



State of Wisconsin
Department of Financial Institutions

Scott McCallum, **Governor**

John F. Kundert, **Secretary**

June 15, 2001

LETTER 1-01
PROMPT CORRECTIVE ACTION (PCA)

TO ALL CREDIT UNIONS:

Prompt Corrective Action (PCA), Part 702 of NCUA Rules & Regulations, was effective on August 7, 2000. This letter is intended to point out several important requirements of PCA.

Each federally insured credit union is required to determine its net worth category classification at the end of each calendar *quarter* using two measures:

- The **net worth ratio**; and
- If applicable, the **risk based net worth (RBNW) requirement**

The net worth ratio is net worth divided by total assets. Net worth means the retained earnings balance of the credit union, and consists of undivided earnings, regular reserves, and any other appropriations designated by management or regulatory authorities. Note that net worth does not include the Allowance for Loan Loss reserves. Total assets means a credit union's total assets as measured by either average quarterly balance, average monthly balance, average daily balance, or quarter-end balance. For each quarter, a credit union must elect a measure of total assets to calculate the net worth ratio.

A credit union is defined as "complex" and a RBNW requirement is applicable only if the credit union meets both of the following criteria:

1. Its quarter-end total assets exceed ten million dollars (\$10,000,000); and
2. Its RBNW requirement exceeds six percent (6%).

Thus, credit unions with assets greater than \$10 million must calculate RBNW quarterly.

A credit union that is required to file a quarterly Call Report automatically completes the calculations of the net worth ratio and risk based net worth requirement. Credit unions that file semiannually may elect to calculate the requirements quarterly using the Call Report software. The software can be obtained from the Office of Credit Unions or at www.ncua.gov. *All credit unions must document and maintain a copy of their quarterly calculations.*

Office of Credit Unions

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Part 702 sets forth the following statutory net worth category classification:

<i>Net Worth Category</i>	<i>If its net worth ratio is...</i>	<i>And subject to:</i>
Well Capitalized	7% or above	And if "complex" meets applicable RBNW requirement
Adequately Capitalized	6% to 6.99%	And if "complex" meets applicable RBNW
Undercapitalized	4% to 5.99%	Or if "complex" fails applicable RBNW
Significantly Undercapitalized	2% to 3.99%	Or if "undercapitalized" at less than 5% net worth ratio, fails to timely submit or materially implement a net worth restoration plan
Critically Undercapitalized	Less than 2%	None

When filing a quarterly or semi-annual Call Report, a credit union need not notify the Office of Credit Unions (OCU) or National Credit Union Administration (NCUA) of a change in its net worth ratio that places the credit union in a lower net worth category. A credit union that does not file a quarterly Call Report shall give notice to the OCU and NCUA of a change in its net worth category resulting from a decline in the net worth ratio. This notification must be given by May 15 and/or November 15 for the first and third quarters, respectively.

Subpart B of Part 702 describes the mandatory and discretionary supervisory actions for PCA depending on a credit union's net worth classification. If supervisory actions are necessary, the OCU will work with the credit union and the NCUA to ensure that the PCA issue is promptly addressed.

This letter is meant to summarize the basic concepts of PCA and does not cover all of the requirements of Part 702. All credit unions must be familiar and comply with Part 702. Questions should be directed to the Office of Credit Unions at (608) 261-9543.

Sincerely,



Ginger Larson
Director
OFFICE OF CREDIT UNIONS

KB:cm