

## BOARD ACTION MEMORANDUM

**TO:** NCUA Board

**DATE:** July 14, 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, for a 60-day comment period, the attached proposed 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:** July 24, 2008

**OTHER OFFICES CONSULTED:** Regional Offices, Office of Corporate Credit Unions, and Office of General Counsel.

**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 requests public comment on a proposed 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 proposed 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 proposed rule for a 60-day comment period.

**ATTACHMENT:** Proposed Rule revising Parts 702 and 704.