# Frequently Asked Questions and Answers
# NCUA's Risk-Based Capital Revised Proposed Rule
# January 2015

***Q1. How can I quickly learn what has changed in the revised proposal compared to the original proposal?***

NCUA has created three summary documents to help stakeholders understand the changes the NCUA Board made to the original proposal following the 2014 comment period. They include:

- The *Risk-Based Capital Ratio: Risk Weights at a Glance* compares the risk weights in the current NCUA rule, the original proposal, the revised proposed rule, and the FDIC's rule.

- The *Risk-Based Capital Proposal Comparison* highlights notable differences between the original proposal and the revised proposed rule.

- This *Frequently Asked Questions* document addresses questions often raised by stakeholders about the original proposal.

NCUA has also created a *Risk-Based Capital Ratio Estimator*. This is a spreadsheet tool that allows a credit union to individually input its data to determine its risk-based capital ratio under the revised proposed rule.

NCUA has posted these documents and this tool, along with the preamble and the revised proposed rule, in the *Risk-Based Capital Resource Center* on the NCUA website www.ncua.gov

Additionally, NCUA will host a webinar on January 21, 2015, at 2 p.m. Eastern. NCUA will post slides from the webinar and a closed-captioned version of the webinar on the resource center once available.

***Q2. Can you explain why the revised proposed rule is so lengthy?***

The text of the proposed revised rule is comparable to the original proposed rule's length. However, the complex subject matter and the 2,056 comments received during the comment period on the original proposed rule resulted in the lengthier, extensive rule preamble text, as The Administrative Procedure Act requires NCUA to address commenter concerns. Since commenters raised new issues and potential solutions not discussed in the original proposed rule, this resulted in a lengthy revised proposed rule's preamble.

***Q3. Briefly, what are the most significant changes NCUA made in the revised proposal?***

The NCUA Board listened carefully to stakeholders. The revised proposed rule addresses their concerns and is consistent with NCUA's efforts to protect safety and soundness.

The most significant changes include:

- Raising the threshold for defining a complex credit union to $100 million in total assets, up $50 million.
- Reducing the minimum risk-based capital ratio for a well-capitalized credit union from 10.5 percent to 10 percent.
- Revising many risk weights to remove the weighted average life interest rate risk component, and make investment risk weights more comparable to bank risk weights.
- Raising the concentration threshold at which a higher risk weight is applied to commercial loans and residential real estate-secured loans.
- Establishing a lower risk weight for fully share-secured loans.
- Assigning a lower risk weight for real estate loans secured by non-owner occupied one to four-family residential properties.
- Reducing the risk weight assigned to equity investments in credit union service organizations.
- Eliminating the cap on the amount of the Allowance for Loan and Lease Losses account that can be included in the numerator for the risk-based capital ratio.
- Increasing the number of days defining a loan as past due to 90 days, up from 60 days.
- Allowing goodwill and other intangible assets specifically related to a supervisory merger occurring before the rule is finalized to be included in the risk-based capital ratio calculation for an extended phase-out period, to 2025.
- Removing the individual minimum capital requirement provision.

***Q4. Does the revised proposed rule affect my credit union? To which credit unions does the revised proposed rule apply?***

While all federally insured credit unions are subject to the prompt corrective action requirements for the net worth ratio, only those credit unions with assets in excess of $100 million are subject to the revised proposed rule's risk-based capital ratio requirement. The $100 million asset threshold for defining a complex credit union contained in the revised proposed rule is double the originally proposed $50 million.

***Q5. When is the revised proposed rule scheduled to go into effect?***

The revised proposed rule would become effective on January 1, 2019, nearly four years away. The implementation timeframe aligns with the effective date for the new risk-based capital requirements for banks, and provides ample time for both covered credit unions and NCUA to prepare.

***Q6. How many credit unions are affected by the revised proposed rule? How many would experience a downgrade in a prompt corrective action category?***

The 78 percent of federally insured credit unions with less than $100 million in assets would be exempt from the revised proposed rule on risk-based capital. However, these credit unions would still be subject to the existing 7 percent net worth ratio.

The 22 percent of federally insured credit unions with more than $100 million in assets would be subject to the rule. These 1,455 credit unions (as of December 31, 2013) hold 89 percent of the system's assets. Under the revised proposed rule, NCUA estimates that eighteen credit unions would be downgraded from well-capitalized to adequately capitalized and one credit union would be downgraded to undercapitalized.

**All Federally Insured Credit Unions Greater Than $100 Million**

| Asset Range | Total Number Units | Downgraded from Well-Capitalized to Adequately Capitalized (% of Units) | Downgraded from Well-Capitalized to Undercapitalized (% of Units) |
|---|---|---|---|
| $100 million to $200 million | 556 | 9<br>(1.62%) | 0<br>(0.00%) |
| $200 million to $250 million | 129 | 3<br>(2.33%) | 0<br>(0.00%) |
| $250 million to $1 billion | 562 | 2<br>(0.36%) | 0<br>(0.00%) |
| Over $1 billion | 208 | 4<br>(1.92%) | 1<br>(0.48%) |
| **Total** | **1,455** | **18**<br>**(1.24%)** | **1**<br>**(0.07%)** |

In addition to these 19 downgraded credit unions, there are eight complex credit unions with net worth ratios of less than 7 percent and estimated risk-based capital ratios less than 10 percent, as of year-end 2013. In all, 27 complex credit unions would have a risk-based capital ratio below 10 percent.

***Q7. What happens if my credit union falls to an adequately capitalized level, with a risk-based capital ratio between 8 percent and 10 percent, under the revised proposed rule? What are the supervisory consequences?***

As with the existing prompt corrective action rule, credit unions that fall from well-capitalized to adequately capitalized are subject to the statutory earnings retention requirement of 10 basis points per quarter until they reach well-capitalized status again.[1] This will not change.

[1] 12 U.S.C. 1790d(e) and 12 C.F.R. 702.201.

***Q8. What is the effect of the revised proposal on existing credit union capital buffer levels?***

Comments on the original proposed rule included concerns about the impact on the current capital margins, or buffers, above the 7 percent net worth ratio maintained by credit unions. NCUA considered these buffers when developing the revised proposed rule.

As demonstrated in the chart below, the number of covered credit unions operating with a 500 basis point margin above the proposed 10 percent risk-based ratio is three times greater than the number of covered credit unions operating 500 basis points above the 7 percent net worth ratio.

**Capital Buffers for $100M+ Complex Credit Unions**

| Well- Capitalized Level | Less than 0 basis points above | 0 to 200 basis points above | 200 to 350 basis points above | 350 to 500 basis points above | More than 500 basis points above |
|---|---|---|---|---|---|
| ***Net Worth Ratio*** (7 percent) | 16 | 339 | 430 | 332 | 338 |
| ***Revised Proposed Risk-Based Capital Ratio*** (10 percent) | 27 | 99 | 118 | 181 | 1,030 |

Only those credit unions with higher percentages of total risk assets to total assets would tend to experience a moderate decline in the margin they currently have over the 7 percent net worth ratio.

***Q9. Why did NCUA change the level to be well-capitalized for the risk-based capital ratio from 10.5 percent to 10 percent in the revised proposal?***

The Board agreed with commenters that a 10 percent risk-based capital ratio for well-capitalized credit unions simplifies the comparison with the risk-based capital rules for banks.[2] The proposed 10 percent risk-based capital ratio threshold to be well-capitalized and the 8 percent risk-based capital ratio threshold to be adequately capitalized would be consistent with the total risk-based capital ratio requirements contained in the capital rules for banks.[3]

***Q10. Why isn't NCUA setting a single-tiered risk-based capital threshold to be adequately capitalized? Doesn't The Federal Credit Union Act and Congress say that is the appropriate level?***

In response to the original proposal, some commenters questioned NCUA's legal authority to impose a risk-based net worth requirement on both well-capitalized and adequately capitalized credit unions. The Federal Credit Union Act, however, specifically provides that to be classified as well-capitalized or adequately capitalized a complex credit union must meet the statutory net worth ratio requirement ***and*** any applicable risk-based net worth requirement.[4] The use of a minimum risk-based capital level for both well-capitalized and adequately capitalized provides

[2] 12 C.F.R. 324.403.
[3] *Id.*
[4] 12 U.S.C. 1790d(c).

for a more timely notice of a decline of the risk-based capital ratio toward unsafe and unsound levels.

***Q11. Why is there no online risk-based capital calculator on the NCUA website like last time?***

During the original proposal, NCUA made available a public online risk-based capital calculator that generated credit union risk-based capital ratios using existing Call Report data. Changes in the revised proposed rule related to more granular risk weight categories such as investments, commercial loans and other assets will require future Call Report changes. For the revised proposal, NCUA is providing a new tool, a *Risk-Based Capital Estimator* that will allow credit unions to not only determine their current risk-based capital ratio under the revised proposal, but also conduct "what-if" balance sheet scenarios. The tool can be downloaded from NCUA's website.

***Q12. Will the revised proposed rule require changes to NCUA's Call Report system, and if so, why is that necessary? What is the scope and expected timing of such changes?***

Commenters on the original proposal as well as a credit union practitioner's group both encouraged the collection and use of more detailed Call Report data to calculate the risk-based capital ratio to be more precise and better calibrated, and the NCUA Board agreed. More granular data would also enhance NCUA's offsite supervision capabilities.

As done in the past, NCUA will provide credit unions with prior notification of significant changes to the Call Report.[5] Credit unions will then have an opportunity to comment on these changes. If the NCUA Board approves a final rule in 2015, credit unions can expect changes to the Call Report to occur by the end 2017. This will allow review of data required for the new rule before the January 1, 2019, effective date.

The following is a sample of the Call Report accounts that would need to be reported differently or added to the report to accommodate the changes contemplated in the revised proposed rule:

- Non-current loans
- Commercial loans
- Share-secured loans
- Government loan guarantees
- Investments
- Goodwill
- Other intangible assets
- Off-balance sheet exposures

In developing the revised Call Report system, NCUA will seek to minimize reporting burdens wherever possible.

[5] NCUA Letter to Credit Unions No. 12-CU-12, October 2012, Changes Planned for Upcoming Call Reports.

***Q13. What does NCUA estimate the revised proposed rule's effect to be on credit union lending, affected credit unions, and the overall economy? What is the economic impact on consumers?***

Under the revised proposal, 98 percent of credit unions remain well-capitalized, with the vast majority having large capital buffers and an average risk-based capital ratio exceeding 19 percent, nearly twice the 10 percent required to be well-capitalized. There should be no adverse effect on credit union lending on a macroeconomic scale, because the credit union system on the whole has ample capital. As such, credit unions will be able to continue to serve their members and support the U.S. economy.

NCUA estimates that the 19 complex credit unions downgraded as a result of the revised proposed rule would need to raise $53.6 million to remain well-capitalized. Alternatively, they could shed risk or pursue a combination of both strategies.

***Q14. Credit unions came through the financial crisis relatively well, and the overall system remains highly capitalized with a net worth ratio over 10 percent. Why do we need this additional risk-based capital requirement?***

The Federal Credit Union Act requires the NCUA Board to update such rules when the rules change for banks. Because other regulators updated the risk-based capital rules for banks in 2013, the NCUA Board is acting now to update its rules. The NCUA Board has not updated the risk-based capital rules since 2000.

During the crisis, NCUA had to extend $26 billion in liquidity to prevent the credit union system from collapsing. Without an infusion of $20 billion from NCUA's Central Liquidity Facility and an additional $6 billion from NCUA's line of credit at the U.S. Treasury, the credit union system as we know it would probably not have survived.

Even with this extraordinary assistance from the federal government, 102 credit unions still failed during the crisis. Many of those credit unions appeared to have sufficient capital; that is, until they collapsed. For example, over the past ten years, the average net worth of eventually failed credit unions two years before they failed was 12.1 percent, while the average net worth of credit unions today is 10.9 percent. The current statutory net worth requirement of 7 percent of assets fails to fully account for the difference between low-risk and high-risk assets in complex credit unions. In enacting the Credit Union Membership Access Act in 1998, Congress not only provided for a statutory net worth ratio of 7 percent, but also granted NCUA the additional authority to put in place a risk-based capital requirement to better measure risks in complex credit unions.

Those collective 102 credit union failures, many of whom appeared to have ample net worth ratios before eventual failure, cost the Share Insurance Fund $750 million. These experiences informed the NCUA Board's decisions in crafting the revised proposed rule. It's worth noting NCUA also backtested how implementation of the revised proposed rule could have impacted losses of the National Credit Union Share Insurance Fund. In eight out of nine instances, the analysis indicated compliance with the revised proposed rule would have required the credit unions to hold additional capital, which could have prevented failure or reduced losses to the Share Insurance Fund. NCUA also estimated the impact of the revised proposed rule on covered credit unions and determined many would see a net risk-based capital benefit from changes in the risk-based capital ratio calculation.

Moreover, of the 192 credit unions that failed over the past ten years, the average credit union had a net worth ratio of 12.1 percent two years before it ultimately failed. This fact underscores the need to have a more accurate measurement of the potential risk in their credit union's assets and portfolios than simply the net worth ratio.

Finally, both the Government Accountability Office and the NCUA Inspector General have identified weaknesses in the current prompt corrective action system for complex credit unions. They note the need for more timely identification of increasing risk. They have both recommended that NCUA update the existing the prompt corrective action framework's effectiveness.

***Q15. Why did the NCUA Board include a concentration threshold as part of its risk weights for commercial loans and real estate loans, as the risk-based capital rules for banks do not have this threshold? How did NCUA decide where to set these tiers? Did NCUA use empirical data?***

The Federal Credit Union Act mandates that NCUA's risk-based net worth requirement "take account of any material risks against which the net worth ratio required for [a federally] insured credit union to be adequately capitalized may not provide adequate protection."[6] The Basel Committee on Banking Supervision also notes that risk concentrations are arguably the single most important cause of major problems in banks.[7] The concept of higher risk weights for concentrations of real estate and member business loans also exists in the current risk-based requirement established in 2000. Consequently, concentration thresholds are included in the revised proposed rule.

Eliminating the concentration dimension would be a step backward. It is inconsistent with the concerns raised by the Government Accountability Office and in Material Loss Reviews conducted by the NCUA Inspector General. A 2012 GAO report notes credit concentration risk contributed to 27 of 85 credit union failures that occurred between January 1, 2008, and June 30, 2011. The report documented NCUA's agreement to revise prompt corrective action regulations so that capital standards adequately address concentration risk.[8] GAO also recommended NCUA address the real estate concentration risk concerns raised by NCUA's Inspector General, who completed several Material Loss Reviews where failed credit unions had large real estate loan concentrations. The NCUSIF incurred losses of at least $25 million in each of these cases. The

---

[6] 12 U.S.C. 1790d(d)(2).
[7] Basel Committee on Banking Supervision, "International Convergence of Capital Measurement and Capital Standards: A Revised Framework, Comprehensive Version" 214 (June 2006) *available at* http://www.bis.org/publ/bcbs128.pdf (*Basel II*).
[8] *See* U.S. Govt. Accountability Office, GAO-12-247, Earlier Actions are Needed to Better Address Troubled Credit Unions (2012), *available at* http://www.gao.gov/products/GAO-12-247.

credit unions reviewed held substantial residential real estate loan concentrations in either first-lien mortgage loans, home equity lines of credit, or both.[9]

In response, the revised proposed rule includes a tiered risk-weight framework for high concentrations of residential real estate loans and commercial loans.[10, 11] As a credit union's concentration in these asset classes increases, incrementally higher levels of capital would be required. This approach would address concentration risk as it relates to minimum required capital levels through a transparent, standardized regulatory requirement. Considering concentration risk solely in the examination process would be less consistent, less transparent, and would lack a strong enforcement framework.

***Q16. Why is NCUA not allowing supplemental capital to be counted and used in the risk-based capital ratio calculation?***

While the NCUA Board did not include supplemental forms of capital in the risk-based capital ratio numerator as part of this proposal (other than for low-income credit unions), the Board did solicit public stakeholder comments on this issue in the comment period. The Board is continuing to evaluate under what circumstances NCUA might legally allow supplemental capital to be included for federally chartered credit unions in the calculation the risk-based capital ratio. The Board intends to explore the possibility of issuing a separate rule on this matter once its risk-based capital rule becomes final.[12]

Such new authority also raises a host of potentially complex issues that would need to be addressed through additional changes to NCUA's regulations, including providing consumer protections, amending the Share Insurance Fund's payout priorities, and determining how non-low-income credit unions can best safely offer and include supplemental capital.

***Q17. Interest rate risk was removed from the revised proposed rule. How does NCUA plan to account for interest rate risk in the prompt corrective action framework? What can credit unions expect next on interest rate risk?***

---

[9] *See* Office of Inspector General, National Credit Union Administration, OIG-10-03, Material Loss Review of Cal State 9 Credit Union (April 14, 2010), available at http://www.ncua.gov/about/Leadership/CO/OIG/Documents/OIG201003MLRCalState9.pdf; Office of Inspector General, National Credit Union Administration,OIG-11-07, Material Loss Review of Beehive Credit Union (July 7, 2011), available at http://www.ncua.gov/about/Leadership/CO/OIG/Documents/OIG201107MLRBeehiveCU.pdf; Office of Inspector General, National Credit Union Administration, OIG-10-15, Material Loss Review of Ensign Federal Credit Union, (September 23, 2010), available at http://www.ncua.gov/about/Leadership/CO/OIG/Documents/OIG201015MLREnsign.pdf.

[10] The definition of commercial loans and the differences between commercial loans and MBLs are discussed later in this document.

[11] The tiered framework would provide for an incrementally higher capital requirement resulting in a blended rate for the corresponding portfolio. That is, the portion of the portfolio below the threshold would receive a lower risk weight, and the portion above the threshold would receive a higher risk weight. The higher weighting would be consistent across asset categories as a 50 percent increase from the base rate. Some comments on the Original Proposal suggested NCUA should have combined similar exposures across asset classes, such as investments and loans. For example, residential mortgage-backed security concentrations could have been included with the real estate loan thresholds due to the similarity of the underlying assets. However, given the more liquid nature and price transparency of a security, the Board believes including this with the risk thresholds for real estate lending is not necessary.

[12] 12 C.F.R. 702.104(b)(2).

The Board believes that a capital-at-risk methodology is more appropriate for measuring the risks arising from the changes in interest rates than attempting to address interest rate risk through risk weights. The use of capital-at-risk methodologies to identify, measure, and control interest rate risk is a long-standing practice in larger credit unions and a standard expectation among depository institution supervisors, including NCUA.

NCUA has had a supervisory expectation for the use of asset liability management modeling by large credit unions for decades. In 2013, NCUA codified the requirement for interest rate risk policies and management programs.[13] This interest rate risk rule requires federally insured credit unions with over $50 million in assets to develop and adopt a written policy on interest rate risk management, and a program to effectively implement that policy, as part of their asset liability management responsibilities.

In light of the proposed elimination of interest rate risk measures from the current rule, the Board has requested comments on alternative approaches that could be taken in the future to reasonably account for interest rate risk within the prompt corrective action framework.

***Q18. Why is NCUA proposing to risk weight loans to credit union service organizations at 100 percent, but investments in CUSOs at 150 percent? Doesn't this discourage future investments in CUSOs? What about wholly-owned CUSOs? Do you treat those CUSOs differently?***

The Board decided to rely on GAAP accounting standards to determine the reporting basis upon which any CUSO equity investments and loans are assigned risk weights. For CUSOs subject to consolidation under GAAP, the amount of CUSO equity investments and loans are eliminated from the consolidated financial statements because the loans and investments are intercompany transactions. The related CUSO assets that are not eliminated are added to the consolidated financial statement and receive risk-based capital treatment as part of the credit union's statement of financial condition.

For CUSOs not subject to consolidation, the recorded value of the credit union's equity investment would be assigned a 150-percent risk weight, and the balance of any outstanding loan would be assigned a 100-percent risk weight. The differences in the risk weighting recognizes that a CUSO investment is in a first-loss position, while a CUSO loan has a higher payout priority in the event of bankruptcy.

The revised proposed rule also notes it may be possible to make more meaningful distinctions between the risks various types of CUSOs pose once the forthcoming NCUA CUSO registry is in place and sufficient trend information has been collected.

***Q19. How is NCUA going to handle credit union investments in corporate credit unions? What changed from the original proposal?***

---

[13] 12 C.F.R. 741.3(b)(5) and 78 FR 4032, 4037 (Jan. 18, 2013).

Under the original proposal, the risk weight for perpetual contributed capital at corporate credit unions would have been 200 percent. The revised proposal would lower the risk weight for perpetual contributed capital at corporate credit unions to 150 percent.

Perpetual contributed capital at corporate credit unions would receive a higher risk weight than non-perpetual capital at corporate credit unions because perpetual contributed capital is available to absorb losses before non-perpetual capital. The Board believes the 150 percent risk weight is appropriate due to the heightened risk of loss compared to the 100 percent risk weight for non-perpetual capital.

***Q20. Why does NCUA exclude the National Credit Union Share Insurance Fund deposit from the risk-based capital calculation?***

The NCUA Board carefully considered the comments received after the original proposal. The Board continues to believe exclusion of the Share Insurance Fund deposit from both the risk-based capital ratio numerator and denominator is the appropriate way to handle its risk-based capital treatment, and is consistent with long-standing policy. Accordingly, the Board has decided to retain this aspect of the original proposal without change.

The 1997 U.S. Treasury Report on Credit Unions supports NCUA's position of excluding the deposit from the risk-based capital ratio calculation. The Treasury report concluded that the deposit is double counted because it is both an asset on credit union balance sheets and equity in the Share Insurance Fund.[14] Treasury noted that, instead of expensing the deposit, holding additional capital is necessary to offset the risk of loss from required credit union replenishment. The report also notes that Congress established a higher statutory leverage ratio for credit unions in part to offset the risk of loss from required credit union replenishment.

***Q21. Why did NCUA change the risk weights for consumer loans? In the original proposal the risk weight was 75 percent across the board, but now NCUA is proposing different risk weights for share-secured, secured and unsecured consumer loans.***

The Board recognizes that a secured consumer loan has lower credit risk than an unsecured consumer loan and, therefore, has proposed a lower risk weight for secured consumer loans than for unsecured consumer loans. Secured consumer loans generally have lower delinquency rates and lower charge-off rates than unsecured consumer loans. Secured consumer loans generally include those collateralized by new and used vehicles, all-terrain vehicles, recreational vehicles, boats, motorcycles, and other items with a title and could also include a perfected security interest in furniture, fixtures, equipment, antiques, investments, and collectables.

[14] Department of US Treasury Report titled; *Credit Unions*, 1997, Page 58: "The 1 percent deposit does present a double-counting problem. And it would be feasible for credit unions to expense the deposit now, when they are healthy and have strong earnings. However, expensing the deposit would add nothing to the Share Insurance Fund's reserves, and - as we will explain – better ways of protecting the Fund are available. Accordingly, we do not recommend changing the accounting treatment of the 1 percent deposit."

The Board generally agreed with commenters on the original proposal that share-secured loans pose less risk to credit unions than other types of secured loans. Accordingly, under this revised proposal share-secured loans would be assigned a 20 percent risk weight. A risk weight of 20 percent for share-secured loans is proposed because it recognizes the low amount of risk and is consistent with the 20 percent risk weight for contractual compensating balances on commercial loans that are also secured by shares on deposit.

The Board also agreed with commenters on the original proposal that unsecured consumer loans generally pose more risk than secured consumer loans. As a result, it has proposed to assign a lower risk weight of 75 percent to secured consumer loans and a higher risk weight of 100 percent to unsecured consumer loans. The 100 percent risk weight for unsecured consumer loans would be comparable to the bank risk weight for consumer loans.[15]

***Q22. What are some of the changes in the revised proposal related to how member business loans are classified and treated for risk-based capital purposes?***

This proposed rule would use the term "commercial loan" for risk-based capital purposes, which would be defined separately from the definition of a member business loan. Under this proposal, the definition of "commercial loans," would:

- Include all commercial-purpose loans regardless of the dollar amount.
- Exclude one- to four-family non-owner occupied first- or junior-lien real estate loans, which would be considered residential real estate loans for the purpose of assigning risk weights in this proposal.
- Exclude any loans secured by a vehicle generally manufactured for personal use unless it is used as a fare-based vehicle.
- Assign to the portion of a commercial loan that is insured or guaranteed by the U.S. Government, U.S. Government agency, or a public sector entity a lower risk weight of 20 percent and not count such loans toward the 50 percent of assets concentration threshold.
- Assign to any amount of a contractual compensating balance associated with a commercial loan and on deposit in the credit union a 20 percent risk weight and not count such amounts toward the 50 percent of assets concentration threshold.

Generally, the proposal would continue to assign a 100-percent risk weight to commercial loans that comprise less than 50 percent of total assets and 150 percent for commercial loans in excess of 50 percent of assets. Non-current commercial loans would receive a 150-percent risk weight, reflecting their increased loss potential.

***Q23. Why is NCUA proposing to risk weight non-current junior-lien residential real estate loans at 150 percent, while the comparable risk weight for banks is 100 percent?***

The Board believes the proposed higher risk weight is warranted because such loans have a higher probability of default when compared to current loans. Non-current loans are more likely

[15] 12 CFR 324.32(l)(5).

to default because repayment is already impaired making them one step closer to default compared to current loans.

In the case of junior-lien loans, credit unions may have to pay off more senior liens in order to recover losses through the foreclosure process, which can result in higher losses than the current outstanding balance in very adverse conditions. Additionally, the equity that existed when the junior-lien loan was originated may have been lost in a declining real estate market.

***Q24. How did NCUA handle risk weights for government-guaranteed loans? Why?***

The portion of a loan that is insured or guaranteed by the U.S. Government, U.S. Government agency, or a public sector entity would receive a lower risk weight of 20 percent. Further, the portion of the loan that is government guaranteed would **not** count toward any applicable asset concentration threshold, such as for member business loans. This provision is consistent with the treatment of risk weights for banks.[16]

***Q25. Are there any new requirements for complex credit unions on capital planning or having written policies?***

The revised proposed rule is consistent with existing supervisory standards, and would not affect a complex credit union's PCA classification. The revised proposal states that credit unions contemplating significant expansion plans, as well as those institutions with high or inordinate levels of risk, should hold capital in line with the level and nature of the risks. It also states that a complex credit union must have a process for assessing its overall capital adequacy in relation to its risk profile and a comprehensive written strategy for maintaining an appropriate level of capital. This treatment is similar to the rules in place for banks.[17]

***Q26. How long is the comment period, and when does the NCUA Board anticipate it may finalize the risk-based capital rule?***

The Board approved the revised proposed rule for a 90-day comment period, which will begin on the date of publication in the *Federal Register*. The Board is hopeful that a final rule can be issued by the end of 2015.

[16] 12 U.S.C. 324.32(a).
[17] 12 CFR 324.10(d)(1)-(2).