



NCUA
National Credit Union Administration

Supplemental Rule Part 702 Risk-Based Capital

Board Briefing
August 2, 2018

Summary of Changes

- **Delay the effective date of the October 29, 2015 risk-based capital rule by 1 year**
 - Proposed new effective date: **January 1, 2020**
 - Provides additional time for credit unions and NCUA to prepare for risk-based capital requirements
- **Amend the definition of a complex credit union by raising the asset threshold**
 - 2015 Final Rule asset threshold: \$100 million
 - Proposed asset threshold: \$500 million
 - Exempts an additional 1,026 credit unions, for a total of 90% of all credit unions

Definition of Complex

- **2015 Final Rule used the Complexity Index for defining the complex asset threshold**
 - Based on indicators of complex products and services
 - Only considered the number of complex products and services provided by a credit union
- **Proposed Rule re-evaluates the definition of complex**
 - **Eliminates 2 indicators**
 - Internet banking
 - Investments with maturities greater than 5 years, where the investments are greater than 1 percent of total assets
 - **Revises four of the indicators used**
 - Substituted Commercial Loans for Members Business Loans
 - Replaced Participations Loans with Participation Loans Sold
 - Excluded First-Lien Mortgages from Interest Only Loans
 - Narrowed Real Estate Loans to Sold Mortgages
 - **Factors in the extent to which a credit union is involved in complex activity (Complexity Ratio)**

Revised Complexity Index

Complexity Index by Asset Categories, 2017Q4

Asset Category	No. of Credit Unions	Average Index Value	Median Index Value	Index>=1	Index>=2	Index>=3	Index>=4	Index>=5	Index>=6
<\$100M	4,016	0.8	0.0	41%	21%	10%	5%	2%	1%
\$100M-\$500M	1,026	4.0	4.0	98%	91%	78%	59%	40%	24%
>\$500 M	531	6.5	7.0	100%	98%	96%	92%	82%	68%

- All credit unions >\$500M engage in at least one complex activity
- 92% of credit unions >\$500M engage in 4 or more complex activities

Complexity Ratio by Asset Category

Asset Category	No. of Credit Unions	Complex Assets & Liabilities (\$M)	Total Assets (\$M)	Complexity Ratio	Share of Complex A & L
<\$100M	4016	9,906	101,250	10%	2%
\$100M-\$500M	1026	64,694	229,295	28%	13%
>\$500M	531	422,553	1,048,289	40%	85%
Asset Category	Complex Ratio > 10%	Complex Ratio > 20%	Complex Ratio > 30%		
<\$100M	16%	8%	5%		
\$100M-\$500M	79%	56%	35%		
\$500M+	95%	84%	66%		

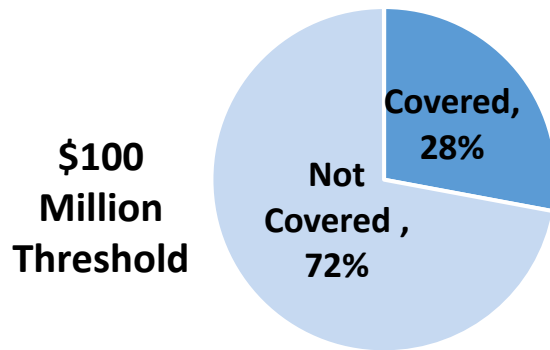
Credit unions >\$500 million hold:

- More complex assets and liabilities as a share of their total assets
- 85% of all complex assets and liabilities (\$423 billion of \$497 billion)

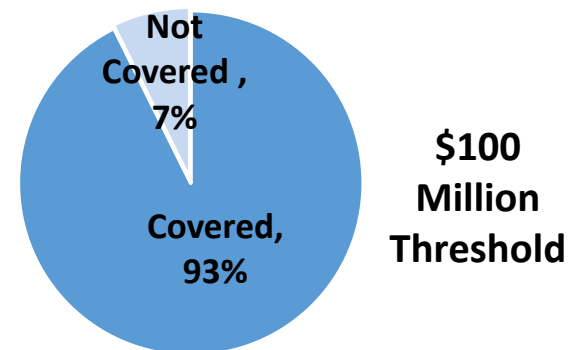
Proposed Threshold of \$500 Million

Proposed threshold exempts 1,026 additional credit unions

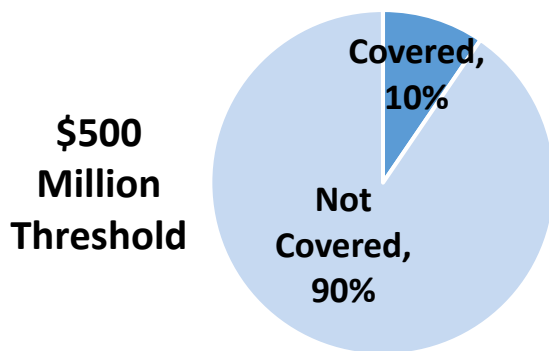
% of Credit Unions Subject to the Rule



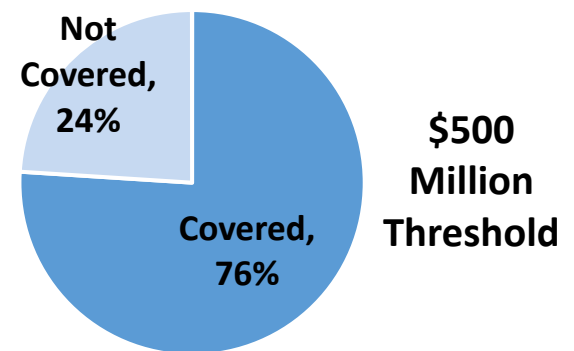
% of Assets Subject to the Rule



% of Credit Unions Subject to the Rule



% of Assets Subject to the Rule



Does Not Represent Undue Risk to the NCUSIF

Proposed Threshold of \$500 Million:

- Covers **85%** of complex assets & liabilities, and **76%** of total assets
- Includes credit unions that, if they failed, individually present risk of large loss to the NCUSIF
- Total losses to the NCUSIF over the next 10 years would likely be significantly larger for credit unions with more than \$500 million in assets than for those with assets between \$100 million and \$500 million if historical trends continue

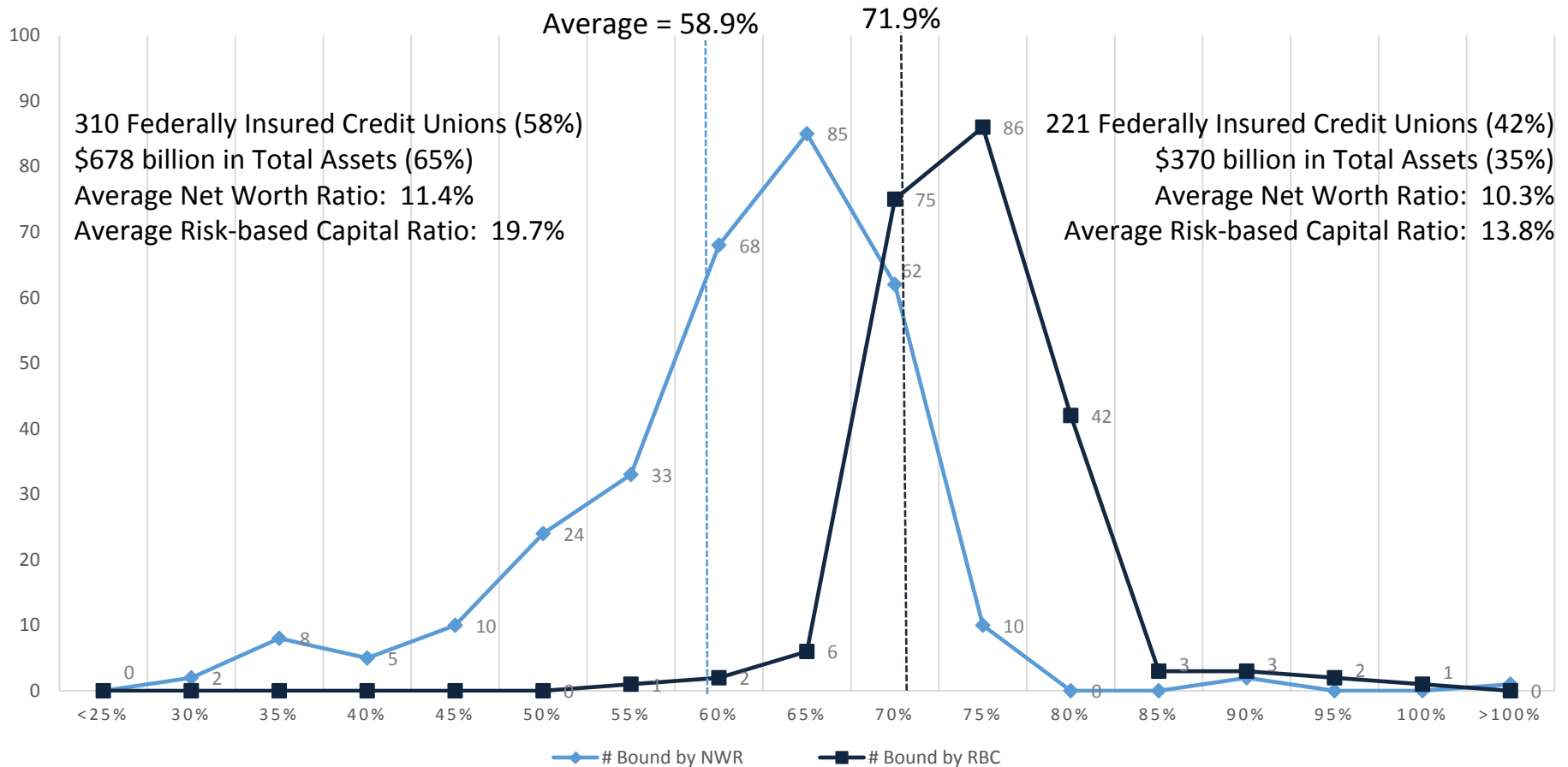
Lower PCA Classification due to RBC

	2015 Final Rule	Proposed Rule
# of Complex Credit Unions with Lower PCA Classification	20 (net)	6 (net)
Total Assets	\$11.5 Billion	\$8.8 Billion
Capital Shortfall	\$84 Million	\$71 Million

Under this proposal:

- 80% of the downgraded credit union assets are covered
- 85% of the capital shortfall is covered

Distribution of Risk Assets to Total Assets Ratios for Complex Credit Unions (>\$500M) by Governing Capital Requirement



The aggregate risk-weighted assets to total assets ratio is 63% for complex credit unions.

Credit Unions Bound by Risk-Based Capital

Asset Category	No. of Complex Credit Unions Bound by Risk-Based Capital	Capital Required over the Net Worth Ratio	Total Assets of Bound Credit Unions
Assets \$100M-\$500M	284	\$165 Million	\$69 Billion
Assets >\$500M	221	\$635 Million	\$370 Billion
Totals	505	\$800 Million	\$439 Billion

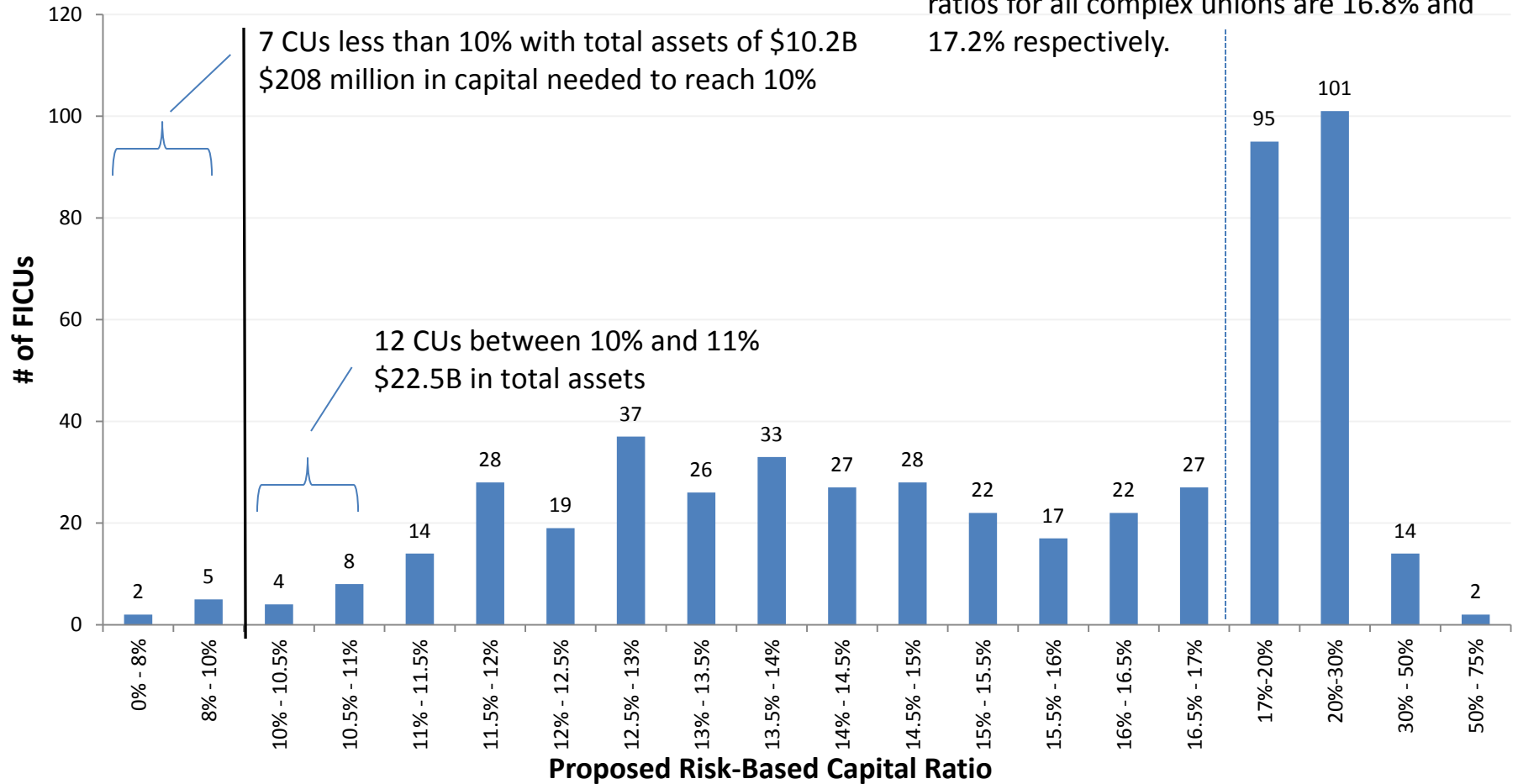
- Exempting credit unions with assets between \$100 and \$500 million represents approximately 16% of the total assets of credit unions bound by risk-based capital under the 2015 Final Rule and 21% of incremental capital required in the credit union system
- Under this proposal, 84% of the risk-based capital bound assets are covered along with 79% of the incremental capital required in the credit union system

Distribution of Proposed Risk-Based Capital Ratio- FICUs

98.7 percent of all complex credit unions are well-capitalized under the proposed rule

10% proposed RBC requirement

The aggregate and average risk-based capital ratios for all complex unions are 16.8% and 17.2% respectively.



Next Steps

- **Publish proposed rule with 30-day comment period**
- **Analyze comments and prepare final rule**
- **Finalize Rule**