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Prompt Corrective Action Regulatory Relief Measures in Response to the COVID-19 Pandemic

NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street, Alexandria, VA 22314

Date

June 2020

Letter No

20-CU-18

20-CU-18 / June 2020

Prompt Corrective Action Regulatory Relief Measures in Response to the COVID-19 Pandemic

To

Federally Insured Credit Unions

Subject

Capital Planning

Status

Active

To

Federally Insured Credit Unions

Subj

Capital Planning

Encl

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Dear Boards of Directors and Chief Executive Officers:

Last month, the [NCUA Board approved](#) additional regulatory relief measures related to the NCUA's prompt corrective action (PCA) regulations anticipating that some credit unions may experience a temporary reduction in earnings and capital due to their COVID-19 response efforts. The [interim final rule \(opens new window\)](#) provides relief to federally insured credit unions during the COVID-19 pandemic, while still maintaining the safety and soundness of the credit union system.^{[1](#)}

This letter discusses the enclosed administrative order approved pursuant to § 702.201 that reduces the amount of earnings retention required for credit unions classified as adequately capitalized. Additionally, the letter discusses credit unions' authority to submit a streamlined net worth restoration plan (NWRP) if their net worth ratio declined to undercapitalized predominantly due to temporary share growth during the COVID-19 pandemic.

§ 702.201 Prompt corrective action for adequately capitalized credit unions^{[2](#)}

On June 5, 2020, the NCUA Board approved an administrative order reducing the amount of earnings retention required for credit unions classified as adequately capitalized to zero. The agency understands that some credit unions may experience a reduction in earnings and capital due to their COVID-19 response efforts (such as waived fee income, forbearance on loan payments, or an unexpected increase in expenses). The NCUA Board determined that a decrease in the earnings retention requirement is necessary to avoid a reduction of shares, to retain system liquidity, and to further the purpose of PCA.^{[3](#)}

Under this order, an adequately capitalized credit union that is unable to meet the earnings retention requirement will not have to submit a written application requesting approval to decrease its earnings retention amount. If, however, a credit union poses an undue risk to the Share Insurance Fund or exhibits material safety and soundness concerns, the Regional Director may require the credit union to submit an application for a decrease in the earnings retention requirement in accordance with [§ 702.201\(b\) \(opens new window\)](#). The NCUA will notify credit unions required to submit a waiver request to the Regional Director at least 45 calendar days prior to the end of the quarter.

This relief will remain in effect until December 31, 2020, and covers any decrease in earnings retention applications that an adequately capitalized credit union would otherwise have been required to submit prior to the June, September, and December 2020 quarter ends. Any federally insured credit union classified as adequately capitalized based on December 31, 2020 Call Report data and unable to retain 0.1 percent of its assets in the first quarter of 2021, must submit a written application as outlined in § 702.201(b).

§ 702.206(c) Contents of net worth restoration plans^{[4](#)}

Due to the COVID-19 pandemic, some credit unions may experience a substantial, short-term increase in shares from stimulus deposits or consumer flight to safety, thereby diluting their net worth ratios. For credit unions that experience a decline in their net worth ratio predominantly due to share growth, the NCUA Board will temporarily permit a credit union to submit a streamlined NWRP. The streamlined NWRP must attest that the reduction in the credit union's net worth ratio was predominantly caused by share growth and that such share growth is a temporary condition due to COVID-19.^{[5](#)} Credit unions that become classified as undercapitalized based on June or September 2020 Call Report data may submit a streamlined NWRP under this authority if share growth is the predominant factor for the decline in the net worth ratio and the share growth is temporary.

When approving streamlined NWRPs, Regional Directors will analyze whether share growth was the predominant factor in the decline of a credit union's net worth ratio. More specifically, the NCUA will verify that the decline in the net worth ratio was driven by an increase in total assets, and that the increase in total assets is attributed to an increase in shares, not borrowings or other sources of funds. Federally insured, state-chartered credit unions must comply with applicable state requirements when submitting an NWRP for state supervisory authority approval. When considering whether to approve an NWRP, the NCUA will consult with the applicable state supervisory authority.

Credit unions expecting a continued decline in their net worth ratio to a level below 4 percent should notify their NCUA examiner and submit a NWRP in accordance with [§ 702.206 \(opens new window\)](#). Additionally, a credit union that becomes less than adequately capitalized for reasons other than share growth, or falls below undercapitalized, must submit a NWRP in accordance with [§ 702.206 \(opens new window\)](#). However, the Regional Director will take into account the impact of the COVID-19 pandemic when approving or denying the NWRP.

The NCUA will evaluate compliance with outstanding NWRPs, including those approved under the temporary provision described above, on a case-by-case basis. Less than adequately capitalized credit unions that continue

experiencing capital deficiencies, whether a result of share growth or other factors, may be required by the Regional Director to submit a revised NWRP that meets the criteria outlined in [§ 702.206\(c\) \(opens new window\)](#).

Conclusion

The NCUA understands the COVID-19 pandemic is affecting credit unions and their members in unprecedented ways. Where possible, the NCUA Board is providing regulatory relief to reduce the burden on credit unions and facilitate the flow of credit and liquidity within the system. If you have any questions regarding these regulatory changes, please contact your regional office.

Sincerely,

/s/

Rodney E. Hood
Chairman

¹ The relief measures described in this letter apply to federally insured, state-chartered credit unions if they are subject to the NCUA regulations described in this letter. State-chartered credit unions must still comply with applicable state regulations.

² [§ 702.201 \(opens new window\)](#) requires that a federally insured credit union classified as adequately capitalized or lower must increase the dollar amount of its net worth quarterly by an amount equivalent to at least 0.1 percent of its total assets and must quarterly transfer at least that amount from undivided earnings to its regular reserve account every quarter until it is well capitalized. In response to the COVID-19 pandemic, the NCUA Board temporarily amended Part 702 of the NCUA's regulations to permit the Board to issue an order that temporarily reduces the earnings retention requirement for most credit unions classified as adequately capitalized.

³ [§ 702.1\(b\) \(opens new window\)](#) states that the express purpose of PCA is to resolve the problems of federally insured credit unions at the least possible long-term loss to the Share Insurance Fund.

⁴ [§ 702.206\(c\) \(opens new window\)](#) outlines the requirements of a NWRP. A credit union that is classified as less than adequately capitalized must submit an applicable NWRP to the Regional Director.

⁵ The streamlined NWRP permitted under this authority does not need to include the content requirements of [§ 702.206\(c\) \(opens new window\)](#). The streamlined NWRP may merit approval if it consists of an attestation that the reduction in the net worth ratio was caused by share growth and that such share growth is a temporary condition due to COVID-19. Credit unions should also include any other information they would like the Regional Director to consider when reviewing the NWRP, including the anticipated duration of the share growth and any actions the credit union plans to take to address its net worth ratio decline.

Enclosures

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National Credit Union Administration, 1775 Duke Street, Alexandria, VA 22314

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