Supplemental Rule
Part 702
Risk-Based Capital

Board Briefing
October 18, 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
Proposed Threshold of $500 Million

$100 Million Threshold

<table>
<thead>
<tr>
<th>% of Credit Unions Subject to the Rule</th>
<th>% of Assets Subject to the Rule</th>
</tr>
</thead>
<tbody>
<tr>
<td>72% Covered</td>
<td>93% Covered</td>
</tr>
<tr>
<td>28% Not Covered</td>
<td>7% Not Covered</td>
</tr>
</tbody>
</table>

% of Banks Subject to Risk-Based Capital: 100%

$500 Million Threshold

<table>
<thead>
<tr>
<th>% of Credit Unions Subject to the Rule</th>
<th>% of Assets Subject to the Rule</th>
</tr>
</thead>
<tbody>
<tr>
<td>90% Covered</td>
<td>76% Covered</td>
</tr>
<tr>
<td>10% Not Covered</td>
<td>24% Not Covered</td>
</tr>
</tbody>
</table>

Proposed threshold exempts 1,026 additional credit unions
Comments Received

• 38 comments were received during the 30 day comment period from:
  – Credit Union Trade Associations
  – Federal Credit Unions
  – Federally-Insured, State Chartered Credit Unions
  – State & Regional Credit Union Leagues
  – Other Individuals
Comments: Delay

• 14 commenters supported delaying the implementation of the 2015 Final Rule until January 1, 2020

• The most common recommended change was to delay the 2015 Final Rule implementation at least two years

RECOMMENDATION: Approve the proposed rule as written
Comments: Complexity Definition

• Majority of commenters supported increasing the asset threshold
  – However, some commenters stated the threshold should be higher, $1 billion to $10 billion

• Some commenters objected to using a single asset threshold

• Commenters generally supported using the complexity index and ratio along with the changes made to the indicators
Threshold of $500 Million:

- Covers 85% of complex assets & liabilities, and 76% of total assets
  - Increasing to $1 billion or greater results in undue risk to the NCUSIF
- Single proxy is accurate, reduces complexity of administering the rule, and provides regulatory relief
- The Board established the threshold using the complexity index and ratio, which takes into account the number and volume on complex activities
Threshold of $500 Million:

- 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 growth trends continue.
Request Board Approval of this supplemental rule for risk-based capital:

- Delay implementation of the 2015 Final Rule to January 1, 2020
- Increase the complex credit union threshold to credit unions with assets greater than $500 million