

**Remarks by**  
**Jelena McWilliams**  
**Chairman**  
**Federal Deposit Insurance Corporation**  
**at the**  
**Federal Reserve Bank of Chicago**  
**Thirteenth Annual Community Bankers Symposium**  
**“Back to Basics”**  
**Chicago, Illinois**  
**November 16, 2018**

---

Good morning.

I’m very pleased to join my fellow regulators in hosting this event, which allows us to focus on the opportunities and challenges faced by community banks. I thank all of you for your participation in this important event.

As the primary federal supervisor for the majority of community banks, the FDIC has a unique perspective on these issues. We are also in a unique position to assess and observe the vital role that small banks play in their local communities and in the U.S. economy overall.

Community banks provide personal, relationship-based services in communities across the country. They tend to understand the unique characteristics of the local economy, businesses, and customers, and play a vital role in meeting the credit needs of local consumers, governments, and small businesses.

These institutions play a much greater role in meeting the credit needs of small businesses than their asset size alone would suggest. At mid-2018, for example, banks with assets less than \$10 billion held about 50 percent of small loans to businesses. A recent FDIC survey suggests that the amount of loans to small *businesses* extended by small banks may be even higher. Given that small businesses account for almost half of all U.S. private sector employment, the support to economic activity provided by small banks cannot be overstated.

Other metrics also underscore the important role of smaller banks in supporting local economies. For example, in 627 U.S. counties, the only banking offices are those operated by community banks. These banks fill gaps and are essential to providing banking services to local communities that may not be served by larger banks.

For these reasons, we need to ensure that the regulatory regime for community banks is appropriately tailored. Our regulations should promote safety and soundness and financial resiliency but should not be so complex that small banks cannot survive.

One area where the rules are too complicated is regulatory capital.

Basel III was introduced by the Basel Committee on Banking Supervision in 2010 to address a number of shortcomings with the pre-crisis regulatory framework. The Basel Committee specifically focused on weaknesses in capital and liquidity at large, internationally active banks, and the standards the Committee adopted were developed with those large banks in mind.

The focus on large banks was clear throughout the process. For example, in November 2008, the Committee announced “a comprehensive strategy to address the fundamental weaknesses revealed by the financial market crisis related to the regulation, supervision and risk management of *internationally-active banks*.”<sup>1</sup>

---

<sup>1</sup> Bank for International Settlements, November 20, 2008, “Comprehensive strategy to address the lessons of the banking crisis announced by the Basel Committee.” Retrieved from <https://www.bis.org/press/p081120.htm>.

Later, when agreement was reached in September of 2010, the three U.S. banking agencies noted that the agreement would “strengthen the capital and liquidity of *internationally active banking organizations* in the United States and around the world.”<sup>2</sup>

In 2013, the banking agencies approved final rules to implement the Basel III capital standards. These rules applied to all U.S. banks, including community banks. The rules raised minimum capital levels and revamped how banks calculate capital requirements and risk weighted assets under the standardized approach.

The agencies found at the time that the vast majority of community banks already maintained sufficient capital levels to exceed the new minimum thresholds. At the same time, compliance with the new rules imposed substantial costs on community banks.

Strengthening capital requirements in response to the financial crisis was necessary. However, I believe that robust capital requirements do not need to be complex, particularly as they relate to community banks. The Basel III standards, which may be appropriate for internationally active banks, are unduly complex and unnecessary for community banks.

---

<sup>2</sup> Board of Governors of the Federal Reserve System, September 12, 2010, “U.S. Banking Agencies Express Support for Basel Agreement.” Retrieved from <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20100912a.htm>.

We do not need 15 pages of regulatory reporting requirements for simple community banks to demonstrate capital adequacy.

It is time to go back to basics.

A key priority of mine as Chairman is to substantially simplify the capital requirements for community banks. The first step in this process is the Community Bank Leverage Ratio, or CBLR, which the FDIC Board will vote on next Tuesday.

Under the proposed rule, a qualifying bank with less than \$10 billion in assets will not have to comply with the existing risk-based capital requirements if the bank meets a simple ratio of tangible equity to total assets. The banking agencies will invite comment on a definition of tangible equity that is designed to be very simple to calculate and to include high-quality, loss-absorbing capital.

We estimate that over 80 percent of community banks will be eligible for the CBLR, based on the proposed calibration and qualifying criteria. This was a key priority in designing the proposal – to ensure that the simple ratio would be available broadly.

In order to qualify under the proposal, banks will need to satisfy certain activity-related criteria. A simple leverage ratio makes sense for small banks with traditional business models.

The CBLR proposal also includes a plethora of questions that we would like feedback on. Please do not be shy in commenting on the proposal and letting us know your views.

Once the CBLR is finalized, I expect that many community banks will not have to apply the standardized approach. Nonetheless, I still plan to revisit the capital regime that applies to those banks that do not adopt the CBLR.

One step in this process will be the finalization of the Economic Growth and Paperwork Reduction Act (EGRPRA) capital simplification proposal<sup>3</sup> issued last September, which would simplify and modify the capital treatment for mortgage servicing assets, certain deferred tax assets, and investments in unconsolidated financial institutions, such as Trust Preferred Securities (TruPS), among other provisions. While the agencies have thus far delayed finalization in light of consideration of other changes to the capital regime, I see no reason to delay any further. Finalizing the capital simplification proposal will provide certainty and clarity to community banks and take a step toward simplifying the risk-based capital rules.

---

<sup>3</sup> Simplifications to the Capital Rule Pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996, 82 Fed. Reg. 207 (Oct. 27, 2017).

Additionally, I would like to revisit the standardized approach more broadly for small banks that do not qualify for, or elect to use, the CBLR. I plan to work with my fellow banking regulators to consider how we can tailor the risk-based capital rules for community banks, recognizing that the risk-based regime should be simpler for them. For example, I would like to look closely at the capital ratios and buffers community banks are subject to, and to revisit some of the more complicated calculations and risk-weightings currently required. Affected institutions and the broader public will have ample opportunity to comment and provide input on any proposals.

Let me emphasize that the purpose of this exercise is not to reduce the loss-absorbing capacity at banks. The purpose is to simplify how capital ratios are calculated and reduce the compliance burden imposed on small banks that, by and large, already have more than enough capital to meet regulatory minimums. This is true both of the CBLR and of any additional future steps to simplify the capital regime.

The FDIC has also been working on other areas to further address issues faced by community banks. An important part of this is implementing key provisions from the Economic Growth, Regulatory Relief, and Consumer Protection Act (S. 2155), the banking bill signed into law earlier this year.

- In addition to the CBLR, which I discussed earlier, we have also issued a rulemaking to implement the change in regulatory capital treatment of high-volatility commercial real estate (HVCRE).
- We partnered with the other federal banking agencies to issue interim final rules that would make more small institutions eligible for the extended 18-month, on-site examination cycle.
- We have also issued a rulemaking providing that, under certain circumstances, reciprocal deposits will not be considered brokered deposits.
- More broadly, I plan to engage in a comprehensive review of the FDIC's approach to brokered deposits and national rate caps. We plan to seek comment on how to update and clarify our regulations before the end of the year.
- We joined fellow regulators in issuing an interagency statement clarifying that supervisory guidance does not have the force and effect of law and will not be used as the basis for enforcement actions.



- Finally, the FDIC is always looking for ways to encourage new bank formation. We want to improve the *de novo* application process to make it more transparent, faster, and streamlined, and plan to announce additional steps related to this endeavor very soon.

## **Conclusion**

One of the great strengths of the U.S. financial system is its diversity of institutions – we have thousands of banks of varying sizes and business models. And the overwhelming majority of U.S. banks are small. 5,408 of the 5,542 FDIC-insured banks as of June 30, 2018 held less than \$10 billion in assets – in other words, almost all.

And while we often get lost in lofty discussions about capital adequacy ratios, risk weights, buffers and stress testing, we must not lose sight of why community banks matter.

I have had the opportunity to drive across many areas of this country where one can drive for hours without encountering a town. It is a local bank in these small towns across America that finances the construction of the town parks; loans money to the third generation farmer to once again plant this year's crops; and provides the town's

newest family with the ability to start a small business that one day may be run by their grandkids.

Because these small banks do all this, and much more, it is our job to do what we can to ensure their survival and prosperity.

Thank you, and I look forward to answering your questions.