Banker Teleconference

Community Bank Leverage Ratio for Qualifying Community Banking Organizations

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Introduction

On November 20, 2018, the Federal banking agencies issued a proposed rule which would provide for an optional, simple measure of capital adequacy for qualifying community banking organizations, consistent with Section 201 of the *Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA)*.

The comment period will close 60 days after publication in the Federal Register.

During today's teleconference and webinar, staff from the Federal banking agencies will provide an overview of the proposed rule and answer questions.

This teleconference is intended to help interested parties better understand the outstanding proposed rulemaking. Thus, the Federal banking agencies welcome any questions today to help clarify the contents of the proposal. The Federal banking agencies encourage interested parties to submit any comments on the proposal to the agencies' respective public dockets.

This presentation is for illustrative purposes only and intended to provide an overview of the notice of proposed rulemaking (NPR) titled Regulatory Capital Rule: Capital Simplification for Qualifying Community Banking Organizations that was issued by the federal banking agencies on November 20, 2018. The presentation is not, and should not be interpreted as, part of the NPR. Users of this presentation should review the NPR for the substance of the proposed rule.

Submit questions during the call to RAC@fdic.gov

Section 201 of EGRRCPA

Directs the agencies to develop a community bank leverage ratio (CBLR)

CBLR = tangible equity capital/total consolidated assets

The agencies may consider a bank's risk profile when defining a qualifying bank

A bank exceeding the established CBLR would meet the ratio requirement to be considered well-capitalized under PCA

Implementation of the CBLR would not limit the agencies' authority to take supervisory actions

Key Aspects of the Proposed Rulemaking

- The proposal introduces an optional simple leverage capital measure, the Community Bank Leverage Ratio (CBLR), for qualified community banking organizations, in accordance with Section 201 of EGRRCPA.

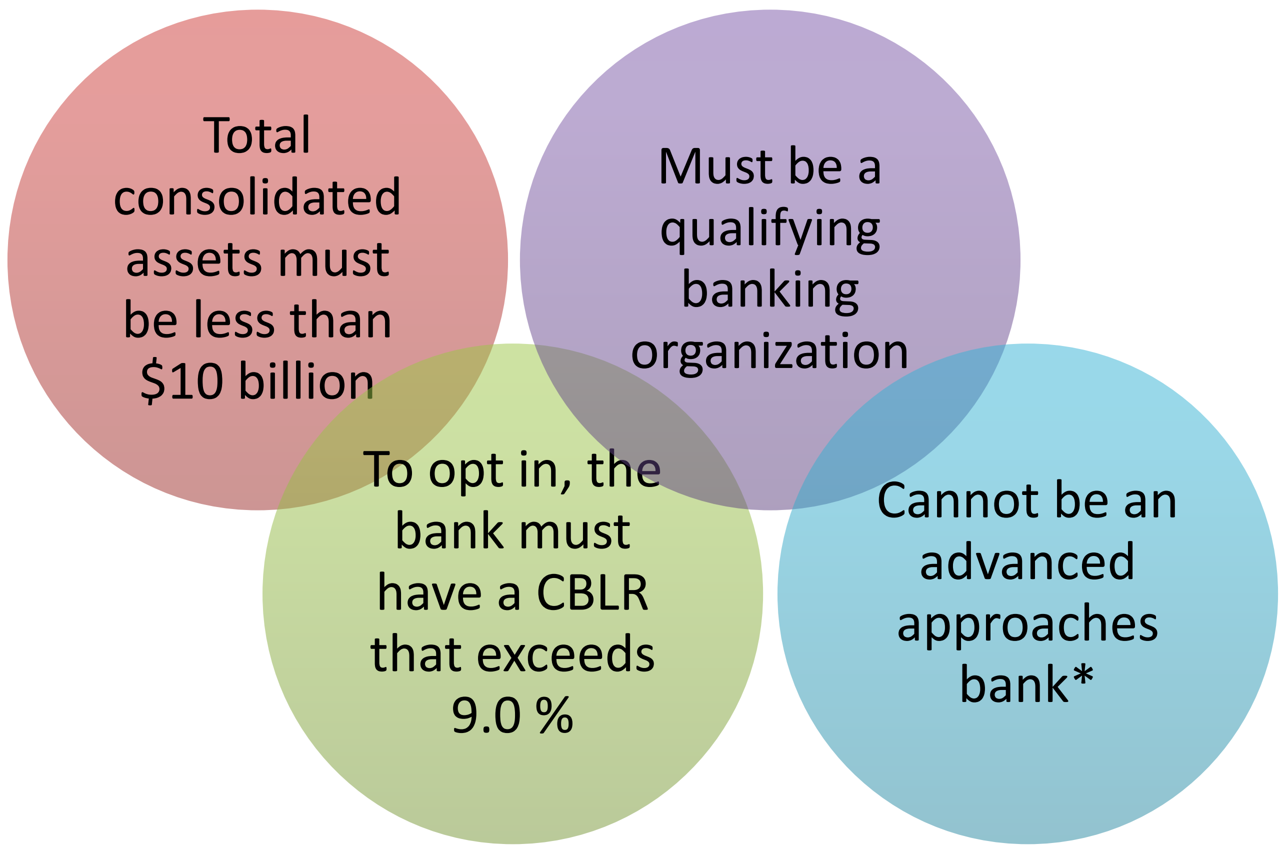
- The proposal would allow a community banking organization that has less than $10 billion in total consolidated assets to opt into the CBLR framework if its CBLR is greater than 9 percent and the organization meets certain qualifying criteria.

- Banks using the CBLR would be subject to simplified reporting requirements that the agencies intend to propose at a later date.

- If these requirements are met, the bank would be considered to have met the well-capitalized capital ratio requirements under the prompt corrective action (PCA) framework and the generally applicable capital requirements.

- The proposal provides that a CBLR bank that ceases to meet certain qualifying criteria in a future period be allowed a grace period of two consecutive calendar quarters to satisfy such criteria or to comply with the generally applicable capital requirements.

Opting into the Proposed CBLR Framework



***Including a subsidiary or affiliate of an advanced approaches bank**

Definition of a Qualifying Community Banking Organization

Organizations that are not advanced approaches and have total consolidated assets of less than $10 billion must meet the follow criteria to be considered a Qualifying Community Banking Organization:

Off-balance sheet exposure*	Trading assets and liabilities	MSAs	Temporary Difference DTAs**
• 25% or less of total consolidated assets	• 5% or less of total consolidated assets	• 25% or less of CBLR tangible equity	• 25% or less of CBLR tangible equity

*Excluding derivatives, except for credit derivatives, and unconditionally cancellable commitments (see appendix)

**Temporary Difference DTAs are DTAs arising from temporary differences that the bank could not realize through net operating loss carrybacks

Calculation of the CBLR

$$\boxed{\text{CBLR}} \; \boxed{=} \; \frac{\text{CBLR Tangible Equity}}{\text{Average total consolidated assets as of the current quarter* and less deductions from CBLR Tangible Equity (DTAs, Goodwill, other intangibles)}}$$

CBLR Tangible Equity equals:

Bank equity (not including minority interest)**

– AOCI***

– DTAs arising from net operating loss and tax credit carryforwards

–Goodwill and other intangible assets (not including MSAs)

*Reported on Schedule RC-K, item 9 **Reported on Schedule RC, item 27.a ***Reported on Schedule RC , item 26.b

Compliance with the CBLR Framework

Qualifying bank

- Qualifying banks that opt into the CBLR framework and that subsequently do not satisfy the 9% requirement can remain in the CBLR framework
- Such banks would become subject to restrictions on their activities based on the associated PCA categories

CBLR levels for PCA Framework

- In addition to the well-capitalized standard, proxy CBLR levels are established for adequately capitalized, undercapitalized, and significantly undercapitalized

PCA tangible equity ratio

- If the CBLR is < 6%, the bank must promptly provide the necessary information to calculate its PCA tangible equity ratio*

Cure period

- For a bank that no longer meets the qualifying criteria, the proposal provides for a two-quarter grace period in which a bank can re-establish its qualifications or begin reporting under the generally applicable capital rule

Opt-in and opt-out

- A bank that has opted into the CBLR framework can opt out of it
- A bank that has opted out of the framework would need to meet the qualifying criteria and have a CBLR greater than 9% to opt back into the CBLR framework

**Federal or state banking regulators also may request the information necessary to determine the tangible equity ratio at any time*

CBLR Levels as Proxies for Certain PCA Capital Ratio Categories

PCA Capital Category	Threshold Ratios				
	Total RBC ratio	Tier 1 RBC ratio	CET1 RBC ratio	Tier 1 Leverage ratio	**CBLR**
Well capitalized	10%	8%	6.5%	5%	**> 9.0%**
Adequately capitalized	8%	6%	4.5%	4%	**≥ 7.5%**
Undercapitalized	< 8%	< 6%	< 4.5%	< 4%	**< 7.5%**
Significantly undercapitalized	< 6%	< 4%	< 3%	< 3%	**< 6.0%**
Critically undercapitalized	Tangible Equity/Total Assets ≤ 2%*				

***If a bank's tangible equity ratio falls to 2% or less the bank would become subject to the standards in the existing PCA framework**

Illustrative CBLR Reporting Schedule

(Illustrative example- to be proposed by the agencies at a later date)

CBLR Tangible Equity (CBLR numerator)

		Percent	Amount
1	Total bank equity capital (Schedule RC, item 27.a)		
2	LESS: Accumulated other comprehensive income (Schedule RC, item 26.b)		
3	LESS: Goodwill (Schedule RC-M, item 2.b)		
4	LESS: All other intangible assets (Schedule RC-M, item 2.c)		
5	LESS: Deferred tax assets (DTAs) that arise from net operating loss and tax credit carryforwards, net of any related valuation allowances		
6	Total adjustments and deductions for CBLR tangible equity (sum of items 2 through 5)		
7	CBLR tangible equity (item 1 minus item 6)		

Average Total Consolidated Assets for the Community Bank Leverage Ratio (CBLR denominator)

8	Total assets (Schedule RC-K, item 9)	
9	Deductions from CBLR tangible equity (sum of items 3, 4, and 5, above)	
10	Average total consolidated assets (item 8 minus item 9)	

Illustrative CBLR Reporting Schedule, Cont'd

Community Bank Leverage Ratio

		Percent	Amount
11	Community bank leverage ratio (item 7 divided by item 10)		

Qualifying Criteria for Using the CBLR framework

		Percent	Amount
12	Total assets (from Schedule RC, item 12); (must be less than $10 billion)		
13	MSAs (from Schedule RC-M, item 2.a.) as a percentage of CBLR tangible equity (25% limit)		
14	DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of any related valuation allowances as a percentage of CBLR tangible equity (25% limit)		
15	Trading Assets and Trading Liabilities (Schedule RC , sum of items 5 and 15) as a percentage of total consolidated assets (5% limit)		
16	Off-balance sheet exposures		
a	Unused portion of conditionally cancellable commitments		
b	Off-balance sheet securitizations		
c	Securities lent and borrowed (Schedule RC-L, sum of items 6.a and 6.b)		
d	Other off-balance sheet exposures		
e	Total off-balance sheet exposures (sum of items 16a through 16d) as a percentage of total consolidated assets (25% limit)		
17	Memo item: Unconditionally cancellable commitments		

Additional Resources

- Questions directed to the FDIC can be emailed to **regulatorycapital@fdic.gov**

- Questions directed to the OCC can be emailed to **CapitalPolicy@occ.treas.gov**

- Questions directed to the Federal Reserve Board can be emailed to **questions@askthefed.org**

Questions?

Submit questions during the call to RAC@fdic.gov

Appendix: Off-balance sheet exposures

- Off-balance sheet exposures would include
  - the unused portion of commitments (excluding the unused portion of unconditionally cancellable commitments, such as for HELOCs and credit card lines);
  - self-liquidating, trade-related contingent items that arise from the movement of goods;
  - transaction-related contingent items (i.e., performance bonds, bid bonds and warranties);
  - sold credit protection in the form of guarantees and credit derivatives;
  - credit-enhancing representations and warranties;
  - off-balance sheet securitization exposures;
  - Performance standby letters of credit and financial standby letters of credit;
  - forward agreements that are not derivative contracts; and
  - securities lending and borrowing transactions