Slide 0 – Title Slide – Community Bank Leverage Ratio

Coordinator: Welcome and thank you for standing by. At this time all participants are in a listen-only mode. Throughout the duration of today's conference, today's call is being recorded. Any objections, you may disconnect at this time. Now I'd like to turn over the conference to Ben Bosco at the FDIC.

Benedetto Bosco: Thank you - good afternoon everyone and thank you for joining us for today's webinar. My name is Ben Bosco and I work with the Division of Risk Management Supervision's Capital Markets Branch. Over the course of the next hour, I along with my colleague, Suzanne Clair, will provide an overview of the recently finalized Community Bank leverage ratio framework.

This is the second banking webinar the FDIC has hosted on the CBLR. On November 21, 2019, our staff participated in an interagency presentation for supervised institutions. As we are quickly approaching the first opt-in date, we wanted to provide an update on the rule for qualifying institutions that may be considering electing the CBLR.

Slide 1 – Presentation Objectives

And now onto Slide 1 where we will discuss the objectives for today's presentation. Today we want to emphasize the qualifying criteria, discuss the ease of electing CBLR framework and also describe CBLR works.

Finally, we will answer some of the questions either prior to or during the presentation after going through the slides. You can send the questions about the information we're presenting by emailing them to RAC@fdic.
Today's presentation and recording of this teleconference will subsequently be made available on www.fdic.gov on the regulatory capital page. We hope to have the presentation up later today but the actual recording of the webinar will take a little additional time.

Slide 2 – CBLR Background
We're now turning to Slide 2. The Interagency Final Rule that we are discussing today amends the agency's regulatory capital rule to provide for a simple measure of capital adequacy for certain community banking organizations in accordance with Section 201 of the Economic Growth, Regulatory Relief and Consumer Protection Act. The final rule was approved by all three federal banking agencies and published in Federal Register on November 13, 2019.

The community bank leverage ratio framework, or the CBLR framework, is optional for institutions that qualify. The March 31, 2020, Call Report is the initial opportunity to elect into the framework. Qualifying institutions can elect at any quarter-end after that date as well.

Slide 3 – Key Aspects of the Final Rule
Suzanne Clair: On Slide 3, we present a few of the key aspects of the final rule. Let's start with a reminder that the community bank leverage ratio framework is an optional, simple, leverage capital measure which is generally calculated the same as the generally applicable capital rules leverage ratio.

Electing institutions can suspend risk weighting and risk-based capital computations under Part 324, which is the FDIC's capital regulations, as long as they remain eligible for the CBLR.

For Prompt Corrective Action for PCA purposes, institutions meeting all
qualifying criteria are considered to meet the well-capitalized ratio requirement under the Prompt Corrective Action framework and the generally applicable capital rule.

For an institution to be able to opt-in and begin using the CBLR, it must meet the following criteria:

- Having less than 10 billion in total consolidated assets,
- Having a leverage ratio greater than 9 percent, and
- Meeting a framework’s other qualifying criteria.

Also included in the final rule is a grace period for electing institution whose leverage ratio falls to nine percent or less or falls out of compliance with one of the other qualifying criteria such as having up-balance sheet exposures of greater than 25 percent of total assets. Such an institution can remain in the CBLR and be considered to have met the well-capitalized ratio requirements for a grace period of up to two quarters.

By the end of this two-quarter grace period, the institution must satisfy all of the qualifying criteria in order to remain in the CBLR. If the institution does not satisfy all the qualifying criteria by the end of the two-quarter grace period, then it must revert back to the generally applicable capital rule, including the risk-based capital requirements.

Note that there is no grace period for institutions with the CBLR of 8 percent or less as the final rule automatically removes those institutions from the framework. These institutions can reinstate the CBLR framework once their CBLR is above nine percent assuming all over qualifying criteria are met.

**Slide 4 – Calculation of the CBLR**

On Slide 4, we illustrate the calculation of the CBLR which is Tier 1 capital
including changes related to the Simplification's Rule and CECL is divided by average total assets less any adjustments that were made to Tier 1 capital. The CBLR is generally calculated in the same manner as the leverage ratio is currently calculated in the generally applicable capital rules, and is therefore based on Tier 1 capital and average total consolidated assets.

The reason for the caveat “generally calculated” is because under the generally applicable capital rule, if an institution is required to make a deduction from Tier 2 capital, and the bank does not have sufficient Tier 2 capital to absorb that deduction, the excess amount is deducted from Tier 1 capital. Under the CBLR, an institution does not calculate Tier 2 capital and does not identify any Tier 2 deductions.

**Slide 5 – CBLR Eligibility Criteria**

So moving to Slide 5, we'll discuss the requirements a banking organization must meet in order to be eligible to use the CBLR framework.

In order to elect the CBLR framework, a qualifying community banking organization must meet several requirements. An insured depository institution or depository institution holding company cannot be an Advanced Approaches banking organization or a subsidiary of an Advanced Approaches banking organization.

The banking organization must have total consolidated assets less than 10 billion. The banking organization must report a leverage ratio greater than 9 percent. The sum of the organization's total off-balance sheet exposures must be 25 percent or less of its total consolidated assets. We will go through this requirement in more detail on the following slide. Finally, the organization's trading assets plus trading liabilities must be five percent or less of its total consolidated assets.
Slide 6 – Qualifying Criteria for Off-BS Exposures
Benedetto Bosco: On Slide 6 which is going to cover the qualifying criteria with off-balance sheet exposures. For banks with off-balance sheet activities, the sum of these items is limited to 25 percent or less of total consolidated assets in order to qualify to use the CBLR framework.

These activities include:
- Unused commitments, except for unconditionally cancellable commitments,
- Self-liquidating trade-related contingent items that arise from the movement of goods,
- Transaction-related contingent items,
- Sold credit protection through guarantees and credit derivatives,
- Credit-enhancing representations and warranties,
- Security lent and borrowed,
- Off-balance-sheet securitization exposures,
- Financial standby letters of credit, and
- Forward agreements that are not derivative contracts.

Slide 7 – CBLR Call Report Instructions: Off-Balance Sheet Excerpt
We received lots of questions about the off-balance sheet qualifying criteria, so what we felt would be helpful is to walk through the Call Report instructions that are currently posted on the FFIEC website [www.FFIEC.gov] to calculate the off-balance sheet criteria.

Note that the CBLR calculation and the qualifying criteria will be included in an updated Schedule RCR. And again, you can see the complete instructions including the updated form on the FFIEC website.

In general, the off-balance sheet exposure amount is composed of items that
received capital charges under the risk-based capital ratios. And as you'll see in the following slide, much of this information required is already captured in existing Call Report line items.

In Line 34a, institutions would report the amount of unused conditionally cancellable commitments. In general, this item will include the unused portion of commitments reported in Schedule RC-L Item 1 that are not unconditionally cancellable. The reason for that is because under the risk-based capital ratios, unconditionally cancellable commitments do not receive the capital charge, and so were not included in the off-balance sheet exposure qualifying criteria in the CBLR.

In Line 34b, institutions should report the sum of securities lent from RC-L, Item 6a and securities borrowed from Schedule RC-L, Item 6b.

**Slide 8 – CBLR Call Report Instructions: Off-Balance Sheet Excerpt**

On Slide 8, we're going to go through the off-balance sheet exposure now captured in Line 34c, again on the updated Schedule RC-R. On Line 34c, institutions should report the sum of the following items:

- Financial standby letters of credit as reported in Schedule RC-L Item 2,
- Transaction-related contingent items, including performance bonds, bid bonds, warranties, and performance standby letters of credit., performance standby letters of credit are reported in Schedule RC-L Item 3,
- Self-liquidating trade relating contingent items that arise from the movement of goods. These items are reported in Schedule RCL Item 4 which is titled commercial and similar letters of credit,
- Sold credit protection in the form of guaranteed in credit derivatives. This item does not neatly tie to Call Report line items included in other schedules. But it is important to note that institutions should not include non-credit derivatives such as FX swaps and interest rate swaps.
Slide 9 – CBLR Call Report Instructions: Off-Balance Sheet Excerpt
Continuing on to Slide 9.

Again, these are the amounts that are reported in Schedule RC-R - in line item 34c. Credit-enhancing reps and warranties. As described in the Call Report instructions, institutions should refer to the definition of credit-enhancing representation warranties as defined in the capital rule in our Part 324.2 for what exposures to report for this line item.

Also report forward agreements that are not derivative contracts. Institutions should include the notional amount of [all] forward agreements as defined in the capital rule. Again, to the extent a forward agreement is a derivative, it should not be included in the off-balance sheet qualifying criteria.

Slide10 – CBLR Call Report Instructions: Off-Balance Sheet Excerpt
On to Slide 10 - Off-balance sheet securitizations. This is included in Line 34c. Here institutions should include the notional amount of off-balance sheet items that qualify as securitization exposures as defined in the capital rule.

Now in Line Item 34d, it's the sum of the total off-balance sheet exposures which would then be compared against the 25 percent threshold. Hopefully, that was helpful. These few slides we wanted to walk through exactly what the Call Report instructions say and again those instructions and the form are found on the FFIEC website.

Slide 11 – Qualifying Criteria for Trading Assets and Trading Liabilities
Suzanne Clair: Now moving to Slide 11 - this slide shows the qualifying criteria for trading assets and trading liabilities that we referenced earlier. If you have any trading assets or trading liabilities, the sum of these items is limited to 5 percent or less of total consolidated assets. The amount used in the calculation are the amounts as of the end of the most recent calendar quarter.
Slide 12 – Banks Potentially Eligible for CBLR – As of December 2019
Slide 12 reflects the banks that are potentially eligible for the election of the CBLR. To illustrate the potential impact, this slide shows an estimate of the insured depository institutions that could potentially elect the CBLR framework as of the end of 2019. There were over 4,300 institutions that could potentially be eligible to use the framework. And of the 868 institutions that are not eligible, 474 of those are close with leverage ratios between 8 and 9 percent.

Slide 13 – Opting In and Out of the CBLR Framework
Slide 13 shows how an institution would opt-in and out of the framework in a little bit more detail. Institutions meeting the qualifying criteria can opt into the framework by completing the appropriate line items and making required elections on their Call Report and/or Form FRY-9C, as applicable. Similarly, to opt-out of the framework, a qualifying institution can revert to the generally applicable capital rule by completing applicable line items on the Call Report and/or Form FRY-9C.

Between reporting periods, institutions can also opt-out of the CBLR framework by providing risk-based capital ratios under the generally applicable capital rule to their appropriate regulators at the 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.

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

Slide 14 – CBLR Call Report Changes
This slide here shows that the new report, the Call Report line item, where each bank can elect the CBLR election. You would just simply insert a “1” if
you're electing the CBLR, and a “0” if you're not.

Slide 15 – CBLR Call Report Changes – Sample Page

Benedetto Bosco: Thanks Suzie. Now I'm going to go into a little more detail on what the Call Report Form is going to look like. So Slide 15 shows what the new CBLR portion of Schedule RC-R will look like. So I'm going to walk through the amended RC-R. The CBLR portion will come after the calculation reporting a Tier 1 capital which I'm sure you all are familiar with.

The first box illustrates the calculation requirements for total assets as used in the leverage ratio calculation. Note that it starts with the average total assets number and then it's adjusted for amounts deducted from Tier 1 capital. The last item in this box is the actual leverage ratio calculation.

The second box relates to the qualifying criteria for institutions using CBLR frameworks. Here you'll actually see Line 31a, that Suzie just referred to, where the bank indicates it's either one or a zero election to indicate whether or not it's going to opt into the CBLR framework. And then what you'll see is the rest of the qualifying criteria which we had covered in previous slides.

And then the last box on this slide you'll see that additional information that we're going to be collecting from banks that elect the CBLR, which includes impacts from CECL and also it includes other information that we felt was important [for CBLR electing banks to keep reporting] from a supervisory perspective - items that we would [otherwise] no longer be collecting because a bank that elects CBLR is not going to be calculating risk-based capital ratios. Unconditionally cancellable commitments and investments in the capital instruments of unconsolidated financial institutions are items that would be reported even though they are part of risk-based capital calculations.
Slide 16 – Simplifications due to CBLR Election
Suzanne Clair: Thanks Ben. To recap, the final rule, together with associated changes to reporting requirements, will simplify regulatory capital requirement thus providing regulatory relief to community banking organizations that opt into the CBLR framework. Reduced reporting requirements for the Call Report that apply to CBLR banks are posted on the FFIEC website as Ben referenced and available for all banks to review.

Institutions that elect and qualify for the CBLR do not need to calculate high volatility commercial real estate requirements as part of their risk-weighting process requirements or apply higher risk-weights for mortgage servicing assets, deferred tax assets, or investments in unconsolidated financial institutions.

Slide 17 – Implementation of CBLR
And the next slide, let's talk about some of the things that we're doing at FDIC to get ready for CBLR implementation. FDIC has a number of initiatives underway. We have been conducting the banker outreach including hosting webinars like today's event and issuing the interagency Community Bank Guide which is on the FDIC website.

We've also been educating our examiners about the CBLR. This is a new framework which is designed to be simple but it is a change from the risk-based capital standard. Therefore, we want to make sure the bankers and examiners have the information available to ensure smooth implementation.

FDIC has also worked with the other agencies on a continuous basis on a number of initiatives including change in the Call Report for the CBLR as well as other new capital rules like capital simplifications and the CECL transition rule. We regularly coordinate with the other agencies on
questions and webinars about CBLR and other regulatory issues.

FDIC is also in the process of updating this Report of Examination and the Risk Management Manual of Examination Policies to reflect not only the new CBLR framework but other capital rules as mentioned. Our aim with the report of examination is to keep the changes simple.

Slide 18 – CBLR References
The final slide just offers some resources with some links. And again, these should be posted on our website. This gives you the links to the bank guide and the rules and regulations and various other helpful links.

Slide 19 – Questions
If you have questions to date, you can email RAC@FDIC.gov. That's RAC@fdic.gov or we have this regulatory capital inbox [regulatorycapital@fdic.gov] at FDIC that comes directly to capital markets and we can handle questions there also.