



# Proposed Rule Part 702

January 23, 2014

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# Proposed Risk-Based Capital Ratio

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$$\text{Risk-Based Capital Ratio} = \frac{\text{Capital Component Numerator}}{\text{Risk-Weighted Assets Denominator}}$$

Rounded to two decimal places

# Proposed Risk-Based Capital Ratio

## Capital Component Numerator

Additions	Deductions
Undivided Earnings (includes any regular reserve)	NCUSIF Deposit
Appropriations for Non-conforming Investments	Goodwill
Other Reserves	Other Intangible Assets
Equity Acquired in Merger	Identified losses not reflected as adjustments to components of the risk-based numerator
Net Income	
Allowance for Loan and Lease Loss (limited to 1.25% of risk assets)	
Secondary Capital (included in net worth)	
208 Assistance (included in net worth)	

# Proposed Risk-Based Capital Ratio

## Risk-Weighted Assets Denominator

Additions	Deductions
<u>Risk Weighted</u>	
Investments	NCUSIF Deposit
Consumer Loans	Goodwill
Delinquent Loans	Other Intangible Assets
Member Business Loans (MBLs)	Identified losses not reflected as adjustments to components of the risk-based numerator
Current 1 <sup>st</sup> Mortgage Loans	
Other RE loans and Delinquent 1 <sup>st</sup> Mortgage Loans	
All Other Assets	
Off-Balance Sheet Assets	

# Summary of Risk-Weights

Asset	Proposed Risk-Weight
Cash on hand	0%
NCUA issued guaranteed notes	0%
Direct, unconditional U.S Government obligations	0%
Cash on deposit	20%
Cash equivalents	20%
Investments	WAL 0-1 yr 20% WAL 1-3 yr 50% WAL 3-5 yr 75% WAL 5-10 yr 150% WAL 10+ yr 200%
Corporate credit union perpetual capital	200%
Consumer loans	75%
Non-Gov. student loans	100%
Delinquent Consumer loans	150%

# Summary of Risk-Weights

Asset	Proposed Risk-Weight
MBLs	<15% Assets – 100% 15% to 25% - 150% >25% Assets – 200%
Current 1 <sup>st</sup> Mortgage	< 25% Assets – 50% 25%-35% - 75% >35% Assets – 100%
Junior Real Estate and Delinquent 1 <sup>st</sup>	<10% Assets – 100% 10-20% - 125% >20% - 150%
Mortgage Servicing	250%
CUSO Equity Investment	250%
Other Assets	100%

# Summary of Risk-Weights

Off-Balance Sheet Item	Conversion Factor	Risk-Weight	Effective Risk-weight
Unfunded commitments for business loans	75%	100%	75%
MBLs sold with recourse	75%	100%	75%
First mortgage RE loans sold with recourse	75%	50%	37.5%
Other RE loans sold with recourse	75%	100%	15%
Non-federally guaranteed student loan sold with recourse	75%	100%	75%
All other loans sold with recourse	75%	75%	56.25%
Total unfunded commitments for non-business loans	10%	75%	7.5%

# Capital Categories

	Current NCUA Measure	Proposed NCUA Measure	And subject to following condition(s)
<b>Well Capitalized</b> Net worth ratio (NWR) Risk-based capital measure*	7%+ RBNW>NWR	7%+ 10.5%+	Must pass both net worth and risk-based capital ratio
<b>Adequately Capitalized</b> Net worth ratio/Leverage Risk-based capital measure*	6%-6.99% RBNW>NWR	6%-6.99% 8%-10.49%	Must pass both net worth and risk-based capital ratio
<b>Undercapitalized</b> Net worth ratio Risk-based capital measure*	4%-5.99% RBNW<NWR	4%-5.99% < 8%	Must pass both net worth and risk-based capital ratio
<b>Significantly Undercapitalized</b> Net worth ratio	2%-3.99%	2%-3.99%	Or if undercapitalized at <5% net worth and fails to timely submit or materially implement an approved net worth restoration plan
<b>Critically Undercapitalized</b> Net worth ratio	< 2%	< 2%	None

\*Applies only to credit unions with quarter-end total assets exceeding \$50 million.  
 (RBNW – risk-based net worth requirement)

# Impact Analysis

Aggregate Risk-Based Measure	As of June 30, 2013
# CU over \$50 million in Assets	2,237
Aggregate Risk-Based Measure	14.6%
Average Risk-Based Measure	15.7%
Aggregate Risk Assets to Total Assets	69.3%
Average Risk Assets to Total Assets	67.6%
# FICUs which would be reclassified from well-capitalized to undercapitalized	10
# FICUs which would be reclassified from well-capitalized to adequately capitalized	189

# Calculator for Proposed Rule



Protecting credit unions and the consumers who own them through effective regulation 

Credit Union Locator 

## Calculator for Proposed Risk-Based Capital Rule

The National Credit Union Administration issued a Notice of Proposed Rulemaking to revise and replace the agency's current risk-based capital requirements for credit unions with assets greater than \$50 million.

### Credit Union Lookup

The proposed rule includes implementation of a new method for computing the risk-based capital ratio that is more consistent with the approach used by the other banking agencies. It also includes revised risk weights for many asset classifications and a higher capital requirement for credit unions with concentrations of assets in real estate loans or member business loans. The effective date of these changes is projected to occur 12 to 18 months after NCUA issues the final rule. [Read More ...](#)

Search a Credit Union

*Enter Charter Number or Credit Union Name ...*

Show Risk-Based Capital

Read Full Proposed Rule

# Calculator for Proposed Rule

**Assets**

**\$235,808,502**

The proposed risk-based capital applies to credit unions with assets greater than \$50 million. Small credit unions, under \$50 million in assets, are exempt from the proposed risk-based capital rule; however, for informational purposes, the calculator is available for all credit unions.

## Current Regulation

As of 6/30/2013

★ Well Capitalized

Net Worth	<b>11.89%</b>
Risk-Based Net Worth Ratio	<b>4.67%</b>
Alternative RBNW Calculation	<b>0.00%</b>

## Proposed Regulation

Applies to credit unions with assets greater than \$50 million.

★ Well Capitalized

Net Worth	<b>11.89%</b>
Risk-Based Capital Ratio	<b>18.90%</b>
Alternative RBNW Calculation	<b>N/A</b>

# Calculator for Proposed Rule

## Proposed Risk-Based Capital Calculation

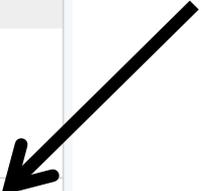
$$\frac{\text{Numerator}}{\text{Denominator}} = \frac{\$27,988,886}{\$148,094,611} = \mathbf{18.90\%}$$

### Numerator

The numerator for the risk-based capital ratio remains largely the components of a credit union's net worth. In order to capture all of the material risks, we included some additional equity items and subtracted other balance sheet items. The goal is to achieve a numerator that reflects a measure of amounts available to cover losses.

**\$27,988,886**

[View Details](#)



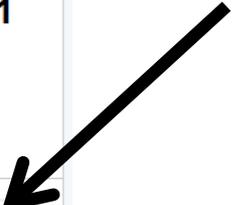
### Denominator

The proposal includes a calculation of a credit union's risk-weighted asset amount for its on- and off-balance sheet exposures. A credit union determines its total risk-weighted assets by calculating the sum of:

- (1) its risk-weighted assets, minus
- (2) goodwill and other intangibles, and minus
- (3) the National Credit Union Share Insurance Fund deposit.

**\$148,094,611**

[View Details](#)

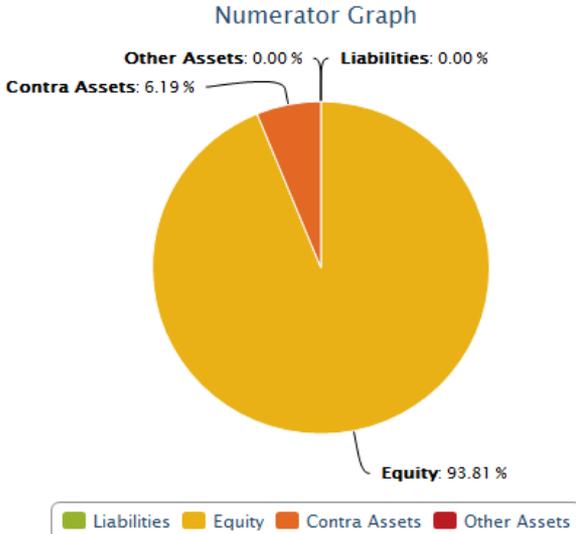


# Calculator for Proposed Rule

## Numerator

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**\$27,988,886**



Numerator Formula <sup>f</sup>	Call Report Account	Dollars
<b>-Liabilities</b>		
Subordinated Debt included in Net Worth	Acct_925A2	0
Subordinated Debt (non low income and non-208)	Acct_867B2	0
<b>-Equity</b>		
Undivided Earnings	Acct_940	25,520,740
Regular Reserve	Acct_931	2,522,482
Appropriations for Non-Conforming Investments	Acct_668	0
Other Reserves	Acct_658	0
Equity Acquired in Merger	Acct_658A	0
Net Income	Acct_602	0
<b>+ Contra Assets</b>		<b>1,851,183</b>
<b>+ Other Assets</b>		<b>(1,905,519)</b>

Click on the “+” sign to expand each section



# Calculator for Proposed Rule

To view the denominator detail, click on the “+” sign to expand each section.

			Calculation
+Cash			0
-Investments			25,534,394
Account	Value	Proposed Risk Weight	Calculation
0 - 1 Year $f_x$	37,988,048	0.20	7,597,610
> 1 to 3 Years $f_x$	19,820,718	0.50	9,910,359
> 3 to 5 Years $f_x$	6,224,041	0.75	4,668,031
> 5 to 10 Years $f_x$	2,077,528	1.50	3,116,292
> 10 Years $f_x$	0	2.00	0
Corporate CU Member Capital $f_x$	242,102	1.00	242,102
PIC/ Perpetual Contributed Capital $f_x$	0	2.00	0
+Loans			114,152,715
+Other Assets			4,125,239
+Off Balance Sheet Items			4,282,263

# Calculator for Proposed Rule



## Risk-based Capital Calculator

Get a better understanding of NCUA's Capital Adequacy Rule with our online calculator. [rbnw.ncua.gov](http://rbnw.ncua.gov)

NCUA

