BOARD ACTION MEMORANDUM

TO: NCUA Board

DATE: January 6, 2015

FROM: Office of General Counsel
Office of Examination and Insurance

SUBJ: Proposed Rule: Prompt Corrective Action; Risk-Based Capital (Part 702)

ACTION REQUESTED: NCUA Board approval to publish the attached proposed rule in the *Federal Register* with a 90-day public comment period.

DATE ACTION REQUESTED: January 15, 2015

OTHER OFFICES CONSULTED: Regional Offices, Office of National Examinations and Supervision, Office of the Chief Economist

VIEWS OF OTHER OFFICES CONSULTED: Concur

BUDGET IMPACT, IF ANY: If finalized, this rule would result in non-recurring costs totaling about $3.7 million to revise the Call Report, update reporting and examination systems (such as the FPR and AIRES), revise policies, procedures, and guidance (such as the National Supervision Policy Manual and the Examiner's Guide), and conduct examiner training. If the rule is finalized by the end of 2015 and goes into effect on January 1, 2019, the costs would be incurred in 2016 through 2018. The following table summarizes the estimated costs:

Estimated Costs	**2016**	**2017**	**2018**	**Total**
Call Report and Exam Systems[1]	$765,000	$717,000	$217,000	**$1,699,000**
Data Systems Change Management	$189,000	$84,000	$43,000	$316,000
Policies, Procedures, and Guidance	$48,000	$72,000	$24,000	$144,000
Training & Communications[2]	$15,000	$353,000	$1,220,000	$1,588,000
Total	$1,017,000	$1,226,000	$1,504,000	**$3,747,000**

SUBMITTED TO INSPECTOR GENERAL FOR REVIEW: Yes

[1] The changes to the call report and examination systems would need to be resourced primarily via external contractors. Thus, these system development costs would necessitate explicit incremental funding. The remainder of the estimated costs of managing the system development, making changes to policies and guidance, and providing training could be resourced through a combination of internal staff and external contractors. The extent to which the agency could rely on internal staff would depend on workload and other program priorities each year.

[2] The training that will be necessary for staff would primarily be provided at the 2018 national training conference, which is part of the normal training time allotment per year. Provided the agency holds a national training conference in 2018, that training will not necessitate explicit incremental funding.

RESPONSIBLE STAFF MEMBERS: Larry Fazio, Director Office of Examination and Insurance, JeanMarie Komyathy, Director, Division of Risk Management, and Steve Farrar, Loss/Risk Analysis Officer, Office of Examination and Insurance; and John H. Brolin, Staff Attorney, Office of General Counsel.

SUMMARY: In February 2014, the Board published a proposed rule that would amend part 702 of NCUA's regulations to restructure the part and make various revisions, including amending the agency's current risk-based net worth requirement with a new risk-based capital requirement for federally insured "natural person" credit unions.

The attached new proposed rule would make various changes to the proposed rule that the Board published in the Federal Register on February 27, 2014, in response to public comments received. These changes include exempting credit unions with up to $100 million in total assets from the proposed new rule, lowering the risk-based capital ratio level required for an affected credit union to be classified as well capitalized from 10.5 percent to 10.0 percent, lowering the risk weights for various classes of assets, removing interest rate risk from the risk weights, and more than doubling the implementation timeframe from 18 months to over 3 years (proposed effective date of January 1, 2019).

These changes would substantially reduce the number of credit unions subject to the rule, reduce the impact on affected credit unions, and afford those credit unions sufficient time to prepare for the rule's implementation. The proposed risk-based capital requirement set forth in this proposal would be more consistent with NCUA's risk-based capital measure for corporate credit unions and more comparable to the regulatory risk-based capital measures used by the Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve, and Office of the Comptroller of Currency (Other Banking Agencies).

The proposal would require that credit unions taking certain risks hold capital commensurate with those risks. The proposal would result in a risk-based capital system generally consistent with the risk-based capital requirement applied to U.S. banks and strengthens the minimum capital requirements for higher-risk credit unions.

RECOMMENDED ACTION: NCUA Board issue the attached proposed rule for public comment.

ATTACHMENT: Proposed rule