

(d) LOANS SOLD WITH RECOURSE

| <i>Amount of loans by recourse</i> | <i>Alternative risk weighting</i> |
|------------------------------------|-----------------------------------|
| Recourse 6% or greater | .06 |
| Recourse <6% | Weighted average recourse percent |

The "alternative component" is the sum of each amount of the "loans sold with recourse" risk portfolio by level of recourse (as a percent of quarter-end total assets) times its alternative factor. The alternative factor for loans sold with recourse of less than 6% is equal to the weighted average recourse percent on such loans. A credit union must compute the weighted average recourse percent for its loans sold with recourse of less than six percent (6%). Substitute for corresponding standard component if smaller.

[65 FR 44966, July 20, 2000, as amended at 67 FR 71088, Nov. 29, 2002]

§ 702.108 Risk mitigation credit.

(a) *Who may apply.* A credit union may apply for a risk mitigation credit if on any of the current or three preceding effective dates of classification it either failed an applicable RBNW requirement or met it by less than 100 basis points.

(b) *Application for credit.* Upon application pursuant to guidelines duly adopted by the NCUA Board, the NCUA Board may in its discretion grant a credit to reduce a risk-based net worth requirement under §§ 702.106 and 702.107 upon proof of mitigation of:

- (1) Credit risk; or
- (2) Interest rate risk as demonstrated by economic value exposure measures.

(c) *Application by FISCU.* In the case of a FISCU seeking a risk mitigation credit—

(1) Before an application under paragraph (a) above may be submitted to the NCUA Board, it must be submitted in duplicate to the appropriate State official and the appropriate Regional Director; and

(2) The NCUA Board, when evaluating the application of a FISCU, shall consult and seek to work cooperatively with the appropriate State official, and shall provide prompt notice of its decision to the appropriate State official.

[65 FR 44971, July 20, 2000, as amended at 67 FR 71089, Nov. 29, 2002]

APPENDIXES A-H TO SUBPART A OF PART 702

APPENDIX A – EXAMPLE STANDARD COMPONENTS FOR RBNW REQUIREMENT, §702.106
(EXAMPLE CALCULATION IN BOLD)

| <i>Risk portfolio</i> | <i>Dollar balance</i> | <i>Amount as percent of quarter-end total assets</i> | <i>Risk weighting</i> | <i>Amount times risk weighting</i> | <i>Standard component</i> |
|--|--|---|------------------------------|--|---------------------------|
| Quarter-end total assets | 200,000,000 | 100.0000 % | | | |
| (a) Long-term real estate loans Threshold amount: 0 to 25% Excess amount: over 25% | 60,000,000 | 30.0000 % = 25.0000 % 5.0000 % | .06 .14 | 1.5000 % 0.7000 % | 2.20 % |
| (b) MBLs outstanding Threshold amount: 0 to 15% Intermediate tier: >15% to 25% Excess amount: over 25% | 35,000,000 | 17.5000 % = 15.0000 % 2.5000 % 0.0 % | .06 .08 .14 | 0.9000 % 0.2000 % 0.0 % | 1.10 % |
| (c) Investments <i>Weighted-average life:</i> 0 to 1 year >1 year to 3 years >3 years to 10 years >10 years | 50,000,000 = 24,000,000 15,000,000 10,000,000 1,000,000 | 25.0000 % = 12.0000 % 7.5000 % 5.0000 % 0.5000 % | .03 .06 .12 .20 | 0.3600 % 0.4500 % 0.6000 % 0.1000 % | 1.51 % |
| (d) Low-risk assets | 4,000,000 | 2.0000 % | .00 | | 0 % |
| Sum of risk portfolios (a) through (d) above | 149,000,000 | 74.5000% | | | |
| (e) Average-risk assets | 51,000,000 | 25.5000 %^{a/} | .06 | | 1.53 % |
| (f) Loans sold with recourse | 40,000,000 | 20.0000 % | .06 | | 1.20 % |
| (g) Unused MBL commitments | 5,000,000 | 2.5000 % | .06 | | 0.15 % |
| (h) Allowance | 2,040,000.00^{b/} | 1.0200 % | (1.00) | | (1.02) % |
| Sum of standard components: RBNW requirement^{c/} | | | | | 6.67 % |

^{a/} The Average-risk assets risk portfolio percent of quarter-end total assets equals 100 percent minus the sum of the percentages in the four risk portfolios above (i.e., Long-term real estate loans, MBLs outstanding, Investments, and Low-risk assets).

^{b/} The Allowance risk portfolio is limited to the equivalent of 1.50 percent of total loans. For an example computation of the permitted dollar balance of Allowance, see worksheet in Appendix B below.

^{c/} A credit union is classified "undercapitalized" if its net worth ratio is less than its applicable RBNW requirement. The dollar equivalent of RBNW requirement may be computed for informational purposes as the RBNW requirement percent of total assets.

APPENDIX B – ALLOWANCE RISK PORTFOLIO DOLLAR BALANCE WORKSHEET
(EXAMPLE CALCULATION IN BOLD)

| <i>Balance sheet account</i> | <i>Dollar balance</i> | <i>Percent of total loans</i> | <i>Range of ALL permitted</i> | <i>Permitted ALL percent of total loans</i> | <i>Permitted dollar balance of Allowance</i> |
|---|-----------------------|-------------------------------|-------------------------------|---|--|
| Allowance for Loan and Lease Losses (ALL) | 2,400,000 | 1.7647% | 0 to 1.50% | 1.50% | 2,040,000 |
| Total loans | 136,000,000 | | | | |

APPENDIX C – EXAMPLE LONG-TERM REAL ESTATE LOANS
ALTERNATIVE COMPONENT, §702.107(a)
(EXAMPLE CALCULATION IN BOLD)

| <i>Remaining maturity</i> | <i>Dollar balance of Long-term real estate loans by remaining maturity</i> | <i>Percent of total assets by remaining maturity</i> | <i>Alternative risk weighting</i> | <i>Alternative component</i> |
|--|--|--|-----------------------------------|------------------------------|
| <i>Non-callable long-term real estate loans</i> | | | | |
| > 5 years to 12 years | 15,000,000 | 7.5000 % | .08 | 0.6000 % |
| > 12 years to 20 years | 2,500,000 | 1.2500 % | .12 | 0.1500 % |
| > 20 years | 2,500,000 | 1.2500 % | .14 | 0.1750 % |
| <i>Long-term real estate loans callable in 5 years or less</i> | | | | |
| > 5 years to 12 years | 35,000,000 | 17.5000 % | .06 | 1.0500 % |
| > 12 years to 20 years | 5,000,000 | 2.5000 % | .10 | 0.2500 % |
| > 20 years | 0 | 0.0000 % | .12 | 0.0000 % |
| Sum of above equals Alternative Component* | | | | 2.23 % |

*Substitute for standard component if lower.

APPENDIX D – EXAMPLE OF MEMBER BUSINESS LOANS
ALTERNATIVE COMPONENT, §702.107(b)
(EXAMPLE CALCULATION IN BOLD)

| <i>Remaining maturity</i> | <i>Dollar balance of MBLs by remaining maturity</i> | <i>Percent of total assets by remaining maturity</i> | <i>Alternative risk weighting</i> | <i>Alternative component</i> |
|--|---|--|-----------------------------------|------------------------------|
| <i>Fixed-rate MBLs</i> | | | | |
| 0 to 3 years | 6,000,000 | 3.0000 % | .06 | 0.1800 % |
| > 3 years to 5 years | 4,000,000 | 2.0000 % | .09 | 0.1800 % |
| > 5 years to 7 years | 2,000,000 | 1.0000 % | .12 | 0.1200 % |
| > 7 years to 12 years | 0 | 0.0000 % | .14 | 0.0000 % |
| > 12 years | 0 | 0.0000 % | .16 | 0.0000 % |
| <i>Variable-rate MBLs</i> | | | | |
| 0 to 3 years | 17,000,000 | 8.5000 % | .06 | 0.5100 % |
| > 3 years to 5 years | 4,000,000 | 2.0000 % | .08 | 0.1600 % |
| > 5 years to 7 years | 2,000,000 | 1.0000 % | .10 | 0.1000 % |
| > 7 years to 12 years | 0 | 0.0000 % | .12 | 0.0000 % |
| >12 years | 0 | 0.0000 % | .14 | 0.0000 % |
| Sum of above equals Alternative component* | | | | 1.25 % |

* Substitute for standard component if lower.

APPENDIX E -- EXAMPLE OF INVESTMENTS ALTERNATIVE COMPONENT, §702.107(c)
(EXAMPLE CALCULATION IN BOLD)

| <i>Weighted-average life</i> | <i>Dollar balance of investments by weighted-average life</i> | <i>Percent of total assets by weighted-average life</i> | <i>Alternative risk weighting</i> | <i>Alternative component</i> |
|--|---|---|-----------------------------------|------------------------------|
| 0 to 1 year | 24,000,000 | 12.0000 % | .03 | 0.3600 % |
| > 1 year to 3 years | 15,000,000 | 7.5000 % | .06 | 0.4500 % |
| > 3 years to 5 years | 8,000,000 | 4.0000 % | .08 | 0.3200 % |
| > 5 years to 7 years | 1,000,000 | 0.5000 % | .12 | 0.0600 % |
| > 7 years to 10 years | 1,000,000 | 0.5000 % | .16 | 0.0800 % |
| > 10 years | 1,000,000 | 0.5000 % | .20 | 0.1000 % |
| Sum of above equals Alternative component* | | | | 1.37 % |

* Substitute for standard component if lower.

APPENDIX F -- EXAMPLE LOANS SOLD WITH RECOURSE
ALTERNATIVE COMPONENT, §702.107(d)
(EXAMPLE CALCULATION IN BOLD)

| <i>Percent of contractual recourse obligation</i> | <i>Dollar balance of Loans sold with recourse</i> | <i>Percent of total assets</i> | <i>Alternative risk weighting</i> | <i>Alternative component</i> |
|---|---|--------------------------------|-----------------------------------|------------------------------|
| Recourse 6 % or greater | 5,000,000 | 2.5000 % | .06 | 0.1500 % |
| Recourse < 6 % | 35,000,000 | 17.5000 % | .0500 ^w | 0.8750 % |
| Sum of above equals Alternative component* | | | | 1.03 % |

* Substitute for corresponding standard component if lower.

^w The credit union must calculate this alternative risk weighting for loans sold with recourse of less than 6 %. For an example computation, see worksheet in Appendix G below.

APPENDIX G --WORKSHEET FOR ALTERNATIVE RISK WEIGHTING OF
LOANS SOLD WITH CONTRACTUAL RECOURSE OBLIGATIONS OF LESS THAN 6 %
(EXAMPLE CALCULATION IN BOLD)

| <i>Percent of contractual recourse obligation less than 6%</i> | <i>Dollar balance of loans sold with recourse</i> | <i>Dollars of recourse</i> | <i>Alternative risk weighting</i> |
|--|---|----------------------------|-----------------------------------|
| 5.50 % | 5,000,000 | 275,000 | |
| 5.00 % | 25,000,000 | 1,250,000 | |
| 4.50 % | 5,000,000 | 225,000 | |
| Sum of above equals | 35,000,000 | 1,750,000 | |
| Dollar of recourse divided by dollar balance equals (expressed as %) | | | 5.00 % |

APPENDIX H -- EXAMPLE RBNW REQUIREMENT USING ALTERNATIVE COMPONENTS
(EXAMPLE CALCULATION IN BOLD)

| <i>Risk portfolio</i> | <i>Standard component</i> | <i>Alternative component</i> | <i>Lower of standard or alternative component</i> |
|--|---------------------------|------------------------------|---|
| (a) Long-term real estate loans | 2.20 % | 2.85 % | 2.20 % |
| (b) MBLs outstanding | 1.10 % | 1.25 % | 1.10 % |
| (c) Investments | 1.51 % | 1.37 % | 1.37 % |
| (f) Loans sold with recourse | 1.20% | 1.03% | 1.03% |
| | | | Standard component |
| (d) Low-risk assets | | | 0 % |
| (e) Average-risk assets | | | 1.53 % |
| (g) Unused MBL commitments | | | 0.15 % |
| (h) Allowance | | | (1.02) % |
| RBNW requirement* Compare to Net Worth Ratio | | | 6.53 % |

* A credit union is "undercapitalized" if its net worth ratio is less than its applicable RBNW requirement

[65 FR 44971, July 20, 2000, as amended at 67 FR 71089, 71090, 71091, Nov. 29, 2002; 68 FR 56548, 56549, 56550, Oct. 1, 2003]

Subpart B—Mandatory and Discretionary Supervisory Actions

§ 702.201 Prompt corrective action for "adequately capitalized" credit unions.

(a) *Earnings retention.* Beginning the effective date of classification as "adequately capitalized" or lower, a federally-insured credit union must increase the dollar amount of its net worth quarterly either in the current quarter, or on average over the current and three preceding quarters, by an amount equivalent to at least 1/10th percent (0.1%) of its total assets, and must quarterly transfer that amount (or more by choice) from undivided earnings to its regular reserve account until it is "well capitalized."

(b) *Decrease in retention.* Upon written application received no later than 14 days before the quarter end, the NCUA Board, on a case-by-case basis, may permit a credit union to increase the dollar amount of its net worth and quarterly transfer an amount that is less than the amount required under paragraph (a) of this section, to the extent the NCUA Board determines that such lesser amount—

(1) Is necessary to avoid a significant redemption of shares; and

(2) Would further the purpose of this part.

(c) *Decrease by FISCOU.* The NCUA Board shall consult and seek to work cooperatively with the appropriate State official before permitting a federally-insured State-chartered credit union to decrease its earnings retention under paragraph (b) of this section.

(d) *Periodic review.* A decision under paragraph (b) of this section to permit a credit union to decrease its earnings retention is subject to quarterly review and revocation except when the credit union is operating under an approved net worth restoration plan that provides for decreasing its earnings retention as provided under paragraph (b).

[67 FR 71091, Nov. 29, 2002]

§ 702.202 Prompt corrective action for "undercapitalized" credit unions.

(a) *Mandatory supervisory actions by credit union.* A federally-insured credit union which is "undercapitalized" must—