§704.11 Fixed assets.

(a) *General.* A corporate credit union's ownership in fixed assets shall be limited as described in § 701.36 of this chapter, except that in lieu of § 701.36 (c)(1) through (4), paragraph (b) of this section applies.

(b) *Investment in fixed assets.* (1) A corporate credit union may, invest in fixed assets where the aggregate of all such investments does not exceed 15 percent of primary capital.

(2) A corporate credit union shall submit requests to exceed the limitation of paragraph (b)(1) of this section to NCUA. Requests shall be supplemented by such statements and reports as NCUA may require. If NCUA determines that the proposal will not adversely affect the corporate credit union, it will respond in writing and an aggregate dollar amount or percentage of primary capital will be approved for investment in fixed assets.

§704.12 Corporate Credit Union Reserves.

(a) *Minimum Primary Capital Ratio.* The primary capital ratio is computed by dividing primary capital by average daily assets for the month. Each corporate credit union shall maintain a minimum primary capital ratio as follows:

(1) By January 1, 1996, primary capital shall be at least 2.5 percent of average daily assets. If this level of primary capital is not achieved, the corporate must submit a request for a waiver of this requirement to NCUA. The waiver request must provide an acceptable plan for meeting the requirement. This waiver request must be submitted to NCUA no later than 90 days prior to the effective date of this requirement.

(2) By January 1, 1997, primary capital shall be at least 3.0 percent of average daily assets. If this level of primary capital is not achieved, the corporate must submit a request for a waiver of this requirement to NCUA. The waiver request must provide an acceptable plan for meeting the requirement. This waiver request must be submitted to NCUA no later than 90 days prior to the effective date of this requirement.

(3) By January 1, 1998, primary capital must be at least 4.0 percent of average daily assets. Thereafter, each corporate credit union will be required to maintain a minimum primary capital to average daily assets ratio of 4.0 percent. Any corporate credit union that does not meet this provision will be considered to be inadequately capitalized and must submit to NCUA a plan of action to achieve this capital level within an acceptable period of time. This plan must be submitted to NCUA within 30 calendar days of the month-end in which minimum primary capital fell below 4.0 percent.

(b) Capital to risk-weighted assets *ratio.* The capital to risk-weighted assets ratio is computed by dividing capital by total risk-weighted assets at month end. Each corporate credit unions shall maintain capital of at least 10.0 percent of risk-weighted assets. Any corporate credit union that does not meet this provision will be considered to be inadequately capitalized and must submit to NCUA a plan of action to achieve this capital level within an acceptable period of time. This plan must be submitted to NCUA within 30 calendar days of the month-end in which capital fell below 10.0 percent of risk-weighted assets.

(c) Failure to comply with minimum capital requirements. NCUA will review each plan of action to achieve stated levels of capital as put forth in paragraphs (a) and (b) of this section. NCUA will make a determination as to the viability of the plan of action, and analyze the impact of the capital level on the corporate credit union and its member credit unions. If it is determined that a plan of action is not viable, the corporate credit union's board of directors will be required to merge or accept other corrective action as set forth by NCUA.

(d) *Procedures.* Balance sheet assets and credit equivalent amounts for offbalance sheet items are assigned to a risk-weight category. The total dollar amount in each category shall be multiplied by the risk-weight assigned to that category. The sum of the categories comprises risk-weighted assets.

(e) *Frequency.* Each corporate credit union shall calculate and document the ratio of primary capital to average daily assets and capital to risk-weighted assets each month. Documentation of such calculations shall be maintained and provided upon request to the auditor, supervisory committee, and NCUA.

(f) *Risk weights for balance sheet assets.* Each balance sheet asset shall be assigned a risk weight of 0 percent, 20 percent, 50 percent, and 100 percent as indicated in Appendix A of this part.

(g) Other considerations. (1) An investment in the shares of a mutual fund is assigned to the risk category appropriate to the highest risk-weighted asset that the fund is permitted to hold.

(2) Accruals will be assigned the riskweighting of the underlying asset that they represent.

(Å) Credit conversion factors for offbalance sheet Items. Off-balance sheet items will be risk-weighted each month using credit conversion factors as indicated in Appendix B of this part.

(i) Interim reserve accumulation. Corporate credit unions will be required to accumulate sufficient amounts of primary capital to meet the requirements of paragraph (a) of this section. Each corporate credit union must prepare a written projection, including assumptions utilized, which shows compliance with the minimum primary capital requirements each year through the accumulation of net income and reserve transfers, the issuance of PCSAs, and/or the shrinkage of the corporate credit union's assets. The written projection must be provided upon request to the auditor, supervisory committee, and NCUA. In addition, each corporate credit union must meet the reserve transfer requirements outlined in paragraph (j) of this section.

(j) Required reserve transfers. The amount that a corporate credit union is required to transfer or set aside in reserves is based on both the corporate credit union's primary capital and capital to risk-weighted assets ratios. For the purposes of calculating required reserve transfers, PCSAs shall be excluded from primary capital. Ranges of capital ratios have been established. These capital ratio ranges are then associated with 1 of 5 corresponding categories in determining the required reserve transfer. To qualify for a lower reserve transfer category, the capital ratio must fall in both the primary capital and capital to risk-weighted assets ratio ranges of the applicable category. The corporate credit union shall set aside an amount equal to the appropriate required reserve transfer percentage multiplied by the corporate credit union's average daily assets for the transfer period multiplied by the number of days in the transfer period divided by 365.

(1) Category 1 requires a corporate reserve transfer percentage of 20 basis points of average daily assets when either the primary capital ratio is greater than 4.0 percent and less than 4.75 percent or the capital to risk-weighted assets ratio is greater than 10.0 percent and less than 11.0 percent.

(2) Category 2 requires a corporate reserve transfer percentage of 15 basis points of average daily assets when either the primary capital ratio is greater than 4.75 percent and less than 5.25 percent or the capital to risk-weighted assets ratio is greater than 11.0 percent and less than 14.0 percent.

(3) Category 3 requires a corporate reserve transfer percentage of 10 basis points of average daily assets when either the primary capital ratio is greater