Banker Webinar
Community Bank Leverage Ratio Framework
Final Rule

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Introduction

On November 13, 2019, the Federal banking agencies issued a final rule which provides for a 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)*.

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

Submit questions during the call to RAC@fdic.gov
Key Aspects of the Final Rule

• The Community Bank Leverage Ratio (CBLR) framework provides an optional simple leverage capital measure which is generally calculated the same as the generally applicable capital rule’s leverage ratio.

• A banking organization (depository institution or depository institution holding company) that has less than $10 billion in total consolidated assets can elect to opt into the framework if its leverage ratio is greater than 9 percent and the banking organization meets the framework’s qualifying criteria.

• If a CBLR banking organization fails to satisfy one of the qualifying criteria but has a leverage ratio of greater than 8 percent, the banking organization can continue to apply the CBLR framework and be considered “well capitalized” for a grace period of up to two quarters.
Key Aspects of the Final Rule

• If all qualifying criteria are met, the banking organization will be considered to have met the “well capitalized” ratio requirements under the prompt corrective action (PCA) framework and the generally applicable capital rule’s requirements.

• Banking organizations electing to use the CBLR framework will not be required to calculate risk-based capital ratios, including complying with HVCRE requirements, or applying heightened risk weights to MSAs, DTAs, or investments in unconsolidated financial institutions.

• Reporting requirements will be simplified for banking organizations using the CBLR framework.
What are the requirements to be eligible to use the CBLR Framework?

Cannot be an advanced approaches banking organization*

Leverage ratio greater than 9 percent

Total consolidated assets of less than $10 billion

Total trading assets plus liabilities of 5 percent or less of consolidated assets

Total off-balance sheet exposures of 25 percent or less of consolidated assets

*Including a subsidiary of an advanced approaches banking organization
# Qualifying criteria: Off-balance sheet exposures

## Total off-balance sheet exposures of 25 percent or less

- Calculated as the sum of the following items, consistent with the off balance sheet items that attract a capital charge under the generally applicable rule, as a percentage of total consolidated assets.
  - The unused portions of commitments (except for unconditionally cancellable commitments);
  - Self-liquidating, trade-related contingent items that arise from the movement of goods;
  - Transaction-related contingent items, including performance bonds, bid bonds, warranties, and performance standby letters of credit;
  - Sold credit protection through
    1. Guarantees; and
    2. Credit derivatives;
  - Credit-enhancing representations and warranties;
  - Securities lent and borrowed, calculated in accordance with the reporting instructions to the Call Report or to the FR Y-9C as applicable;
  - Off-balance-sheet securitization exposures;
  - Financial standby letters of credit;
  - Forward agreements that are not derivative contracts.
Qualifying criteria: Trading assets plus trading liabilities

<table>
<thead>
<tr>
<th>Trading assets plus trading liabilities of 5 percent or less</th>
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<tbody>
<tr>
<td>• Total trading assets plus trading liabilities, calculated in accordance with the reporting instructions to the Call Report or Form FR Y-9C, as applicable, of 5 percent or less of the banking organization’s total consolidated assets, each as of the end of the most recent calendar quarter.</td>
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</table>
Calculation of the CBLR

\[
\text{CBLR} = \frac{\text{Average total consolidated assets as of the current quarter}^* \text{ and less deductions from tier 1 capital}}{\text{Tier 1 capital (includes changes related to simplifications final rule and CECL)}}
\]

*Reported on Schedule RC-K, line item 9 and FR Y-9C, Schedule HC-K, line item 5

- The community bank leverage ratio is generally calculated in the same manner as the leverage ratio currently calculated by banks.

- The community bank leverage ratio framework does not have a total capital requirement
  - Therefore, an electing banking organization is not required to calculate tier 2 capital or make any tier 2 capital deductions.
  - The generally applicable capital rule requires deductions from tier 2 capital related to investments in capital instruments of unconsolidated financial institutions when such investments exceed certain limits; such deductions can affect the calculation of tier 1 capital.
Optionality of the CBLR framework

• A banking organization can opt into the CBLR framework at any time by completing the associated reporting line items that are required on its Call Report and/or Form FR Y–9C, as applicable. The banking organization becomes subject to the CBLR framework when it makes an election.

• CBLR banking organizations may opt out of the framework and become subject to the generally applicable capital rule by completing those reporting requirements on its Call Report and/or Form FR Y–9C, as applicable.

• A banking organization can opt out of the CBLR framework between reporting periods by providing its risk-based capital ratios under the generally applicable capital rule to its appropriate regulators at that time.

• After a banking organization opts out of the CBLR framework it can subsequently opt back in if it meets the qualifying criteria.
Grace Period

• If a CBLR banking organization fails to satisfy one or more of the qualifying criteria but maintains a leverage ratio of greater than 8 percent, it would be eligible for a “grace period” of up to two quarters during which it could continue to use the CBLR framework and be deemed to meet the “well capitalized” ratio requirements.

• As long as the banking organization returns to compliance with all qualifying criteria within two quarters, it would continue to meet the “well capitalized” ratio requirements and be in compliance with the generally applicable capital rule.

• A banking organization is required to comply with the generally applicable capital rule and file the relevant regulatory reports if it (i) is unable to restore compliance with all qualifying criteria during the grace period, (ii) has a leverage ratio of 8 percent or less, or (iii) ceases to satisfy the qualifying criteria due to consummation of a merger.
Capital and leverage requirements fulfilled by electing to use the CBLR framework

• Qualifying banking organizations that elect to use the CBLR framework and maintain a leverage ratio of greater than 9 percent will be considered to have met:
  – the generally applicable risk-based and leverage capital requirements;
  – if applicable, the well-capitalized ratio thresholds under the PCA framework;
  – any other capital or leverage requirements to which the bank is subject.

• Therefore, CBLR banks will not be subject to the risk-based capital requirements or the capital conservation buffer under the generally applicable rule.
Other affected regulations

- The CBLR final rule amends other regulations referencing:
  - “total capital” so that an electing banking organization uses tier 1 capital instead.
  - “risk-weighted assets” so that an electing banking organization uses average total consolidated assets (i.e., the denominator of the leverage ratio) instead.
  - “capital stock and surplus” (or similar items) so that an electing banking organization uses tier 1 capital plus allowances for loan and lease losses (or adjusted allowance for credit losses, as applicable) instead.
Effective Dates

• **CBLR final rule:** Qualifying banking organizations can opt into the CBLR framework on their March 31, 2020 regulatory reporting forms.

• **Capital Simplifications final rule:** Eligible banking organizations will be permitted to apply the final rule on the effective date of April 1, 2020, or can choose to early adopt as of January 1, 2020. Banking organizations choosing to early adopt will have the option to report the simplified tier 1 capital calculation on their March 31, 2020 regulatory reporting forms.
CBLR Call Report Changes

• The agencies have proposed changes to reporting requirements for banking organizations that elect to opt into the CBLR framework. For the full proposal go to: https://www.federalregister.gov/documents/2019/10/04/2019-21659/proposed-agency-information-collection-activities-comment-request

• The comment period for the proposal closes on December 3, 2019.
Proposed CBLR Call Report Changes

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 as well as CBLR specific issues.
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 1: Summary of Tier 1 Capital Calculation Under the Capital Simplifications Final Rule**

<table>
<thead>
<tr>
<th>Tier 1 Capital*</th>
<th>Simplified Tier 1 Capital</th>
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<tr>
<td>Individual threshold deduction of 10 percent of common equity tier 1 capital for MSAs, certain DTAs, and investments in common stock of unconsolidated financial institutions.</td>
<td>Individual deduction thresholds increased to 25 percent of common equity tier 1 capital for MSAs and DTAs. Separate treatment of investments in common stock of unconsolidated financial institutions eliminated.</td>
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<tr>
<td>Aggregate threshold deduction of 15 percent of common equity tier 1 capital for MSAs, certain DTAs, and investments in common stock of unconsolidated financial institutions.</td>
<td>Eliminates the aggregate 15 percent common equity tier 1 capital deduction threshold.</td>
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<td>Deduction treatments for (i) significant investments in the capital of unconsolidated financial institutions in the form of common stock, (ii) significant investments in the capital of unconsolidated financial institutions that are not in the form of common stock, and (iii) non-significant investments in the capital of unconsolidated financial institutions.</td>
<td>Eliminates distinction between significant and non-significant investments in the regulatory capital of unconsolidated financial institutions. Applies a deduction threshold of 25 percent of common equity tier 1 to the aggregate of all investments in the capital of unconsolidated financial institutions.</td>
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<th>Limitation on minority interest*</th>
<th>Simplified limitation on Minority Interest</th>
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<tr>
<td>Based on the calculation of the capital ratios of the subsidiary.</td>
<td>Removes allocation based on the subsidiary’s capital ratios. Limited to 10 percent of the bank’s relevant tier of capital. For example, tier 1 minority interest included in tier 1 capital would be limited to 10 percent of the bank’s tier 1 capital.</td>
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* As of the effective date of the Capital Simplifications Final Rule, this calculation of tier 1 capital and limitation of minority interest is only applicable to advanced approaches banking organizations.
Appendix 2: Additional Proposed Call Report Changes

• The agencies have proposed additional changes to reporting requirements, including changes for banks that are eligible to apply the Capital Simplifications final rule. To review the full proposal go to: https://www.federalregister.gov/documents/2019/10/04/2019-21659/proposed-agency-information-collection-activities-comment-request

• The comment period for the proposal closes on December 3, 2019.
Appendix 2: Capital Simplifications Call Report Changes

Investments in the capital of unconsolidated financial institutions, on lines 11 and 13, will be combined into one category. In addition, the threshold will be increased to 25 percent of line 12.

The threshold for lines 14 and 15 will be increased to 25 percent as well.

The previous 15 percent aggregate limit on line 16 is removed.

As mentioned in the CBLR section, the leverage ratio and CBLR reported items are going to be inserted after the tier 1 calculation.