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Renewal of Prompt Corrective Action Relief

NCUA LETTER TO CREDIT UNIONS

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

Date
June 2021
Letter No
21-CU-04
21-CU-04 / June 2021
Renewal of Prompt Corrective Action Relief
To
Federally Insured Credit Unions
Subject
Capital Planning
Status
Active
To

Federally Insured Credit Unions
Subj
Capital Planning

Dear Boards of Directors and Chief Executive Officers:

This letter provides important updates pertaining to the renewal of the temporary modification and relief of NCUA's prompt corrective action (PCA) regulation.

In June 2020, the NCUA Board approved regulatory relief measures related to the NCUA's PCA regulations in anticipation that some federally insured credit unions may experience a temporary reduction in earnings and regulatory capital ratios due to their COVID-19 response efforts.¹ These temporary modifications expired on December 31, 2020.

Due to the continued impact of the COVID-19 pandemic, however, the NCUA Board decided to reintroduce the two temporary changes to NCUA's PCA regulations described below to prevent operational disruptions caused by temporary COVID-19 related conditions. NCUA's Interim Final Rule on [Temporary Regulatory Relief in Response to COVID-19-Prompt Corrective Action \(opens new window\)](#) addresses those temporary changes.

The first temporary change to the NCUA's PCA regulations enables the NCUA Board to issue an order applicable to all federally insured credit unions to waive the earnings-retention requirements under § 702.201 for any federally insured credit union that is classified as adequately capitalized. On April 26, 2021, the NCUA Board issued an Administrative Order that amended § 702.201 to waive the earnings-retention requirement for adequately capitalized credit unions.² Under this change, 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 the amount of its earnings-retention requirement.

This measure became effective upon the NCUA Board's Administrative Order on April 26, 2021, and will remain in place until March 31, 2022.

The second temporary change to the PCA regulations modifies § 702.206(c) regarding the submission of a net worth restoration plan (NWRP) by a federally insured credit union classified as undercapitalized predominantly because of share growth.³ Under this change, a credit union that experienced a decline in its net worth ratio due predominantly to temporary share growth may submit a streamlined NWRP.⁴

This measure became effective upon publication of NCUA's Interim Final Rule on [Temporary Regulatory Relief in Response to COVID-19-Prompt Corrective Action \(opens new window\)](#) on April 19, 2021, and will remain in place until March 31, 2022.

If you have any questions about NCUA's PCA regulations or the extension of these temporary relief measures, please contact your NCUA Regional Office or e-mail your questions to COVID19Questions@ncua.gov.

Sincerely,

/s/

Todd M. Harper
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 comply with applicable state regulations.

² [Section 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 has temporarily amended part 702 of 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 [Section 702.206\(c\) \(opens new window\)](#) outlines the requirements of an NWRP. A credit union that is classified as less than adequately capitalized must submit an applicable NWRP to the Regional Director.

⁴ 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.

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