EXAMPLE ASSESSMENT OF STRATEGIC NET WORTH REQUIREMENTS

The following illustrates how much net worth/capital is needed by the example credit union to cover its unique risks, such as interest rate risk, regulatory risk, and CECL. It also includes opportunities the credit union wants to pursue, such as increased automation and a merger. The **Difference** line at the bottom shows a cushion or shortfall, comparing the current net worth/capital to what this team is allocating for opportunities and risk beyond the current year's budget. This can spark productive conversations with the board and management.

Leading up to CECL implementation, it is helpful for stakeholders to see the impact CECL will have on net worth.

Example A, in the graphic below, is graphic is showing that 0.35% of capital is needed to prepare for 100% coverage of the initial CECL impact. This view helps stakeholders keep the full initial impact of CECL top of mind.

Example A:

Aggregate Strategic Net Worth Requirements – Initial CECL Impact

Assets ($000s)	Capital $s	Minimum Capital%	Rationale for Minimum
1,000,000	100,000	6.00%	Brief Explanation

Potential Strategic Need	Capital % to Prepare for Selected	Capital % Reduction	Desired Coverage	Type	Rationale
Interest Rate Risk	1.25%	1.25%	100%	Risk	Brief Explanation
Initial CECL Impact	0.35%	0.35%	100%	Risk	Brief Explanation
Unexpected Credit Risk Beyond CECL Initial Impact	0.25%	0.25%	100%	Risk	Brief Explanation
Regulatory/CFPB Uncertainty	0.20%	0.20%	100%	Risk	Brief Explanation
Fraud	0.20%	0.20%	100%	Risk	Brief Explanation
PR Disaster	0.15%	0.30%	50%	Risk	Brief Explanation
Increased BI Investment	0.35%	0.35%	100%	Opp	Brief Explanation
Automation and AI	0.40%	0.40%	100%	Opp	Brief Explanation
Merger/Acquisition	0.55%	0.55%	100%	Opp	Brief Explanation
Fast Deposit Growth	0.38%	0.50%	75%	Opp	Brief Explanation

Capital to Support Risks	**2.40% (6 Risks)**
Capital to Support Opportunities	**1.68% (4 Opportunities)**
Total Capital To Support Strategy	**4.08% to Prepare for 10 Strategic Items (6 Risks + 4 Opportunities)**
Total Capital Required to Support Strategy	**10.08% Covers Risk, Opportunities and Minimum Capital%**
Current Capital%	**10.00%**
Difference	**-0.07% Strategic Shortfall**

Example B, in the graphic below, is showing the impact on Prompt Corrective Action (PCA) net worth at the end of the first year by only factoring in 33% of the full amount of initial CECL impact.

Example B:

Aggregate Strategic Net Worth Requirements

Assets ($000s)	Capital $s	Minimum Capital%	Rationale for Minimum
1,000,000	100,000	6.00%	Brief Explanation

Potential Strategic Need	Capital % to Prepare for Selected	Capital % Reduction	Desired Coverage	Type	Include	Rationale
Interest Rate Risk	1.25%	1.25%	100%	Risk	Yes	Brief Explanation
Initial CECL Impact	0.12%	0.35%	33%	Risk	Yes	Impact to PCA Net Worth Year 1
Unexpected Credit Risk beyond CECL initial impact	0.25%	0.25%	100%	Risk	Yes	Brief Explanation
Regulatory/CFPB Uncertainty	0.20%	0.20%	100%	Risk	Yes	Brief Explanation
Fraud	0.20%	0.20%	100%	Risk	Yes	Brief Explanation
PR Disaster	0.15%	0.30%	50%	Risk	Yes	Brief Explanation
Increased BI Investment	0.35%	0.35%	100%	Opp	Yes	Brief Explanation
Automation and AI	0.40%	0.40%	100%	Opp	Yes	Brief Explanation
Merger/Acquisition	0.55%	0.55%	100%	Opp	Yes	Brief Explanation
Fast Deposit Growth	0.38%	0.50%	75%	Opp	Yes	Brief Explanation

Capital to Support Risks	**2.17% (6 Risks)**
Capital to Support Opportunities	**1.68% (4 Opportunities)**
Total Capital To Support Strategy	**3.84% to Prepare for 10 Strategic Items (6 Risks + 4 Opportunities)**
Total Capital Required to Support Strategy	**9.84% Covers Risk, Opportunities and Minimum Capital%**
Current Capital%	**10.00%**
Difference	**0.16% Strategic Cushion**

If you have any questions on how to assess your strategic net worth/capital requirements, please call us at 800.238.7475 or email smay@cmyers.com. You can also visit our website at cmyers.com