

BOARD ACTION MEMORANDUM

TO: NCUA Board

DATE: November 17, 2008

FROM: Director David M. Marquis
Office of Examination and Insurance

SUBJ: Amended Definition of
Post-Merger Net Worth
(Parts 702 and 704)

ACTION REQUESTED: NCUA Board approval to publish the attached final rule implementing the Financial Services Regulatory Relief Act, Section 504, to expand the PCA definition of a natural person credit union's "net worth" to include as capital the retained earnings of the merging credit union; and to similarly amend corporate capital definitions.

DATE ACTION REQUESTED BY: November 20, 2008

OTHER OFFICES CONSULTED: Regional Offices and Office of Corporate Credit Unions.
VIEWS OF OTHER OFFICES: Concur.

BUDGET IMPACT, IF ANY: None.

SUBMITTED TO INSPECTOR GENERAL FOR REVIEW: Yes

RESPONSIBLE STAFF MEMBERS: Steven W. Widerman, Trial Attorney, Office of General Counsel; Karen Kelbly, Chief Accountant, Office of Examination and Insurance.

SUMMARY: NCUA issues a final rule implementing a statutory amendment to the definition of a natural person credit union's "net worth." The definition applies to NCUA's system of regulatory capital, known as "prompt corrective action," which consists of statutory minimum capital standards for federally-insured natural person credit unions, and corresponding remedies to restore net worth. The amendment expands the definition of "net worth" to allow the acquiring credit union, in a merger of natural person credit unions, to include the merging credit union's retained earnings as capital with its own to determine the acquirer's post-merger "net worth." In a merger of corporate credit unions, the final rule similarly redefines corporate credit union "capital" to allow an acquiring credit union to include with its "capital" the retained earnings of the merging credit union to determine the acquirer's post-merger capital.

RECOMMENDED ACTION: NCUA Board approval to publish the final rule.

ATTACHMENT: Final Rule revising Parts 702 and 704.