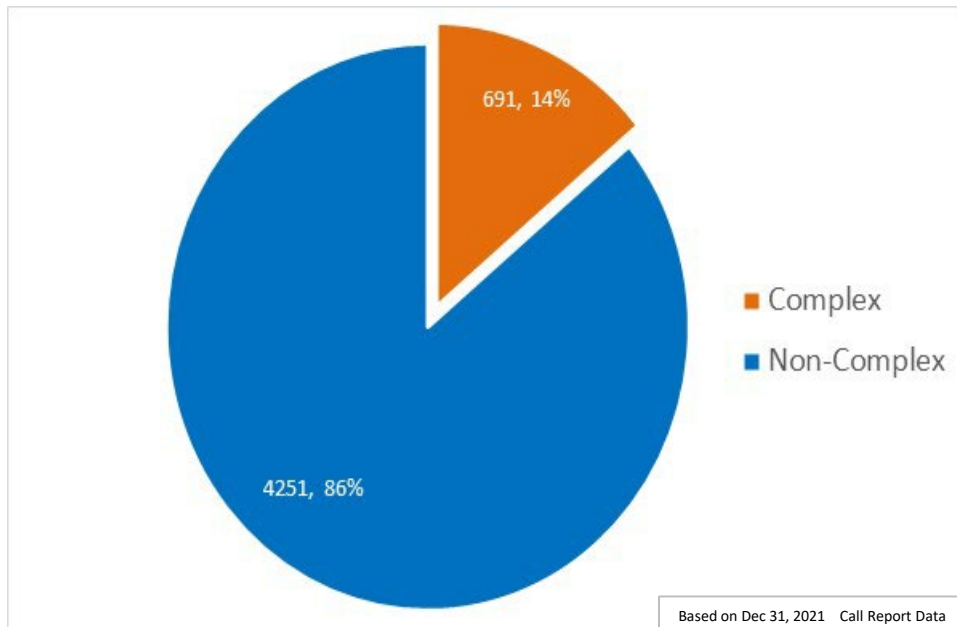
The increase in the definition of “Complex” from \$50 million to \$500 million and the introduction of an RBC/CCULR framework is effective for 2022.

PCA Framework for FICUs- 2022

Classification	Net Worth Ratio	Risk-Based Capital Ratio	CCULR Option
Well capitalized	7% or greater	10% or greater	9% or greater
Adequately capitalized	6%-6.99%	8% or greater	N/A
Undercapitalized	4%-5.99%	Less than 8%	N/A
Significantly undercapitalized	2%-3.99%	N/A	N/A
Critically undercapitalized	Under 2%	N/A	N/A

- Net worth ratio is the only measure for credit unions with \$500 million or less in assets (not including new credit unions)
- NWR/RBC is the binding constraint for complex credit unions
- CCULR is an option for Complex Credit Unions

Complex vs Non-Complex Credit Unions



Key Measure	Complex (>500)	Non-Complex (<500)
# of CUs	691	4,251
Total Assets	\$1.72t	\$0.33t
Avg NWR	10.21%	12.69%

§ 702.103 Applicability of risk-based capital measures.

For purposes of § 702.102, a credit union is defined as **“complex”** and a risk-based capital measure is applicable only if the credit union's quarter-end total assets exceed five hundred million dollars (\$500,000,000), as reflected in its most recent Call Report. A complex credit union may calculate its risk-based capital measure either by using the risk-based capital ratio under § 702.104(a) through (c), or, for a qualifying complex credit union opting into the CCULR framework, by using the CCULR framework under § 702.104(d).

Overview of Risk Based Capital (RBC)

- Basel Committee on Banking Supervision - Basel III in December 2010 and revised in June 2011.
- Apply a risk-based capital measure that is more consistent with measures used by other financial institutions. The other banking agencies updated their capital standards in July 2013.
- Address recommendations and concerns raised by the U.S. Government Accountability Office and NCUA's Inspector General
- Address lessons learned from credit union failures during the Great Recession

Overview Risk Based Capital (RBC)

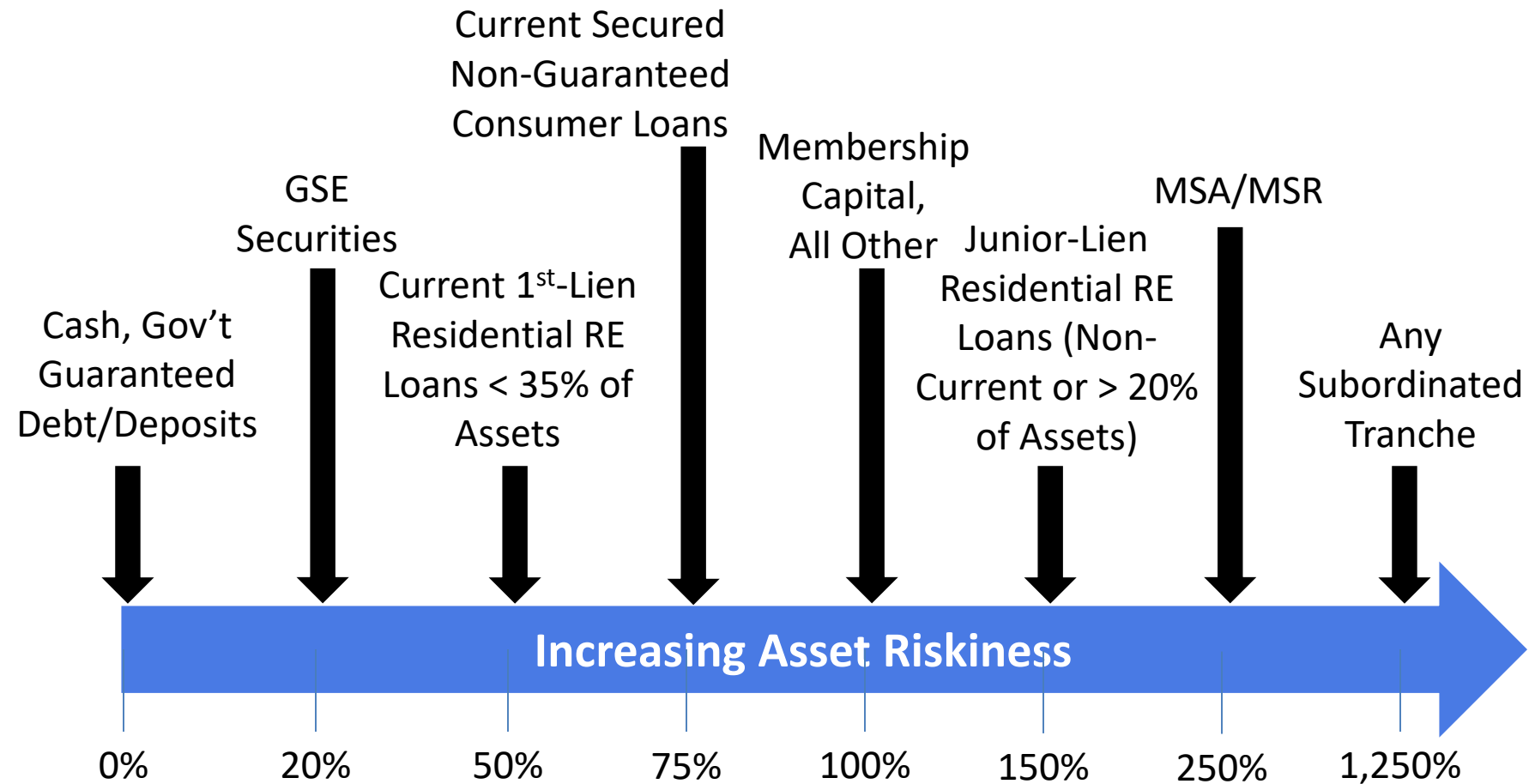
- Generally requires credit union with higher levels of risk to hold more capital.
- Measure is more prospective in that, as a credit union makes asset allocation choices, it drives capital requirements before losses occur and capital levels decline.
- A key limitation of the leverage ratio is it is a lagging indicator and does not discriminate between low-risk and high-risk assets or changes in the composition of the balance sheet.

Risk-Based Capital Basics

- RBC ratio allocates assets and off-balance sheet exposures into risk categories requiring higher levels of capital for items that present greater risk
- *RBC Ratio = RBC Ratio Numerator / Risk-Weighted Assets*
where
 - *RBC Ratio Numerator = Capital Elements + Additions – Deductions*
 - *Risk-Weighted Assets = Risk-Weighted On-Balance Sheet Assets + Risk-Weighted Off-Balance Sheet Exposures*
- Capital elements in numerator ↑, then RBC Ratio ↑
- Risk-weighted assets in denominator ↑, then RBC Ratio ↓

Note: See Risk Weights at a Glance or §702.104 for more details

Risk Weight Spectrum



RBC Schedule - Numerator

EQUITY		TOTALS	Account
1.	Undivided earnings		940
2.	Appropriations for non-conforming investments		668
3.	Other reserves		658
4.	Equity acquired in merger		658A
5.	Net income		602
6.	Total Equity (Sum of Accounts 940, 668, 658, 658A, and 602)		RB0001
ADDITIONS			
7.	Allowance for Credit Losses (Sum of Accounts 719, AS0048, AS0041, and LI0003)		RB0002
8.	Subordinated Debt in accordance with §702.407		RB0003
9.	Section 208 Assistance included in net worth as defined in §702.2		RB0004
10.	Total Additions (Sum of Accounts RB0002, RB0003, and RB0004)		RB0005
DEDUCTIONS			
11.	NCUSIF capitalization deposit		794
12.	Goodwill		009D2
	a. Less: Excluded Goodwill		RB0006
13.	Other intangible assets		AS0032
	a. Less: Excluded intangible assets		RB0007
14.	Identified losses not reflected in the risk-based capital numerator		RB0008
15.	Total Deductions (Sum of Accounts 794, 009D2, AS0032, and RB0008 less RB0006 and RB0007)		RB0009
16.	TOTAL RISK-BASED CAPITAL NUMERATOR BEFORE MORTGAGE SERVICING ASSETS DEDUCTION (Sum of Accounts RB0001 plus RB0005 minus RB0009)		RB0010
	a. Less: Mortgage Servicing Assets (reported in Account 779 on page 2) that exceed 25% of RB0010		RB0011
17.	TOTAL RISK-BASED CAPITAL NUMERATOR (Account RB0010 less Account RB0011)		RB0012

Adjustment for goodwill from supervisory merger.

Calculation of Risk-Based Capital numerator.

- Gray boxes are auto-populated from other schedules or auto-calculated from this schedule.
- White and tan boxes are manual inputs.
- See Complex Risk Based Capital Calculator in Excel.

RBC Schedule - Denominator

ON-BALANCE SHEET ASSETS				Risk Weight Category and Asset Allocations							
See page 26 for additional Risk Weight Category and Asset Allocations				Totals from Schedules	Adjustments to Totals	Totals for Risk-Weighting	1 0%	2 20%	3 50%	4 75%	5 100%
18.	Cash and Deposits in Financial Institutions or Reserve Banks	AS0009	RB0013	RB0014	RB0015	RB0016					RB0017
INVESTMENTS											
19.	Securities	AS0013	RB0018	RB0019							
20.	Other Investments	AS0017	RB0028	RB0029							
21.	Total Investments (Sum each column)	RB0039	RB0040	RB0041	RB0042	RB0043	RB0044				RB0045
LOANS											
22.	First Lien Residential Real Estate Loans	703A	RB0051	RB0052			RB0053	RB0054			RB0055
23.	Junior-Lien Residential Real Estate Loans	386A	RB0056	RB0057							RB0058
24.	Consumer Loans (Sum of Accounts 396, 397A, 698A, 397, 385, 370, 002, 698C and 386B)	RB0060	RB0061	RB0062	RB0063	RB0064			RB0065		RB0066
25.	Commercial Loans (Sum of Accounts 718A5 and 400P)	RB0068	RB0069	RB0070	RB0071	RB0072					RB0073
26.	Loans held for sale	003	RB0075								
27.	Less: Allowance for Credit Losses (Loans)	RB0002	RB0076	RB0077	RB0078						
28.	Total Loans (Account RB0079 equals sum of 703A, 386A, RB0060, RB0068, 003 less RB0002)	RB0079	RB0080	RB0081	RB0082	RB0083	RB0084	RB0085			RB0086

Example: Current 1st-lien residential mortgages under the 35% concentration threshold.

Sum of Totals from Schedules and Adjustments to Totals. Must also equal sum of allocated assets in risk weight categories.

Equal to totals from Statement of Financial Condition.

Use adjustments column to move items between categories. For example, loans held for sale must be risk-weighted by loan type.

- Gray boxes are auto-populated from other schedules or auto-calculated from this schedule.
- White and tan boxes are manual inputs.
- See Complex Risk Based Capital Calculator in Excel to create and test RBC estimates.

RBC Schedule - Denominator

Enter the Credit Equivalent Amount into the respective Risk Weight category.

Off-Balance Sheet and Derivative Exposures

See page 28 for additional Credit Equivalent Risk Weight Allocations

Total Conditionally Cancelable Unfunded Commitments:	Totals for Risk-Weighting	Credit Conversion Factor	Credit Equivalent Amount	Credit Equivalent Risk Weight Allocations				
				1	2	3	4	5
				0%	2%	4%	20%	50%
32. Unfunded Commitment - Commercial loans	LQ0014	50%	RB0123					
33. Unfunded Commitment - Consumer Loans - Secured & RE	LQ0015	10%	RB0125					RB0126
34. Unfunded Commitment - Consumer Loans - Unsecured	LQ0016	10%	RB0129					
35. Federal Home Loan Bank under the MPF program	LQ0021	20%	RB0131					RB0132
36. All other off-balance sheet exposures (Sum of LQ0020, LQ0022, LQ0023, LQ0026, LQ0027, LQ0028, LQ0029, and LQ0030)	RB0133	100%	RB0134					RB0135
37. Over-the-counter derivatives			RB0140	RB0141	RB0142	RB0143	RB0144	RB0145
38. Centrally cleared derivatives			RB0148	RB0149	RB0150	RB0151	RB0152	

Example: Credit Equivalent Amount for Conditionally cancelable unfunded residential real estate loan commitments.

Calculated following methodology described in §702.105.

Other than Derivatives, the Product of Totals for Risk-Weighting and Credit Conversion Factor. Must also equal sum of allocated assets in risk weight categories.

- Gray boxes are auto-populated from other schedules or auto-calculated from this schedule.
- White and tan boxes are manual inputs.
- See Complex Risk Based Capital Calculator in Excel to create and test RBC estimates.

RBC Schedule - Totals

39.	TOTAL OFF-BALANCE SHEET AND DERIVATIVE CREDIT EQUIVALENT AMOUNTS (Sum each column)	RB0159	RB0160		RB0161
40.	TOTAL RISK-WEIGHTED ASSETS - OFF BALANCE SHEET AND DERIVATIVE EXPOSURES (RB0162 equals sum of RB0163, RB0164, RB0165, RB0166, RB0167, RB0168, and RB0169)	RB0167	RB0168		RB0169

Risk-Based Capital Ratio Totals

41.	TOTAL ON-BALANCE SHEET ASSETS AND OFF-BALANCE SHEET CREDIT EQUIVALENT AMOUNTS (Sum of RB0099 and RB0153)	RB0170
42.	TOTAL RISK-WEIGHTED ASSETS (Sum of RB0112 and RB0162)	RB0171
43.	TOTAL RISK-BASED CAPITAL RATIO (RB0012 divided by RB0171)	RB0172

Calculation of Risk-Based Capital denominator.

Calculation of final Risk-Based Capital ratio.

- Gray boxes are auto-populated from other schedules or auto-calculated from this schedule.
- White and tan boxes are manual inputs.
- See Complex Risk Based Capital Calculator in Excel.

RBC Denominator – Form Illustrations

- 1. AFS Investments Unrealized Gain/Loss**
- 2. Loans Held for Sale**
- 3. Commercial loans under \$50 thousand**
- 4. PPP Loans**

RBC Denominator Line Transfers - Illustration

Unrealized Gain/(Loss) on AFS – Allocate to 0% Risk Weight Category

Gain Example

Allocation of AFS unrealized Gain to the 0% risk weight category and the amortized cost to the respective risk weights

On-Balance Sheet Items	Totals from Schedules	Adjustments to Totals	Totals for Risk-Weighting	1	2	3
				0%	20%	50%
INVESTMENTS						
19. Securities	AS0013	RB0018	RB0019	RB0020	RB0021	RB0022
	50,235,313	-	50,235,313	5,254,680	26,988,380	17,992,253
21. Total Investments	RB0039	RB0040	RB0041	RB0042	RB0043	RB0044
	50,235,313	-	50,235,313	5,254,680	26,988,380	17,992,253
30. TOTAL ON-BALANCE ASSETS by RISK WEIGHT	RB0099	Edit Check (must = zero)	RB0100	RB0101	RB0102	RB0103
	50,235,313	-	50,235,313	5,254,680	26,988,380	17,992,253
31. TOTAL RISK-WEIGHTED ASSETS - ON BALANCE SHEET	RB0112				RB0113	RB0114
	14,393,803				5,397,676	8,996,127

Loss Example

Allocation of AFS unrealized Loss to the 0% risk weight category and the amortized cost to the respective risk weights

On-Balance Sheet Items	Totals from Schedules	Adjustments to Totals	Totals for Risk-Weighting	1	2	3
				0%	20%	50%
INVESTMENTS						
19. Securities	AS0013	RB0018	RB0019	RB0020	RB0021	RB0022
	50,837,365	-	50,837,365	(4,245,867)	33,049,939	22,033,293
21. Total Investments	RB0039	RB0040	RB0041	RB0042	RB0043	RB0044
	50,837,365	-	50,837,365	(4,245,867)	33,049,939	22,033,293
30. TOTAL ON-BALANCE ASSETS by RISK WEIGHT	RB0099	Edit Check (must = zero)	RB0100	RB0101	RB0102	RB0103
	50,837,365	-	50,837,365	(4,245,867)	33,049,939	22,033,293
31. TOTAL RISK-WEIGHTED ASSETS - ON BALANCE SHEET	RB0112				RB0113	RB0114
	17,626,634				6,609,988	11,016,646

RBC Denominator Line Transfers - Illustration

Loans Held for Sale – Move to 1st-Lien and Junior-Lien Residential Loans

On-Balance Sheet Items	Totals from Schedules	Adjustments to Totals	Totals for Risk-Weighting	3	4	5
				50%	75%	100%
	703A	RB0051	RB0052	RB0053	RB0054	RB0055
22. 1st-Lien Residential Real Estate Loans	59,876,607	3,235,753	63,112,360	63,112,360	-	-
	386A	RB0056	RB0057			RB0058
23. Junior-Lien Residential Real Estate Loans	8,993,570	2,157,169	11,150,739			11,150,739
	003	RB0075				
26. Loans held for sale	5,392,922	(5,392,922)				
	RB0079	RB0080	RB0081	RB0084	RB0085	RB0086
28. Total Loans	74,263,099	-	74,263,099	63,112,360	-	11,150,739
	RB0099	Edit Check (must = zero)	RB0100	RB0103	RB0104	RB0105
30. TOTAL ON-BALANCE ASSETS by RISK WEIGHT	74,263,099	-	74,263,099	63,112,360	-	11,150,739
	RB0112			RB0114	RB0115	RB0116
31. TOTAL RISK-WEIGHTED ASSETS - ON BALANCE SHEET	42,706,919			31,556,180	-	11,150,739

Total loans remain unchanged at \$74.3M

Adjustments to totals must sum to zero

\$5.4M moved to 1st-lien and junior-lien

RBC Denominator Line Transfers - Illustration

Commercial loans < \$50k – Move from Consumer to Commercial

On-Balance Sheet Items	Totals from Schedules	Adjustments to Totals	Totals for Risk-Weighting	4	5
				75%	100%
	RB0060	RB0061	RB0062	RB0065	RB0066
24. Consumer Loans	200,541,288	(37,568,351)	162,972,937	162,972,937	-
	RB0068	RB0069	RB0070		RB0073
25. Commercial Loans	100,625,288	37,568,351	138,193,639		138,193,639
28. Total Loans	301,166,576	-	301,166,576	162,972,937	138,193,639
	RB0079	RB0080	RB0081	RB0085	RB0086
		Edit Check (must = zero)			
30. TOTAL ON-BALANCE ASSETS by RISK WEIGHT	301,166,576		301,166,576	162,972,937	138,193,639
	RB0099		RB0100	RB0104	RB0105
31. TOTAL RISK-WEIGHTED ASSETS - ON BALANCE SHEET	260,423,342			122,229,703	138,193,639
	RB0112			RB0115	RB0116

Total loans remain unchanged at \$301.2M

Adjustments to totals must sum to zero

Totals for Risk-Weighting column are fully allocated to the respective categories

RBC Denominator Line Transfers - Illustration

PPP Loans – Move from Consumer Loans to Commercial Loans

On-Balance Sheet Items	Totals from Schedules	Adjustments to Totals	Totals for Risk-Weighting	1	4	5
				0%	75%	100%
	RB0060	RB0061	RB0062	RB0063	RB0065	RB0066
24. Consumer Loans	200,436,116	(9,183,715)	191,252,401	-	191,252,401	-
	RB0068	RB0069	RB0070	RB0071		RB0073
25. Commercial Loans	100,763,553	9,183,715	109,947,268	9,183,715		100,763,553
	RB0079	RB0080	RB0081	RB0082	RB0085	RB0086
28. Total Loans	301,199,669	-	301,199,669	-	191,252,401	100,763,553
	RB0099	Edit Check (must = zero)	RB0100	RB0101	RB0104	RB0105
30. TOTAL ON-BALANCE ASSETS by RISK WEIGHT	301,199,669	-	301,199,669	-	191,252,401	100,763,553
	RB0112				RB0115	RB0116
31. TOTAL RISK-WEIGHTED ASSETS - ON BALANCE SHEET	244,202,854				143,439,301	100,763,553

Total loans remain unchanged at \$301.2M

Adjustments to totals must sum to zero

PPP loans move to commercial loans line

Other items remain unchanged

Off-Balance Sheet Exposure Concepts

- Schedule C (page 17): New Section 2 - Off-balance Sheet Exposures
- Schedule I (page 27): Part III Denominator Off-balance Sheet and Derivative Exposures
- § 702.2 Definitions
 - Off-balance Sheet Exposures (OBE)
 - Credit Conversion Factor (CCF) means the percentage used to assign a credit exposure equivalent amount for selected off-balance sheet accounts.
- § 702. 104(4) Risk weights for off-balance sheet items

Step 1: *OBE amount X the appropriate CCF = Credit Equivalent amount (CCE)*

Step 2: *CCE X the appropriate risk weight = risk weighted off-balance sheet exposure amount*

Off-Balance Sheet Exposure Concepts

Off- Balance Sheet Exposures - Unfunded Commitments:

- Unconditionally Cancelable means with respect to a commitment, that a credit union may, at any time, with or without cause, refuse to extend credit under the commitment (to the extent permitted under applicable law). The contractual agreement must explicitly state that the credit union can unconditionally refuse to extend credit under the agreement. Zero Percent CCF.
- Conditionally Cancelable unfunded commitments means unfunded commitments that do not meet the definition of unconditionally cancelable. 50 to 100 percent CCF.

Derivatives – RBC Concepts

Potential Future Exposure (PFE) Conversion Factors

Interest Rate

Remaining Maturity	Factor
1yr or less	0.000
>1yr ≤ 5yrs	0.005
> 5yrs	0.015

Total = Agross

Net Current Credit Exposure (CCE)

Greater of net total CCE or Zero

Adjusted Sum of the PFE Amounts (Anet)

40% of the total PFE amount

60% X NGR X Agross

Net-to-gross Ratio (NGR)

Net CCE	xxx
Positive CCE	yyy
NGR Ratio	zzz%

Derivatives – Fair Value Gain Illustration

Derivatives RBC Risk Weight Illustration									
Multiple OTC derivative contracts subject to QMNA 702.105 with Risk Weight Substitution for financial collateral (using Cash as collateral)									
3/31/2022						Exposure Amount			
Derivative	Notional	Maturity	Yrs to Maturity	PFE Factor	PFE Amt	CCE Amounts	Anet (0.4 * Agross)	Anet (.6*NGR*Agross)	Total Exposure
Swap	10,000,000	10/31/2030	8.59	0.015	150,000	650,000			
Swap	5,000,000	12/1/2022	0.67	0.000	-	25,000			
Swap	20,000,000	6/1/2027	5.17	0.015	300,000	50,000			
Cap	25,000,000	4/2/2025	3.01	0.005	125,000	(100,000)			
Totals					575,000 (AGross)	625,000 NGR = 86%	230,000	297,414	1,152,414
Collateral on Deposit (Cash)						500,000			
RBC Schedule I						Credit Equiv	Risk Weights		
						Amount	0%	20%	
	Line 37	Over-the-counter Derivatives				1,152,414	500,000	652,414	
		Risk Weighted Asset				130,483	0	130,483	

- Collateral on Deposit is Zero Risk Weighted and the difference to the respective Risk Weight.

Derivatives – Fair Value Loss Illustration

Derivatives RBC Risk Weight Illustration						Exposure Amount			
Multiple OTC derivative contracts subject to QMNA 702.105 with Risk Weight Substitution for financial collateral (using Cash as collateral)									
3/31/2022						CCE	Anet		Total
Derivative	Notional	Maturity	Yrs to Maturity	PFE Factor	PFE Amt	Amounts	(0.4 * Agross)	(.6*NGR*Agross)	Exposure
Swap	10,000,000	10/31/2030	8.59	0.015	150,000	(650,000)			
Swap	5,000,000	12/1/2022	0.67	0.000	-	25,000			
Swap	20,000,000	6/1/2027	5.17	0.015	300,000	50,000			
Cap	25,000,000	4/2/2025	3.01	0.005	125,000	(100,000)			
Totals					575,000 (AGross)	-	230,000	-	230,000
Collateral on Deposit (Cash)									
						Credit Equiv	Risk Weights		
RBC Schedule I						Amount	0%	20%	
	Line 37	Over-the-counter Derivatives				230,000	-	230,000	
		Risk Weighted Asset				46,000	0	46,000	

- A fair value loss is floored at zero amount with no risk weighting.

Complex Credit Union Leverage Ratio (CCULR)

1. Will simplify the risk-based capital (RBC) requirements for eligible complex credit unions.
2. Modeled on the Community Bank Leverage Ratio (CBLR) established by the federal banking agencies.
3. The CCULR would relieve complex credit unions that satisfy specified eligibility criteria from having to calculate the risk-based capital ratio. In exchange, the credit union would be required to maintain a higher net worth ratio than otherwise required for well-capitalized classification.
4. The CCULR and RBC regulatory capital framework is effective on January 1, 2022.

CCULR Standards

1. Option for Complex Credit Unions that meet the eligibility requirements
2. The CCULR threshold ratio is set at 9% or greater
3. Complex Credit Unions can opt into or opt out of the CCULR framework at any quarter
4. Complex Credit Unions who fail to meet the eligibility requirements after opting into the CCULR framework will have a two-quarter grace period to meet the requirements

The primary components of the CCULR are similar to the federal banking agencies CBLR

CCULR Qualifying Criteria

#	Qualifying Items	Threshold
1	Asset Threshold	All Complex (Assets > \$500m)
2	Rate Threshold (Net Worth Ratio)	9% or greater
3	Off-Balance Sheet Exposures	<25% of Total Assets
4	Trading Assets & Liabilities	<5% of Total Assets
5	Goodwill and Intangible Assets	<2% of Total Assets

Opt-In/Opt-Out and Grace Period

- Opt-In and Opt-Out
 - A qualifying Complex Credit Union may opt into the CCULR by completing Call Report requirements.
 - A Complex Credit Union may opt out of the CCULR at the end of each calendar quarter.
- Grace Period
 - A Complex Credit Union has a two calendar quarter grace period if it falls out of compliance with the CCULR, with some conditions.

CCULR Call Report Form

SCHEDULE H

Complex Credit Union Leverage Ratio (CCULR)

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CCULR Election - Complete this schedule for the CCULR framework election

Election

	Election	Account
1. Does your credit union have a CCULR framework election in effect as of the quarter-end report date?		LR0001
2. If 'Yes' to question 1, is your credit union continuing to elect the CCULR framework under the Grace Period?		LR0008

Eligibility

	Eligibility	Account
3. Total Assets (Credit unions with total assets greater than \$500,000,000)		010

Qualifying Criteria (See Instructions)

	Input	Account	Ratio	Account
4. CCULR (net worth ratio) of 9% or greater				998
5. Off-Balance sheet exposures (Requires 25% or less of Total Assets)		LR0002		LR0003
6. Trading Assets and Trading Liabilities (Requires 5% or less of Total Assets)		LR0004		LR0005
7. Goodwill and Other Intangible Assets (Requires 2% or less of Total Assets)		LR0006		LR0007

CCULR Call Report Scenario #1

Scenario Description: The Net worth ratio moves below the CCULR threshold and recovers by the end of the Grace Period.						
SCHEDULE H		Scenario:	1	2	3	4
Complex Credit Union Leverage Ratio (CCULR)		Action:	Initial Opt-in	1st Grace	2nd Grace	Opt-in
		Quarterend:	Mar-22	Jun-22	Sep-22	Dec-22
Election		Election	Election	Election	Election	Election
1.	Does your credit union have a CCULR framework election in effect as of the quarter-end report date?	Yes	Yes	Yes	Yes	Yes
2.	If 'Yes' to question 1, is your credit union continuing to elect the CCULR framework under the Grace Period?	No	Yes	Yes	No	No
Eligibility		Assets	Assets	Assets	Assets	Assets
3.	Total Assets (Credit unions with total assets greater than \$500,000,000)	650,000,000	650,000,000	650,000,000	650,000,000	650,000,000
Qualifying Criteria (See Instructions)		Input	Ratio	Ratio	Ratio	Ratio
4.	CCULR (net worth ratio) of 9% or greater		9.75%	8.90%	8.95%	9.25%
5.	Off-Balance sheet exposures (Requires 25% or less of Total Assets)	35,000,000	5.38%	5.38%	5.38%	5.38%
6.	Trading Assets and Trading Liabilities (Requires 5% or less of Total Assets)	5,000,000	0.77%	0.77%	0.77%	0.77%
7.	Goodwill and Other Intangible Assets (Requires 2% or less of Total Assets)	1,000,000	0.15%	0.15%	0.15%	0.15%
Capital Classification		"Well"	"Well"	"Well"	"Well"	"Well"
RBC Form Required		"No"	"No"	"No"	"No"	"No"

CCULR Call Report Scenario #2

Scenario Description: Various non-compliance with Qualifying Criteria						
SCHEDULE H Complex Credit Union Leverage Ratio (CCULR)		Scenario:	1	2	3	4
		Action:	Initial Opt-in	1st Grace	2nd Grace	Opt-in
		Quarterend:	Mar-22	Jun-22	Sep-22	Dec-22
Election		Election	Election	Election	Election	Election
1.	Does your credit union have a CCULR framework election in effect as of the quarter-end report date?	Yes	Yes	Yes	Yes	Yes
2.	If 'Yes' to question 1, is your credit union continuing to elect the CCULR framework under the Grace Period?	No	Yes	Yes	No	No
Eligibility		Assets	Assets	Assets	Assets	Assets
3.	Total Assets (Credit unions with total assets greater than \$500,000,000)	650,000,000	650,000,000	650,000,000	650,000,000	650,000,000
Qualifying Criteria (See Instructions)		Input	Ratio	Ratio	Ratio	Ratio
4.	CCULR (net worth ratio) of 9% or greater		9.75%	10.00%	10.15%	10.30%
5.	Off-Balance sheet exposures (Requires 25% or less of Total Assets)	35,000,000	5.38%	30.00%	6.00%	6.00%
6.	Trading Assets and Trading Liabilities (Requires 5% or less of Total Assets)	5,000,000	0.77%	0.77%	6.00%	3.00%
7.	Goodwill and Other Intangible Assets (Requires 2% or less of Total Assets)	1,000,000	0.15%	0.15%	0.15%	0.15%
Capital Classification		"Well"	"Well"	"Well"	"Well"	"Well"
RBC Form Required		"No"	"No"	"No"	"No"	"No"

CCULR Call Report Scenario #3

Scenario Description: Grace Period expires and RBC Form is required						
SCHEDULE H Complex Credit Union Leverage Ratio (CCULR)		Scenario:	1	2	3	4
		Action:	Initial Opt-in	1st Grace	2nd Grace	Opt-in
		Quarterend:	Mar-22	Jun-22	Sep-22	Dec-22
Election		Election	Election	Election	Election	Election
1.	Does your credit union have a CCULR framework election in effect as of the quarter-end report date?	Yes	Yes	Yes	Yes	No
2.	If 'Yes' to question 1, is your credit union continuing to elect the CCULR framework under the Grace Period?	No	Yes	Yes		
Eligibility		Assets	Assets	Assets	Assets	Assets
3.	Total Assets (Credit unions with total assets greater than \$500,000,000)	650,000,000	650,000,000	650,000,000	650,000,000	650,000,000
Qualifying Criteria (See Instructions)		Input	Ratio	Ratio	Ratio	Ratio
4.	CCULR (net worth ratio) of 9% or greater		9.75%	10.00%	10.15%	10.30%
5.	Off-Balance sheet exposures (Requires 25% or less of Total Assets)	35,000,000	5.38%	30.00%	6.00%	6.00%
6.	Trading Assets and Trading Liabilities (Requires 5% or less of Total Assets)	5,000,000	0.77%	0.77%	6.00%	6.00%
7.	Goodwill and Other Intangible Assets (Requires 2% or less of Total Assets)	1,000,000	0.15%	0.15%	0.15%	0.15%
Capital Classification			"Well"	"Well"	"Well"	
RBC Form Required			"No"	"No"	"No"	"Yes"

CCULR Call Report Scenario #4

Scenario Description: Non-compliance due to a Supervisory Merger							
SCHEDULE H		Scenario:	1	2	3	4	
Complex Credit Union Leverage Ratio (CCULR)		Action:	Initial Opt-in	1st Grace	2nd Grace	Opt-in	
		Quarterend:	Mar-22	Jun-22	Sep-22	Dec-22	
Election			Election	Election	Election	Election	
1.	Does your credit union have a CCULR framework election in effect as of the quarter-end report date?		Yes	Yes	Yes	No	
2.	If 'Yes' to question 1, is your credit union continuing to elect the CCULR framework under the Grace Period?		No	Yes	Yes		
Eligibility			Assets	Assets	Assets	Assets	
3.	Total Assets (Credit unions with total assets greater than \$500,000,000)		650,000,000	800,000,000	800,000,000	800,000,000	
Qualifying Criteria (See Instructions)		Input	Ratio	Ratio	Ratio	Ratio	
4.	CCULR (net worth ratio) of 9% or greater		9.75%	10.00%	10.15%	10.30%	
5.	Off-Balance sheet exposures (Requires 25% or less of Total Assets)	35,000,000	5.38%	5.38%	5.38%	5.38%	
6.	Trading Assets and Trading Liabilities (Requires 5% or less of Total Assets)	5,000,000	0.77%	0.77%	0.77%	0.77%	
7.	Goodwill and Other Intangible Assets (Requires 2% or less of Total Assets)	1,000,000	0.15%	4.00%	4.00%	4.00%	
Capital Classification			"Well"	"Well"	"Well"		
RBC Form Required			"No"	"No"	"No"	"Yes"	

Impact to the MBL Limit

MBLs is 1.75 times the greater of the following calculations:

- (i) The minimum amount of capital (in dollars) required by the net worth ratio, which is 7 percent times total assets; and
- (ii) The minimum amount of capital (in dollars) required by the risk-based capital ratio, which is 10 percent times total risk-weighted assets.

CCULR framework calculates the MBL limitation from their current calculation under the seven percent net worth ratio.

- The CCULR is considered a risk-based net worth requirement, and thus falls under section 216(c)(1)(A)(ii) as a measure of the minimum net worth
- Accordingly, under the final rule, a qualifying complex credit union that opts into the CCULR determines its MBL limitation by reference to the amount of net worth required to be well capitalized under the CCULR.

If a complex credit union has actual net worth below those measures, its actual net worth would determine its MBL limitation

MBL Limit Calculation

CCULR: (Total Assets * 0.09) = Minimum CCULR

RBC: (Risk Weighted Assets * 0.10) = Minimum RBC

Net Worth: (Total Assets * 0.07) = Minimum Net Worth

Under RBC MBL Limit = (the greater of Minimum Net Worth or Minimum RBC) * 1.75
OR

Under CCULR MBL Limit = Minimum CCULR * 1.75

Example: Credit Union Total Assets \$900 million & Total Risk Weighted assets \$750 million

Minimum CCULR	\$900 million * 0.09 = \$81,000,000	} * 1.75% = MBL Limit
Or		
Minimum RBC	\$750 million * 0.10 = \$75,000,000	
Minimum net worth	\$900 million * 0.07 = \$63,000,000	
Actual net worth	= \$85,000,000	

Subordinated Debt Regulatory Capital Treatment

	Capital Treatment	NWR	RBC
LICU Capital Treatment	LICU – Not Complex <i>Low Income Designation and Total Assets < \$500m</i>	✓	N/A
	LICU – Complex* <i>Low Income Designation and Total Assets > \$500m</i>	✓	✓
	LICU – New Credit Unions <i>Low Income Designation and NEW (<\$10m assets)</i>	✓	N/A
Non-LICU Capital Treatment	Non-LICU Complex <i>Total Assets > \$500m and not a LICU</i>	N/A	✓ **
	Non-LICU NEW Credit Unions <i>Assets <\$10m and chartered for < 10yrs and not LICU</i>	**	N/A
No Capital Treatment			
	Non-LICU Non-Complex <i>Not Eligible to issue Subordinated Debt</i>	N/A	N/A

*Includes CCULR

**Limited to 100% of NW at Issuance and can only issue at least “Undercapitalized”

*** Taken into consideration for the New Credit Union’s business plan/ revised business plan

Conclusion – Capital Adequacy Standards

- **Changes**
 - Complex Credit Unions
 - Risk-based capital & CCULR
 - Call Report forms
- **Unchanged**
 - Prompt Corrective Action
 - Call Report Accuracy
 - Capital Adequacy

Capital Adequacy - Resources

- Call Report Modernization material
[CUOnline | National Credit Union Administration \(ncua.gov\)](#)
- RBC Rule Resources
 - <https://www.ncua.gov/regulation-supervision/regulatory-compliance-resources/risk-based-capital-rule-resources>

NCUA Office Contact Page

Feel Free to contact our offices with questions or comments.

FAQ@ncua.gov

