Presentation Objectives

• Provide an overview of the CBLR final rule
• Describe how to elect the CBLR
• Discuss implementation of the CBLR
• Respond to questions

Submit questions during the presentation to RAC@fdic.gov
The final rule implements section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act.

Beginning with the March 31, 2020 Call Report, qualifying community banking organizations may opt-in at their discretion.

Institutions with ratios exceeding the CBLR minimum meet the generally applicable capital rule.
Key Aspects of the Final Rule

Community Bank Leverage Ratio (CBLR) Framework

- An optional, simple leverage capital measure which is based on the generally applicable capital rule’s leverage ratio.

Treatment of Institutions meeting all qualifying criteria

- Considered to meet the “well capitalized” ratio requirements under the prompt corrective action (PCA) framework and the generally applicable capital rule.

Qualifying Criteria

- Has a leverage ratio of greater than 9 percent
- Meets the framework’s qualifying criteria including total consolidated assets less than $10 billion.
- Electing institutions may suspend risk weighting and risk-based ratio capital computations under Part 324 as long as they remain eligible for the CBLR framework.

Grace Period

- Applies to institutions failing to satisfy any of the qualifying criteria. However, an institution must maintain a leverage ratio of greater than 8 percent to use the grace period.
- Continue to be considered “well capitalized” for a period of up to two quarters.
The community bank leverage ratio is calculated similar to the leverage ratio under the generally applicable capital rule (tier 2 deductions that can affect tier 1 capital are not applicable under the CBLR).
CBLR Eligibility Criteria

- Cannot be an advanced approaches banking organization*
- Total trading assets plus liabilities of 5 percent or less of consolidated assets
- Leverage ratio greater than 9 percent
- Total off-balance sheet exposures of 25 percent or less of consolidated assets
- Total consolidated assets of less than $10 billion

*Including a subsidiary of an advanced approaches banking organization
## Qualifying Criteria for Off-Balance Sheet Exposures

Calculated as the sum of these items and limited to 25% or less of total consolidated assets:

<table>
<thead>
<tr>
<th>Description</th>
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<tbody>
<tr>
<td>Unused commitments, except for unconditionally cancellable commitments</td>
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<tr>
<td>Self-liquidating, trade-related contingent items that arise from the movement of goods</td>
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<tr>
<td>Transaction-related contingent items</td>
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<tr>
<td>Sold credit protection through guarantees and credit derivatives</td>
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<tr>
<td>Credit enhancing representations and warranties</td>
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<tr>
<td>Securities lent and borrowed</td>
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<tr>
<td>Off-balance sheet securitization exposures</td>
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<tr>
<td>Financial standby letters of credit</td>
</tr>
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<td>Forward agreements that are not derivative contracts</td>
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CBLR Call Report Instructions: Off-Balance Sheet Excerpt (Lines 34.a to 34.b)

34 Off-balance sheet exposures. Report in the appropriate subitem the bank’s off-balance sheet exposure amounts.

34.a Unused portion of conditionally cancellable commitments. Report the amount of unused commitments, excluding unconditionally cancellable commitments that are reported in Schedule RC-R, Part I, item 35, below. Include in this item legally binding arrangements (other than letters of credit, which are reported in Schedule RC-R, Part I, item 34.c) that obligate a bank to extend credit or to purchase assets. Where a bank provides a commitment structured as a syndication or participation, include the amount for the bank’s pro rata share of the commitment.

In general, this item would include the unused portion of commitments reported in Schedule RC-L, item 1, that are not unconditionally cancelable.

34.b Securities lent and borrowed. Report the sum of securities lent from Schedule RC-L, item 6.a, and securities borrowed from Schedule RC-L, item 6.b.
Other off-balance sheet exposures. Report the sum of:

- **Financial standby letters of credit:** Include the amount outstanding and unused of financial standby letters of credit reported in Schedule RC-L, item 2.

- **Transaction-related contingent items, including performance bonds, bid bonds, warranties, and performance standby letters of credit:** Report transaction-related contingent items, which include the amount outstanding and unused of performance standby letters of credit reported in Schedule RC-L, item 3, and any other transaction-related contingent items.

- **Self-liquidating, trade-related contingent items that arise from the movement of goods:** Include the amount outstanding and unused of self-liquidating, trade-related contingent items that arise from the movement of goods reported in Schedule RC-L, item 4, “Commercial and similar letters of credit.”

- **Sold credit protection in the form of guarantees and credit derivatives:** Include the notional amount of sold credit protection in the form of guarantees or credit derivatives (such as written credit option contracts). Do not include any non-credit derivatives, such as foreign exchange swaps and interest rate swaps.
• **Credit-enhancing representations and warranties:** Include the off-balance sheet amount of exposures transferred with credit-enhancing representations and warranties as defined in §.2 of the regulatory capital rule. Credit-enhancing representations and warranties obligate an institution “to protect another party from losses arising from the credit risk of the underlying exposures” and “include provisions to protect a party from losses resulting from the default or nonperformance of the counterparties of the underlying exposures or from an insufficiency in the value of the collateral backing the underlying exposures.” Thus, when loans or other assets are sold “with recourse” and the recourse arrangement provides protection from losses as described in the preceding definition, the recourse arrangement constitutes a credit-enhancing representation and warranty.

• **Forward agreements that are not derivative contracts:** Include the notional amount of all forward agreements, which are defined in §.2 of the regulatory capital rule as legally binding contractual obligations to purchase assets with certain drawdown at a specified future date, not including commitments to make residential mortgage loans or forward foreign exchange contracts.
CBLR Call Report Instructions: Off-Balance Sheet Excerpt (lines 34.c to 34.d)

• **Off-balance sheet securitizations**: Report the notional amount of off-balance sheet items that qualify as securitization exposures. Refer to the definitions of securitization exposure, synthetic securitization, traditional securitization, and tranche in §.2 of the regulatory capital rules and to §.42 of the regulatory capital rules to calculate the relevant exposure amount.

34.d  **Total off-balance sheet exposures.** Report in column A the sum of Schedule RC-R, Part I, items 34.a through 34.c.

Report in column B total off-balance sheet exposures as a percentage of total assets by dividing the total amount of off-balance sheet exposures reported in column A of this item by total assets reported in Schedule RC-R, Part I, item 32, above, rounded to four decimal places. The percentage reported in this item must be 25 percent or less as part of the qualifying criteria for the CBLR framework.
Qualifying Criteria for Trading Assets and Trading Liabilities

Total Trading Assets Plus Trading Liabilities ≤5% of Total Consolidated Assets at the End of the Most Recent Calendar Quarter
Insured Depository Institutions Potentially Eligible for CBLR (estimated) As of December 2019

- CBLR Eligible IDIs: 4,308
- All Other: 868
Opting In and Out of the CBLR Framework

**Opting In**
Qualified institutions may elect the framework simply by completing the appropriate line items and making required elections on their Call Report and/or Form FR Y–9C, as applicable.

**Opting Out**
May opt out of the framework and revert to the generally applicable capital rule by completing applicable line items on the Call Report and/or Form FR Y–9C.

Can opt out of the CBLR framework between reporting periods by providing risk-based capital ratios under the generally applicable capital rule to appropriate regulators at that time.

After a banking organization opts out of the CBLR framework, it can subsequently opt back in through the Call Report if it meets the qualifying criteria.

**Reinstating the CBLR**
If an institution ceases to qualify for the CBLR, it can resume CBLR calculations in the quarter it once again meets the qualification requirements and makes the re-election in the Call Report.

Once re-election is made through the Call Report, it can suspend calculation of risk-based capital requirements and other calculations associated with the generally applicable capital rule.
CBLR Call Report Changes

- To opt in to the CBLR framework, enter “1” on line 31.a.

**Leverage Ratio**
31. Leverage ratio (item 26 divided by 30) .................................................................

a. Does your institution have a community bank leverage ratio (CBLR) framework election in effect as of the quarter-end report date? (enter "1" for Yes; enter “0” for No)...........................................................................................................
The leverage ratio calculation has been moved up and is now after the tier 1 numerator calculation.

If the bank has a leverage ratio of 9 percent or above or is within the grace period, it must complete the following section. This section collects applicable information for the qualifying criteria.

The last section is for informational purposes and was added in order to track CECL impacts and other supervisory items.
Simplifications due to CBLR Election

• Based on existing tier 1 leverage ratio calculation

• Reduced reporting requirements:
  • No risk-based capital calculations
  • No high volatility commercial real estate calculations

• No higher risk weights for mortgage servicing assets, deferred tax assets, or investments in unconsolidated financial institutions
CBLR Implementation

- Conduct Banker outreach
  - Webinars, Community Bank Guide
- Provide Examiner training and outreach
- Update Call Reports
- Update Report of Examination
- Update Risk Management Manual of Examination Policies
- Coordinate with other banking regulators
CBLR References

- CBLR Community Bank Guide
  https://www.fdic.gov/regulations/capital/

- FDIC Rules and Regulations Part 324.12
  https://www.ecfr.gov/cgi-bin/text-idx?SID=c0998adaffde5f4a1bb238ef5704df85&mc=true&node=pt12.5.324&rgn=div5#se12.5.324_112

- FDIC Rules and Regulations Part 324.403 (PCA)
  https://www.ecfr.gov/cgi-bin/text-idx?SID=c0998adaffde5f4a1bb238ef5704df85&mc=true&node=pt12.5.324&rgn=div5#se12.5.324_1403

- CBLR Call Report Instructions
  Instructions will be posted prior to the filing deadline. Links will be available on www.fdic.gov

- Regulatory Capital Mailbox
  regulatorycapital@fdic.gov
Questions?