

CALL REPORT CHANGES: March 2022

## **Overview**

All credit union CEOs and CFOs should familiarize themselves with the concept of risk-based capital. While credit unions with assets of less than \$500 million are now fully exempt from risk-based capital calculation requirements in Form 5300, credit unions that are approaching the \$500 million level in terms of total assets should be preparing for change.

Credit unions with \$500 million or more in assets (complex credit unions, by definition) will have meaningful changes in the preparation of Form 5300 beginning with the March 31, 2022 call report. The NCUA has seminars on Risk Based Capital and changes in Form 5300. Information about these seminars is available in the Reference Documents, on the last page.

Complex credit unions may elect to maintain a 9% net worth ratio (with other requirements discussed below) and not be required to maintain risk-based capital requirements. There is a two quarter “grace period” ending September 30, 2022 during which a complex credit union can fall below a 9% net worth ratio, if the credit union maintains a 7% net worth ratio, and still not be required to maintain risk-based capital requirements.

## **Risk Based Capital**

In December 2021 the NCUA published final rules on risk-based capital. The rules were effective January 1, 2022 and will impact the March 31, 2022 Call Reports (Form 5300).

Credit unions with assets of \$500 million or more need to pay attention to changes in the Call Report (Form 5300) effective with the filing of the March 31, 2022 Call Report. The management of each of these credit unions will need to decide whether or not it wishes to elect to maintain a 9% capital ratio (Complex Credit Union Leverage Ratio (CCULR)).

To summarize:

- **All credit unions** will continue to be required to maintain a net worth ratio of 7%.
- **Credit unions with assets of less than \$500 million will not be impacted** by the rule changes. The “status quo” for these credit unions will be maintained. These credit unions are not obligated to calculate a risk-based capital ratio.
- **Qualifying complex credit unions (defined as having assets of \$500 million or more) may now elect to maintain a net worth ratio of 9% (or more) and not be required to maintain risk-based capital requirements.** The “election” is made on each call report, with no requirement of a notice to the NCUA of the election, other than completing the call report. To qualify for the election to not be subject to a risk-based capital requirement a complex credit union must meet the following criteria:
  - Have a net worth ratio of 9 percent or greater;
  - Has total off-balance sheet exposures of 25% or less of its total assets;

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**“March 31,  
2022 call  
report will  
change”**

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- Has the sum of total trading assets and total trading liabilities of 5 percent or less of its total assets; and,
- Has the sum of total goodwill and total other intangibles assets of 2 percent or less of total assets.

- **For complex credit unions that do not qualify or do not elect to maintain a 9% net worth ratio there will still be a risk-based net worth requirement (RBNW).** The calculation of the risk-based net worth ratio will be in the Call Report for March 31, 2022. Credit unions have been having a RBNW requirement in their call reports for several years. Most of the required entries on the call report for RBNW are self-populating.
- The Call Report (Form 5300) will change (for the March 31, 2022 Call Report) to accommodate the election of “Complex” and to accommodate other changes in the definition of risk-based assets. See “Reference Documents” on the last page.

**“Regulators are focusing more on risk-based capital”**

### **What Do You Need to Know?**

- **All credit unions:** Regulators will tend to focus more on risk-based capital. Any concentration in high-risk assets, especially intangible assets are likely to be scrutinized more closely.
- **All credit unions:** All credit unions will continue to be required to maintain a minimum net worth ratio of 7%
- **Credit unions with assets less than \$500 million:** There is nothing to do other than be cognizant that regulators are focusing more on high-risk assets. As a credit union approaches \$500 million in assets, management should be familiarizing themselves with the pertinent issues and be prepared to decide on electing whether or not to maintain a 9% net worth ratio.
- **Credit unions with assets of \$500 million or more: Familiarize themselves with the Complex Credit Union Leverage Ratio (CCULR)** and decide, on the March 31, 2022 Call Report, to elect to maintain a net worth of 9% (or more) or not. If management decides not to maintain a 9% net worth ratio, then the credit union will be subject to the RBNW calculation on the Call Report. The election can be changed every quarter; however, we do not advise our clients to do so. The NCUA has provided a two quarter grace period during which a complex credit union can elect the CCULR and fall below a 9% net worth as long as the credit union maintains a 7% net worth ratio.

### **Worth Repeating**

Complex credit unions (assets of \$500 million or more) will need to decide to maintain or not maintain a 9% capital ratio and understand the risks associated with their decision.

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All credit unions need to be cognizant of the fact that regulators are focusing more on risk-based capital issues. For example, recently, an examiner questioned a client about the relatively large mortgage servicing rights (MSR's) on the credit union's balance sheet. In this instance, MSR's were equivalent to more than 50% of the net worth of the credit union. This essentially was a risk-based capital issue that was being raised by the examiner.

### ***For More Information***

See the Reference Documents/Links, below. The Link to the NCUA Seminar on Capital Adequacy, below, provides greater detail. Also, watch for an upcoming seminar regarding changes in the Call Report, scheduled for March 8, 2022. See the NCUA Calendar of upcoming seminar events here: [Link](#)

### ***Reference Documents***

- NCUA Final Rule, Risk Based Capital, December 2021, effective 1/1/2022 (3/31/2022 Call Report): [Link](#)
- NCUA Risk Weights-at-a-Glance: [Link](#)
- NCUA Risk Based Capital Page\*: [Link](#)
- NCUA Risk Based Capital Estimator: [Link](#)
- March 31, 2022 Form 5300: [Link](#)
- Form 5300 Instructions: [Link](#)
- March 31, 2022 Form 5300: [Link](#)
- NCUA Seminar on Capital Adequacy, February 22, 2022: [Link](#)
- NCUA Seminar on Call Report Changes, February 10, 2022: [Link](#)

\*This page is outdated as of 2/10/2022. It does not reflect the most recent rules adopted in December 2021, effective January 1, 2022.