DCU BULLETIN

Division of Credit Unions

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CAPITAL UNDER PCA

Reserve Transfers

Prompt Corrective Action (PCA) takes effect August 7, 2000. One of the effects of PCA will be the discontinuance of the Regular Reserve transfers under the old formula. This means that:

- For a credit union that was required to make transfers monthly, month-end July 2000 will be the last month in which a transfer will need to be made under the old formula.
- For a credit union making transfers quarterly, the last quarter-end (June 2000) was the final transfer under the old formula.

Please note, however, that credit unions that fall below well-capitalized under PCA will be required to transfer from current earnings to regular reserves each quarter an amount equal to 0.1% of total assets.

"Well-capitalized" May Not Be For Safety and Soundness Purposes

As you know, PCA categorizes credit unions as "well capitalized" if their net worth is 7% (and, if "complex," their net worth meets their risk-based net worth requirement). We want to remind you that this classification is for PCA purposes only. It does not necessarily mean that every credit union with 7% net worth (and that meets any applicable risk-based net worth requirement) will be considered safe and sound. In unusual situations, "well-capitalized" under PCA may not be enough.

Examiners will analyze the net worth adequacy of credit unions with higher than average risk, outside of the PCA system. For example, a given credit union with significantly higher credit, interest rate or other risk may need 8%, 9% or more net worth to be considered safe and sound. In that case, the Division and NCUA may require the credit union to maintain net worth at the higher level.

The lesson here is that if your credit union has higher than average risk, don't assume that "well-capitalized" under PCA is enough.