## 2015 Revised Proposal Changes Compared to 2014 Original Proposal

| RULE COMPONENT | 2014 ORIGINAL PROPOSAL | 2015 REVISED PROPOSAL |
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| ***Which credit unions must comply with the rule, if finalized? How many are exempted***, based on the regulatory definition of "complex" derived from NCUA's analyses of portfolio composition and services offered? | Credit unions greater than $50 million in assets.<br><br>As of June 30, 2013, data, rule covers 2,237 credit unions that hold 94% of system assets.<br><br>66% of all federally insured credit unions would be exempt from the risk-based PCA component. | Credit unions greater than $100 million in assets.<br><br>As of year-end 2013 data, the revised proposal covers 1,455 credit unions that hold 89% of system assets.<br><br>78% of all federally insured credit unions would be exempt from the risk-based PCA component. |
| ***What is the "well-capitalized" PCA threshold level for risk-based capital?*** | 10.5%; equivalent to FDIC with FDIC conversion factor of 2.5% added to 8% "adequately capitalized" level for Total Risk-Based Capital ratio. | Lowered to 10% for "well-capitalized," comparable to FDIC rule (excludes FDIC conversion factor). |
| ***Will this require future 5300 Call Report changes?*** | Yes; with a few additional data fields. | Yes, based on input from commenters/practitioners favoring more calibrated risk weights; more extensive changes required. |
| ***What is the proposed rule's implementation date?*** | At least 18 months after adoption. | January 1, 2019; aligns with FDIC rule timing, provides as much as 4 years for NCUA to update the Call Report system and for any affected credit unions to comply. |
| ***Does rule meets Federal Credit Union Act's statutory mandates for creating a risk-based requirement?*** | Yes, the original proposal met the statutory mandates to (1) take into account credit unions rely on retained earnings to build capital and have boards consisting of volunteers, (2) be comparable to FDIC, and (3) account for any material risk, such as concentration risk and interest rate risk (IRR). | Yes, it meets all three statutory mandates. However, IRR will be accounted for separately with subsequent agency action. |
| ***How many credit unions today would fall below the well-capitalized*** standard for risk-based capital? | 3% of all federally insured credit unions would be affected. Based on June 30, 2013, data, 199 credit unions would see their PCA category drop below well-capitalized. | 2% of federally insured credit unions would be affected. Based on December 2013 data, 19 credit unions would see their PCA category drop below well-capitalized. |
| ***How much aggregate capital would those directly affected credit unions have to raise***, assuming they did not respond by shedding risky assets, changing their balance sheets or portfolios? | Roughly $700 million to be well-capitalized. | Roughly $50 million to be well-capitalized. |
| ***What would the average risk-based net worth ratio be for credit unions?*** | NCUA estimates the average risk-based capital ratio would be 15.7%. | NCUA estimates the average risk-based capital ratio would be 19.3%, well above the 10% required to be "well-capitalized." |

*This document is intended as a top-level summary of significant changes made in NCUA's 2014 revised risk-based capital proposal, but is not comprehensive in scope or granularity, and should not be relied on to be completely comprehensive for each item. Please consult the actual revised proposed rule for further and more comprehensive detail about rule contents.*

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| ***How will a credit union calculate the effect of the proposed rule?*** | NCUA's public website provided a calculator that did an automatic calculation, based on existing Call Report data. | NCUA is providing an RBC Estimator. Credit union must input their own data, as some risk weights require more granular data not currently available on Call Reports. |
| ***How long is the public comment period?*** | 90 days, upon publication in the *Federal Register.* | 90 days, upon publication in the *Federal Register*. |
| **Numerator: Capital Components** | | |
| **Equity** | Includes undivided earnings, regular reserves, appropriation for non-conforming investments, other reserves, equity acquired in merger, miscellaneous equity and net income. | Same as original proposal. |
| **Supplemental Capital** | Allowed to count as capital in the risk-based formula only for low-income credit unions, consistent with the Federal Credit Union Act. | Same as original proposal; however, the revised proposal solicits public comment on how supplemental capital for risk-based capital could work for credit unions. NCUA Board may consider a future rulemaking, as permissible by law. |
| **Allowance for Loan and Lease Loss (ALLL)** | ALLL inclusion amount was allowed for risk-based net worth formula, but capped at 1.25% of risk assets, comparable to FDIC rule | No cap; entire ALLL amount is included as capital available to cover losses. |
| **Goodwill and Intangibles** | Excluded from the risk-based capital ratio formula, because goodwill and intangibles are not actual capital available to cover losses. | Excluded as in original proposal, but credit unions with outstanding goodwill or intangibles recorded from supervisory mergers or combinations completed prior to publication of a final rule will be allowed to include the related goodwill and intangibles until January 1, 2025. |
| **National Credit Union Share Insurance Fund 1% Deposit** | Excluded from risk-based capital ratio altogether. The 1% deposit is not an asset available to absorb losses at the credit union, and cannot be double-counted as system equity both for the NCUSIF and a credit union. This treatment reaffirms long-standing NCUA, congressional and Treasury policy. | Same as original proposal. |
| **Denominator: Risk Based Assets** | | |
| **Interest Rate Risk (general)** | Five Weighted Average Life (WAL) tiers applied to investment risk weights from less than 1 year to 10+ years maturity, to account for interest rate risk. | Removed WAL from investment risk weights; alternative approaches will be evaluated for future agency action. |
| **Concentration Risk (general)** | Three tiers applied to first liens, junior liens, and commercial loans to account for asset concentration levels. | Single tier break approach for first liens (>35% of assets), junior liens (>20%), and commercial loans (>50%) based on standard deviation calculations, to cover outliers. *Note: tier yields a "blended" overall risk weight if threshold exceeded.* |
| **Cash, Cash Equivalents, Deposits** | 0-20%; varies. | • Cash remains 0%<br>• Insured deposits at federally insured financial institutions are 0%, while uninsured deposits at same insured depositories are 20% |

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| | | • Fed Reserve balances due are 0% |
| **Direct and unconditionally guaranteed investments backed by the US Government** | 0% | 0%, consistent with FDIC rule. Includes debt instruments issued by NCUA or FDIC. |
| **Investments** in general<br><br>*(See separate risk-weight chart summary for further detail on risk weights for agency obligations, bonds, publicly traded securities, among others)* | Five tiers based on Weighted Average Life (WAL) for risk weightings, from less than 1 year to over 10+ year range, to account for interest rate risk.<br><br>Also varies by investment type for credit risk, government guarantees.<br><br>Risk weights range from 0% to 1,250%. | Removes Weighted Average Life component. Generally, the revised proposal risk weights are comparable to FDIC rules reflecting investment credit risk.<br><br>Risk weights range from 0% to 1,250%, based on investment type's credit risk.<br><br>*See rule text and rule preamble for more detail.* |
| **Central Liquidity Facility Stock** | 50% | 0% |
| **Federal Home Loan Bank Stock** | 50% | 20%, comparable to FDIC rule. |
| **Derivatives** | Generally comparable to the approach adopted by FDIC. | Generally comparable with the approach adopted by FDIC. |
| **Corporate Non-perpetual Capital** (Membership) | 100% | 100% |
| **Corporate Perpetual Capital** (Paid-in) | 200% | 150% |
| **Equity investment in CUSO** | 250%; no allowance made for wholly owned, consolidated CUSOs. | If CUSO is consolidated into a credit union's financial statement under GAAP, there is no separate applicable CUSO risk weight. If equity investment in a CUSO is unconsolidated, then risk weight is 150%. |
| **Loans to CUSOs** | 100%; no allowance made for wholly owned, consolidated CUSOs. | If CUSO is consolidated into a credit union's financial statement under GAAP, there is no separate applicable CUSO risk weight. If loan to CUSO is unconsolidated, then risk weight is 100%. |
| **Consumer Loans** | Current is loans less than 60 days past due.<br><br><u>Risk weights</u>:<br>• Government-guaranteed portion of loan balances at 20%<br>• Shared-secured loans at 75%, Secured and unsecured loans at 75%<br>• Non-federally insured student loans at 100%<br>• Delinquent loans (60 days past due) at 150% | Increase past-due loan term to become 90 days rather than 60, which aligns with FDIC rule.<br><br><u>Risk weights</u>:<br>• Government-guaranteed portion of loan balances remain at 20%<br>• Fully shared-secured loans lowered to 20%<br>• Secured loans remain at 75%<br>• Unsecured loans risk weight increases up to 100%<br>• Non-federally insured student loans remain 100%<br>• Non-current loans (90 days past due) remain at 150% |

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| **Residential Real Estate Loans (Mortgages, Home Equity Loans, among others)** | Multiple tier risk weights:<br><br><25%, 25-35%, >35% for first-lien residential real estate loans with risk weights of 50%, 75%, and 100%, respectively.<br><br><10%, 10-20%, >20% for junior-lien residential real estate loans with risk weights of 100%, 125%, and 150%, respectively.<br><br>Delinquent (60 days past due) residential real estate loans of either type weighted at 100%. | Single tier break for category, set by standard deviation from norm:<br><br>First-lien residential real estate loans <35% of assets would have 50% risk weight (same as FDIC). First liens above 35% get 75% risk weight to account for concentration risk. Just over 10% of complex credit unions exceed the 35% first lien asset threshold.<br><br>Junior liens <20% of assets would have 100% risk weight (same as FDIC). Junior liens above 20% get 150% risk weight to account for concentration risk. Just over 4.5% of complex credit unions exceed the 20% junior-lien asset threshold.<br><br>A credit union that holds both the first mortgage and a junior lien or home equity line on the same property, with no other intervening lien can treat the two loans as a single loan, secured by a first lien, for risk-weight calculation purposes.<br><br>A credit union does NOT have to underwrite a Qualified Mortgage in order to receive the 50% risk weight. However, the credit union does have to make a good-faith determination that the member will be able to repay the loan.<br><br>Non-current (90 days past due) first-lien real estate loans weighted at 100% and non-current (90 days past due) junior-lien real estate loans weighted at 150%.<br><br>All 1- to 4-family non-owner occupied first- or junior-lien loans would now be categorized and risk weighted as residential real estate loans (per above risk weights), rather than commercial loans (with higher risk weight), equivalent to FDIC treatment. |
| **Mortgage Servicing Assets** | 250% | Same as original proposal; equivalent to FDIC risk weight. |
| **Commercial Loans** | Based on definition of Member Business Loans (MBLs).<br><br>Multiple tier risk weights:<br><br>MBLs <15%,15-25%, and >25% of assets, risk weights ranging from 100% to 200%, depending on concentration level.<br><br>Delinquent MBLs risk weighted at 150%.<br><br>Included 1- to 4-family non-owner occupied first- or junior-lien loans if reported as MBLs. | Based on new definition of commercial loans.<br><br>Single tier break for category, set at over two standard deviations from the mean:<br><br>Commercial loans less than 50% of assets would have 100% risk weight (same as FDIC, unless FDIC classified as a high-volatility loan, then 150%). Note that 96% of federally insured credit unions remain subject to the 12.25% of assets cap for MBLs passed by Congress in 1998 and thus are not affected by the 50% asset threshold.<br><br>Commercial loans above 50% get 150% risk weight to account for concentration risk. As of |

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| | Included loans secured by a vehicle generally manufactured for personal use made to a business if reported as MBLs.<br><br>No adjust for contractual compensating balances. | December 31, 2014, 12 complex credit unions exceed the 50% threshold.<br><br>Non-current commercial loans risk weighted at 150%<br><br>1- to 4-family non-owner occupied first- or junior-lien loans would now be categorized and risk weighted as residential real estate loans rather than commercial loans. NCUA estimates a significant amount of MBLs would meet this definition and thus receive the lower, applicable residential real estate risk weight.<br><br>The definition of commercial loans excludes any loans secured by a vehicle generally manufactured for personal use; those would be subject to the lower applicable consumer loan risk weight.<br><br>The portion of a commercial loan secured by a contractual compensating balance is risk weighted at 20%. |
| **Off-Balance Sheet Items,** such as Loans Sold with Recourse and Unfunded Loan Commitments | Subject to Credit Conversion Factors (CCF) and applicable risk weights.<br><br>For loans sold with recourse:<br>• Commercial Loans 75% CCF<br>• Real Estate Loans 75% CCF<br>• All other loans 75% CCF<br><br>Unfunded Commitments:<br>• Commercial Loans 75% CCF<br>• All other loans 10% CCF | Subject to Credit Conversion Factors (CCF) and applicable risk weights.<br><br>For loans sold with recourse based on contractual exposure:<br>• Commercial Loans 100% CCF<br>• Residential Real Estate Loans 100% CCF<br>• All other loans 100% CCF<br>• FHLB Mortgage Partnership Finance Program 20% CCF applied to outstanding balance<br><br>Unfunded Commitments:<br>• Commercial Loans 20% CCF<br>• All other loans 10% CCF |
| **Individual Minimum Capital Requirement (IMCR)** | Establish a process for requiring a credit union to hold a level of capital higher than the minimum amount contained in the regulation. | The IMCR provision has been removed.<br><br>NCUA to address deficiencies in capital levels by:<br>• Reclassifying a credit union to a lower level of capital classification under §702.102(b)<br>• Compliance with capital adequacy provision under §702.101(b)<br>• Other supervisory authorities to address unsafe and unsound conditions under §702.1(d) |