Notices of Proposed Rulemaking: Regulatory Capital

Community Bank Informational Session

Presentation Purpose and Limitations

Presentation Purpose and Limitations

- The Federal banking agencies recently adopted three separate NPRs regarding proposed changes to the leverage and risk-based capital requirements (including the prompt corrective action framework) and issued a final rule addressing market risk. Of these documents, the following are most pertinent to smaller, less complex banking organizations (community banking organizations):
  - *Basel III NPR*
    Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action

    and

  - *Standardized Approach NPR*
    Standardized Approach for Risk-Weighted Assets; Market Discipline, and Disclosure Requirements
- FDIC staff intends for this presentation to assist community banking organizations in navigating the Basel III NPR and Standardized Approach NPR, and to highlight changes from the current capital rules most likely to be relevant to them.
- **This presentation has been prepared by FDIC staff to provide a <u>general overview</u> of the Basel III and Standardized Approach NPRs, as they are likely to apply to community banking organizations. This presentation does not address all aspects of those NPRs that could apply to such an institution. Therefore, banks are encouraged to review the NPR documents as posted on the FDIC website and in the Federal Register. Comments concerning the NPRs should be provided to the Federal banking agencies by September 7, 2012. (See slide 37 of this presentation for instructions on how to submit comments.)**
- **The information provided in this presentation is not an official interpretation of the Federal banking agencies with respect to the Basel III and Standardized Approach NPRs.**

- This presentation has been prepared by FDIC staff to provide a <u>general overview</u> of the Basel III and Standardized Approach NPRs, as they are likely to apply to community banking organizations. This presentation does not address all aspects of those NPRs that could apply to such an institution. Therefore, banks are encouraged to review the NPR documents as posted on the FDIC website and in the Federal Register. Comments concerning the NPRs should be provided to the Federal banking agencies by September 7, 2012. (See slide 37 of this presentation for instructions on how to submit comments.)
- The information provided in this presentation is not an official interpretation of the Federal banking agencies with respect to the Basel III and Standardized Approach NPRs.

Three Separate NPRs and One Final Rule

Generally Applicable to Community Banks

Basel III NPR

Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action

Standardized Approach NPR

Regulatory Capital Rules: Standardized Approach for Risk-Weighted Assets; Market Discipline, and Disclosure Requirements

Generally Not Applicable to Community Banks

Market Risk Rule

Risk-Based Capital Guidelines: Market Risk (Final Rule)

Advanced Approaches Rule NPR

Advanced Approaches Risk-Based Capital Rule; Market Risk Capital Rule

Basel III NPR

BASEL III Background

- **Why is this being proposed?**

  The proposed changes to the Federal banking agencies' current capital rules would strengthen the quality and loss-absorbance safeguards provided by regulatory capital and enhance banks' abilities to continue functioning as financial intermediaries, including during periods of financial stress.

Main Effects on Community Banks

The proposed rule would:

1. Revise the definition of regulatory capital components and related calculations.

2. Add a new Common Equity Tier 1 Risk-Based Capital ratio.

3. Incorporate the revised regulatory capital requirements into the Prompt Corrective Action (PCA) framework.

4. Implement a new Capital Conservation Buffer.

5. Provide a transition period for several aspects of the proposed rule.

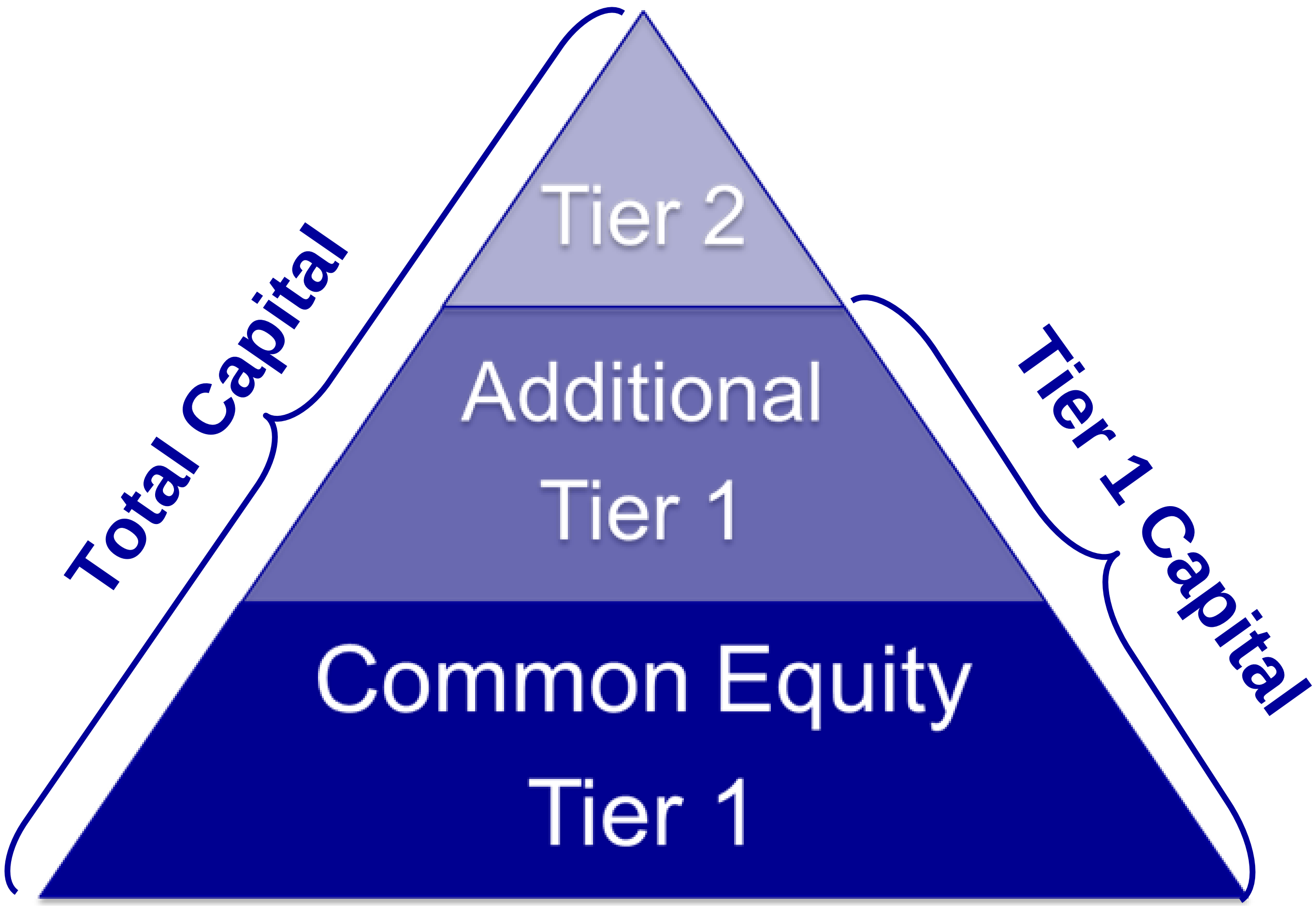
1. Definition: Three Components

Basel III NPR

From NPR Addendum1: Components and Tiers	
(1) Common Equity Tier 1 Capital	
+ Qualifying common stock instruments	**Common Equity Tier 1**
+ Retained earnings	
+/- Accumlated other comprehensive income	
+ Qualifying Common Equity Tier 1 minority interest	
- Regulatory deductions from Common Equity Tier 1 Capital	
+/- Regulatory adjustments to Common Equity Tier 1 Capital	
- Common Equity Tier 1 Capital deductions per the corresponding deduction approach	
- Threshold deductions	
= Common Equity Tier 1 Capital	
(2) Additional Tier 1 Capital	
+ Additional Tier 1 Capital instruments	**Additional Tier 1**
+ Tier 1 minority interest that is not included in Common Equity Tier 1 Capital	
+ Non-qualifying Tier 1 Capital instruments subject to the transition phase-out and SBLF related instruments	
- Investments in a banking organization's own additional Tier 1 Capital instruments	
- Additional Tier 1 Capital deductions per the corresponding deduction approach	
= Additional Tier 1 Capital	
(3) Tier 2 Capital	
+ Tier 2 Capital instruments	**Tier 2**
+Total Capital minority interest that is not included in Tier 1 Capital	
+ ALLL	
- Investments in a banking organization's own Tier 2 Capital instruments	
- Tier 2 Capital deductions per the corresponding deduction approach	
+ Non-qualifying Tier 2 Capital instruments subject to transition phase-out and SBLF related instruments	
= Tier 2 Capital	
Total Capital = Common Equity Tier 1 + Additional Tier 1 + Tier 2	

1. Capital Components – Total Capital

Basel III NPR



Leverage ratio calculations will use the new definitions of Tier 1 Capital.

1. Definition: Common Equity Tier 1

Basel III NPR

Common Stock + Retained Earnings ± Accumulated Other Comprehensive Income + Qualifying Minority Interest ± Adjustment & Deductions = Common Equity Tier 1

Common Stock

- Includes surplus
- Net of treasury stock
- Expect the majority of Common Equity Tier 1 to be **voting** shares

Accumulated Other Comprehensive Income

Net unrealized gains/losses on available-for-sale securities

- *Current treatment*: available-for-sale ***equity*** securities losses included in Tier 1 and portion of gains included in Tier 2.
- *Proposed treatment*: net unrealized gains/losses on available-for-sale ***debt and equity*** securities included in Common Equity Tier 1.

1. Definition: Adjustments and Deductions

Basel III NPR

Common Equity Tier 1 Capital

Deductions

- Goodwill
- Deferred Tax Assets (Carryforwards)
- Other Intangibles (except for mortgage servicing assets)
- Gain on Sale of Securitization Exposure
- Non-significant investments in another financial institution's capital instruments exceeding a threshold

Adjustments

- Unrealized gain/loss on cash flow hedges

Threshold Deductions

Deduct Amounts > 10% (individually) or > 15% (aggregate) of Common Equity Tier 1 Capital:

- Mortgage Servicing Assets
- Deferred Tax Assets related to temporary timing differences
- Significant investments in another financial institution's common stock

(Amounts not deducted are generally subject to 250% Risk Weight.)

1. Definition: Additional Tier 1 Capital

Basel III NPR

Noncumulative Perpetual Preferred Stock

+

Small Business Lending Fund* (Bank Issued)

+

Troubled Asset Relief Program* (Bank Issued)

−

Certain Investments in Another Financial Institution's Capital Instruments

=

Additional Tier 1

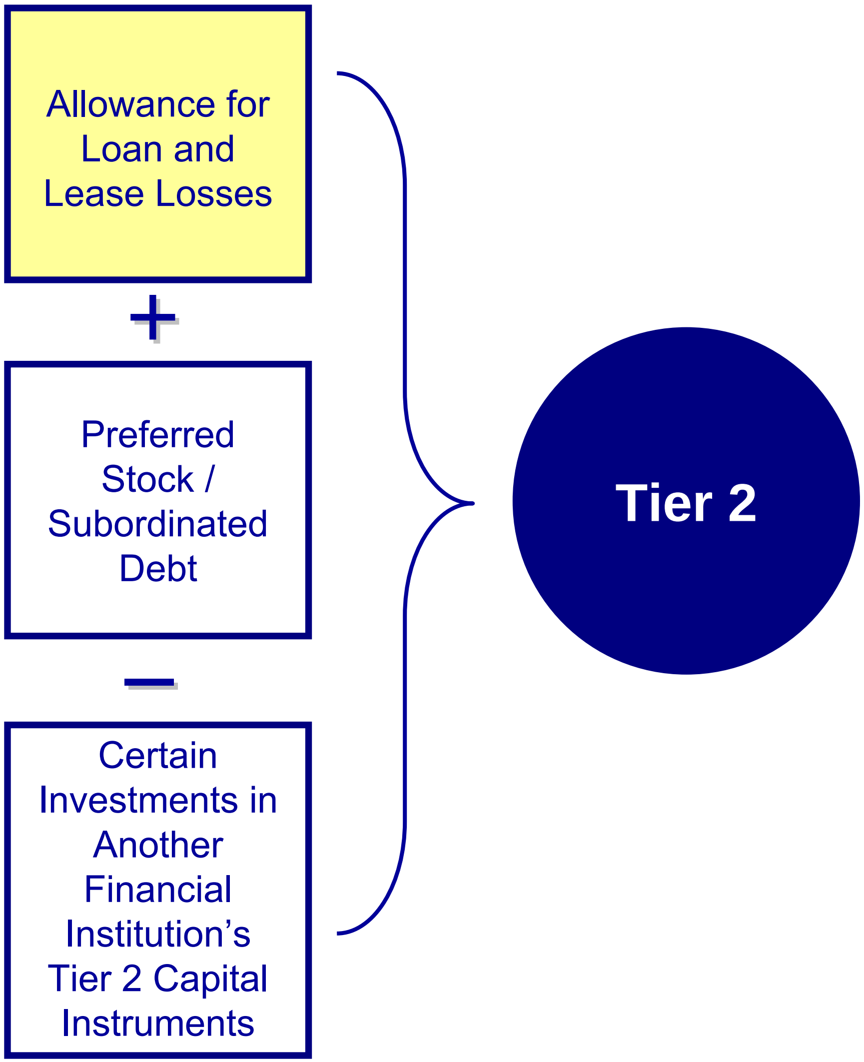
- Noncumulative perpetual preferred stock, including surplus

*Only if original bank issuance qualified as Tier 1 Capital.

Note: Bank holding company-issued trust preferred securities are subject to phase out from bank holding company Tier 1 Capital.

Basel III
NPR

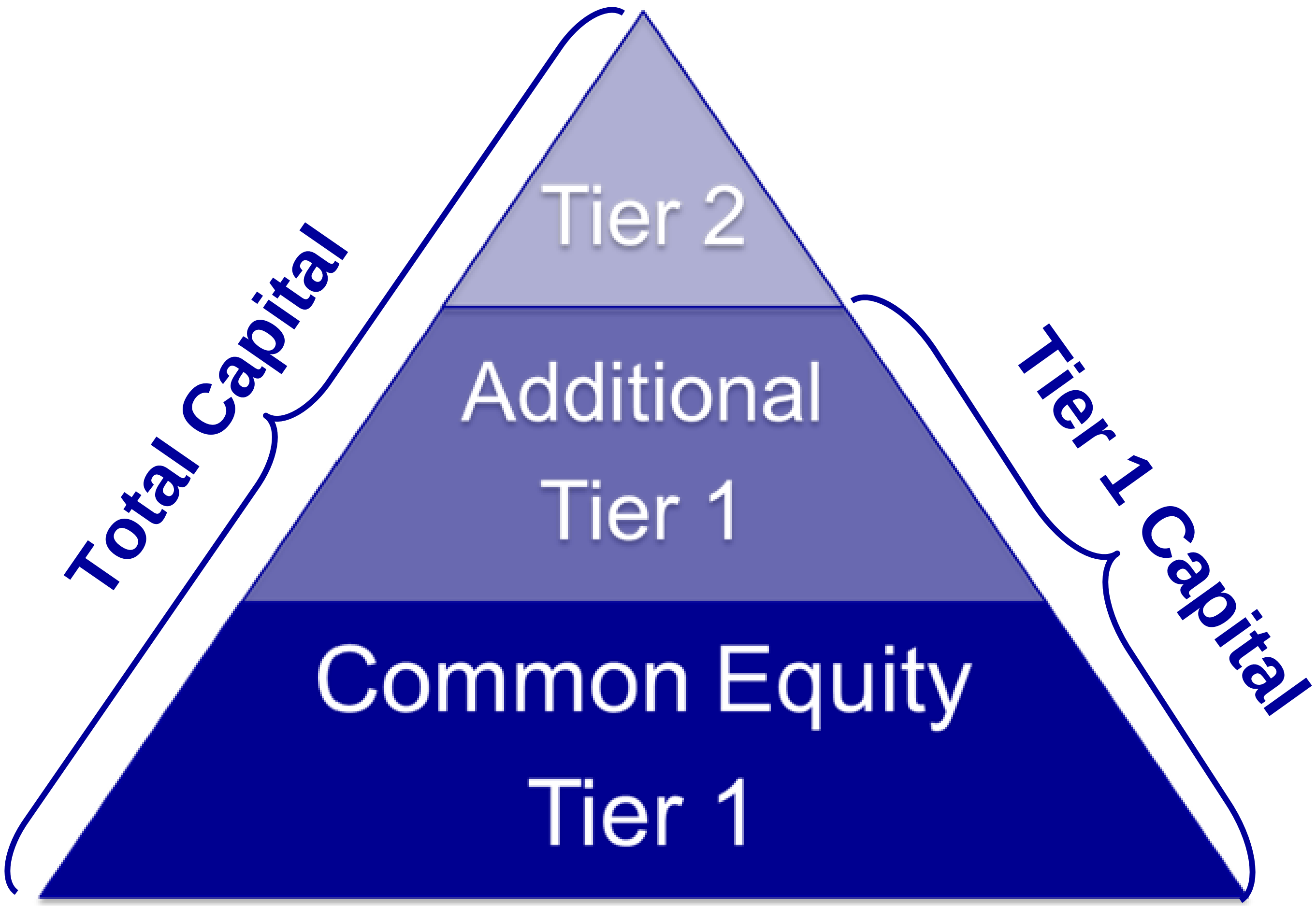
1. Definition: Tier 2 Capital



- Allowance for Loan and Lease Losses:
  - Limited to 1.25% of risk-weighted assets
- Preferred stock includes surplus.
- Would eliminate existing limits on the following:
  - Subordinated debt
  - Limited-life preferred stock
  - Amount of Tier 2 included in Total Capital

1. Capital Components – Total Capital

Basel III NPR



Leverage ratio calculations will use the new definitions of Tier 1 Capital.

2. Common Equity Tier 1 RBC Ratio

Basel III NPR

Common Equity Tier 1

Total Risk-weighted Assets

=

Common Equity Tier 1 RBC Ratio

- Creates a new risk-based capital measure.
- Purpose: To ensure institutions "hold high-quality regulatory capital that is available to absorb losses."

3. Prompt Corrective Action

Basel III NPR

Prompt Corrective Action Categories and Ratios	Tier 1 Leverage %	Common Equity Tier 1 RBC (Proposed) %	Tier 1 RBC		Total RBC %
			Current %	Proposed %	
Well Capitalized	≥ 5.0	≥ 6.5	≥ 6.0	≥ 8.0	≥ 10.0
Adequately Capitalized	≥ 4.0	≥ 4.5	≥ 4.0	≥ 6.0	≥ 8.0
Undercapitalized	< 4.0	< 4.5	< 4.0	< 6.0	< 8.0
Significantly Undercapitalized	< 3.0	< 3.0	< 3.0	< 4.0	< 6.0
Critically Undercapitalized	Tangible Equity/Total Assets ≤ 2%				

- Would add a Common Equity Tier 1 RBC ratio.
- Revised PCA ratios would be effective on January 1, 2015.
- Tangible Equity Capital would equal the revised Tier 1 Capital plus non-Tier 1 perpetual preferred stock.

4. Capital Conservation Buffer

Basel III NPR

Maximum Payout Amount as % of Eligible Retained Income

Maximum Payout Amount as % of Eligible Retained Income	Size of Buffer
No Buffer Limit	**Greater than 2.5%**
60%	**> 1.875% to 2.500%**
40%	**> 1.250% to 1.875%**
20%	**> 0.625% to 1.250%**
0%	**≤ 0.625%**

- Types of payments that would be restricted if a bank does not satisfy the capital conservation buffer requirement:
  - Dividends
  - Share buybacks
  - Discretionary payments on Tier 1 instruments
  - Discretionary bonus payments
- ***Eligible Retained Income***: Would be defined as the most recent four quarters of net income less any capital distributions and certain discretionary payments.
- Agencies maintain the supervisory authority to impose further restrictions and/or require capital commensurate with the bank's risk profile.

4. Capital Conservation Buffer Calculation

Basel III NPR

Common Equity Tier 1 Risk-Based Ratio	Tier 1 Risk-Based Ratio	Total Risk-Based Ratio
Minus	**Minus**	**Minus**
4.5%	**6.0%**	**8.0%**
Equals	**Equals**	**Equals**
Common Equity Tier 1 Risk-Based Buffer Measure	**Tier 1 Risk-Based Buffer Measure**	**Total Risk-Based Buffer Measure**

Bank's Conservation Buffer is **Lowest** of the Above

4. Capital Conservation Buffer

Basel III NPR

Conservation Buffer Example	Determination of Buffer and Limit			
	Example Bank Ratios %	Basel III Minimum Ratios %	Calculated Buffer Measure %	Maximum Payout Amount %
Common Equity Tier 1 Risk-Based Capital Ratio	7.50	4.50	3.00	None
Tier 1 Risk-Based Capital Ratio	8.50	6.00	2.50	60
Total Risk-Based Capital Ratio	9.00	8.00	1.00	**20**

1. Determine bank risk-based capital ratios.
2. Subtract Basel III minimum ratios.
3. Determine calculated buffer for each ratio.
4. Apply the maximum payout limit that is consistent with the lowest buffer.

5. Timeline and Transition Period

Basel III NPR

Phase-in Schedule							
Item	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)
Phase-in of certain deductions from Common Equity Tier 1 (including threshold deduction items that are over the limits)		20	40	60	80	**100**	→
Minimum Common Equity Tier 1 RBC	3.5	4.0	**4.5**	→			
Minimum Tier 1 RBC	4.5	5.5	**6.0**	→			
Minimum Total RBC	**8.0**	→					
Capital Conservation Buffer				0.625	1.25	1.875	**2.50**
Common Equity Tier 1 Plus Capital Conservation Buffer	3.5	4.0	4.5	5.125	5.75	6.375	**7.00**
Minimum Tier 1 Capital Plus Capital Conservation Buffer	4.5	5.5	6.0	6.625	7.25	7.875	**8.50**
Minimum Total Capital Plus Conservation Buffer	8.0	8.0	8.0	8.625	9.25	9.875	**10.50**

- Capital instruments that no longer qualify as additional Tier 1 or Tier 2 capital would be phased out over a 10 year horizon beginning in 2013.
- Revised PCA ratios are effective on January 1, 2015.

Basel III Capital NPR Questions

Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action

Preamble Section	Questions
I. Introduction and Definitions	1. The agencies solicit comment on all aspects of the proposals including comment on the specific issues raised throughout this preamble. Commenters are requested to provide a detailed qualitative or quantitative analysis, as appropriate, as well as any relevant data and impact analysis to support their positions.
II. Minimum Capital Requirements, Regulatory Buffer, and Requirements for Overall Capital Adequacy	
A. Minimum Capital Requirements and Regulatory Capital Buffer	
B. Leverage Ratio	2. The agencies solicit comments on all aspects of this proposal, including regulatory burden and competitive impact. Should all banking organizations, banking organizations with total consolidated assets above a certain threshold, or banking organizations with certain risk profiles (for examples, concentrations in derivatives) be required to comply with the supplementary leverage ratio, and why? What are the advantages and disadvantages of the application of two leverage ratio requirements to advanced approaches banking organizations? 3. What modifications to the proposed supplementary leverage ratio should be considered and why? Are there alternative measures of exposure for repo-style transactions that should be considered by the agencies? What alternative measures should be used in cases in which the use of the current exposure method may overstate leverage (for example, in certain cases of calculating derivative exposure) or understate leverage (for example, in the case of credit protection sold)? The agencies request data and supplementary analysis that would support consideration of such alternative measures. 4. Given differences in international accounting, particularly the difference in how International Financial Reporting Standards and Generally Accepted Accounting Procedures treat securities for securities lending, the agencies solicit comments on the adjustments that should be contemplated to mitigate or offset such differences. 5. The agencies solicit comments on the advantages and disadvantages of including off-balance sheet exposures in the supplementary leverage ratio. The agencies seek detailed comments, with supporting data, on the proposed method of calculating exposures and estimates of burden, particularly for off-balance sheet exposures.
C. Capital Conservation Buffer (Capital Distributions and Discretionary Bonus Payments)	6. The agencies seek comment on all aspects of the proposed capital buffer framework, including issues of domestic and international competitive equity, and the adequacy of the proposed buffer to provide incentives for banking organizations to hold sufficient capital to withstand a stress event and still remain above regulatory minimum capital levels. What are the advantages and disadvantages of requiring advanced approaches banking organizations to calculate their capital buffers using total risk-weighted assets that are the greater of standardized total risk-weighted assets and advanced total risk-weighted assets? What is the potential effect of the proposal on banking organizations' processes for planning and executing capital distributions and utilization of discretionary bonus payments to retain key staff? What modifications, if any, should the agencies consider? 7. The agencies solicit comments on the scope of the definition of executive officer for purposes of the limitations on discretionary bonus payments under the proposal. Is the scope too broad or too narrow? Should other categories of employees who could expose the institution to material risk be included within the scope of employees whose discretionary bonuses could be subject to the restriction? If so, how should such a class of employees be defined? What are the potential implications for a banking organization of restricting discretionary bonus payments for executive officers or for broader classes of employees? Please provide data and analysis to support your views. 8. What are the pros and cons of the proposed definition for eligible retained income in the context of the proposed quarterly

Standardized Approach NPR

Standardized Approach Background

- Why is this being proposed?
  - To revise rules for calculating risk-weighted assets to enhance risk sensitivity and address weaknesses identified over recent years, including incorporating elements of the Basel II Standardized Approach.

- What are the main changes?
  - Revises certain methodologies for calculating risk-weighted assets.
  - Proposes alternatives to credit ratings for calculating risk-weighted assets for certain assets, consistent with section 939A of the Dodd-Frank Act.
  - The proposed effective date is January 1, 2015, with an option for early adoption.

Main Effects on Community Banks

Standardized Approach NPR

1. Revised Risk-weighting Methodology - On-Balance Sheet Assets:
   - 1-4 Family Residential Real Estate Loans
   - “High Volatility” Commercial Real Estate
   - Past Due Assets
   - Structured Securities
   - Equity Holdings

2. Revised Risk-weighting Methodology - Off-Balance Sheet Items.

3. Allows for substitution of a wider range of financial collateral and eligible guarantors for calculating risk-weighted assets.

Standardized Approach

Standardized Approach NPR

- Exposures to Sovereigns
- Exposures to Certain Supranational Entities and Multilateral Development Banks
- Exposures to Government-sponsored Entities
- Exposures to Depository Institutions, Foreign Banks, and Credit Unions
- Exposures to Public Sector Entities
- Corporate Exposures
- Residential Mortgage Exposures
- Pre-sold Construction Loans and Statutory Multifamily Mortgages
- High Volatility Commercial Real Estate Exposures
- Past Due Exposures
- Other Assets
- Off-balance Sheet Items
- Over-the-Counter Derivative Contracts
- Cleared Transactions
- Guarantees and Credit Derivatives
- Collateralized Transactions
- Unsettled Transactions
- Securitization Exposures
- Equity Exposures

1. 1-4 Family Residential Mortgages

Standardized Approach NPR

Category 1	Category 2
▪ Term ≤ 30 years ▪ Regular periodic payments ▪ No increases in principal, deferments, or balloons ▪ Underwriting and repayment ability based on: –Principal, Interest, Taxes, Insurance –Maximum Interest Rate Allowed In First Five Years –Documented Income ▪ Interest changes limited to 2% per year and 6% over the life of the loan ▪ HELOC qualification includes principal and interest on maximum exposure ▪ Loans that are ***not*** 90 days past due, nonaccrual, or certain junior liens	▪ All other residential mortgage exposures including: – Certain junior liens – Nontraditional mortgage products

Loan to Value (%) (excludes PMI coverage)	Risk Weight	
	Category 1	**Category 2**
≤ 60	35%	100%
> 60 to ≤ 80	50%	100%
> 80 to ≤ 90	75%	150%
> 90	100%	200%

1. 1-4 Family Risk Weights - Examples

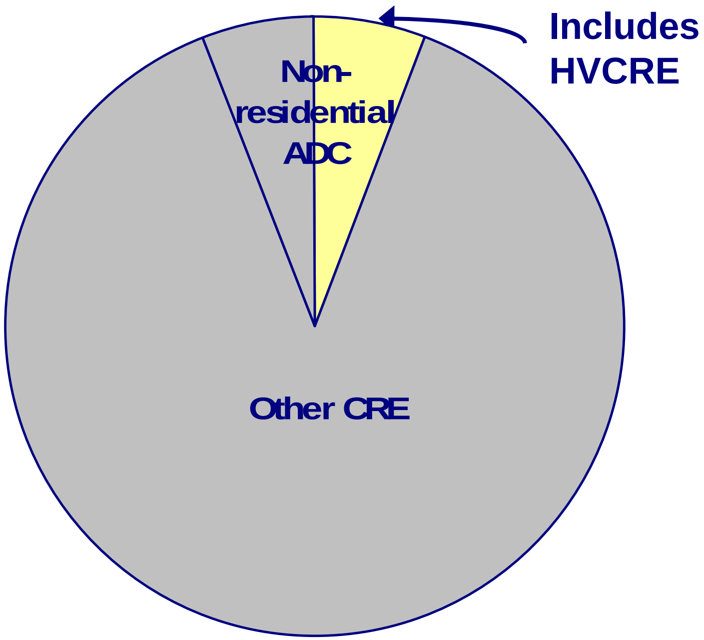
Standardized Approach NPR

1-4 Family Residential Mortgages	Risk Weights					
	35%	50%	75%	100%	150%	200%
30 year amortization and maturity, current, LTV ≤ 60%						
30 year amortization and maturity, current, LTV > 60% to ≤ 80%						
30 year amortization and maturity, current, LTV > 80% to ≤ 90%						
5 year balloon, 30 year amortization, current, LTV ≤ 80%						
5 year balloon, 30 year amortization, current, LTV > 80% to ≤ 90%						
Stand-alone junior lien LTV > 90%						

1. High Volatility Commercial Real Estate

Standardized Approach NPR

High Volatility CRE (HVCRE) Represents a Small Subset of the Industry's CRE Portfolio



HVCRE means Acquisition, Development, or Construction Financing *except*:

- 1 - 4 family residential properties
- Projects in which:
  1. The loan-to-value ratio ≤ maximum supervisory loan-to-value, and
  2. Borrower contributed at least 15% of "as completed" appraised value, and
  3. Borrower contributed the capital before the bank advances funds, and the capital is contractually required to remain throughout the project life.

The NPR would assign HVCRE loans a risk weight of 150%.

Standardized Approach NPR

1. CRE Risk Weights – Examples

Commercial Real Estate	Risk Weight	
	100%	150%
Owner-Occupied Office Building		
Non Owner-Occupied Office Building		
Manufacturing/Industrial Building		
Acquisition, Development, and Construction: 1-4 family residential properties		
Acquisition, Development, and Construction: non-1-4 family residential properties and LTV is 90%		

1. Past Due Assets Risk Weights

Standardized Approach NPR

Assets ≥ 90 days past due or nonaccrual	Risk Weights		
	50%	100%	150%
Revenue Bond	●	→	→
Multifamily Loan		●	→
Consumer Loan		●	→
Commercial and Industrial		●	→
Non-Farm Non-Residential		●	→
Agricultural		●	→

Would not apply to:

- 1-4 family residential exposures
- HVCRE

1. Structured Securities

Standardized Approach NPR

Examples may include:

Private Label Mortgage-Backed Securities

Trust Preferred Collateralized Debt Obligations (TruPS)

Asset-Backed Securities

Three Approaches

- Risk weight based on one of the following:
  - Weighted average of underlying collateral *(Gross Up)*
  - Formula based on subordination position and delinquencies *(Simplified Supervisory Formula Approach - SSFA)*
  - 1,250%
- Eliminates Ratings-Based Approach.

Other Requirements/Options

- Must apply approach selected consistently.
- 1,250% option may be used regardless of approach selected.
- Requirement for comprehensive understanding and due diligence.
  - If not met, 1,250% would apply.

1. Equity Risk Weights

Standardized Approach NPR

Equity Exposures	Risk Weights						
	0%	20%	100%	250%	300%	400%	600%
Federal Reserve Bank stock							
Federal Home Loan Bank stock							
CDFI and community development equity exposures							
An investment of common stock in an unconsolidated financial institution (unless already deducted)*							
A publicly traded equity exposure*							
An equity exposure that is not publicly traded*							
An equity exposure to a hedge fund or any investment firm that has greater than immaterial leverage*							

* To the extent that the aggregate adjusted carrying value of certain equity exposures do not exceed 10% of the bank's total capital, a 100% risk weight may be applied.

Standardized
Approach
NPR

2. Off-Balance Sheet: Credit Conversion

Off-Balance Sheet Items	Credit Conversion Factors		
	0%	20%	50%
Unused portion of commitments that are unconditionally cancelable by the bank			
Commitments with an original maturity of ≤ 1 year that are not unconditionally cancelable			
Commitments with an original maturity of > 1 year that are not unconditionally cancelable			

For HELOCs, refer to the 1-4 family mortgage section of the proposal.

2. Off-Balance Sheet: Mortgage Banking

Standardized Approach NPR

1-4 Family Mortgage Loans Sold
▪ Credit-Enhancing Representations and Warranties on Assets Sold: - Early Payment Default - Premium Refund Clause
▪ *Existing Treatment:* - Provides exclusion for early payment default or premium refund clauses that are for a period of 120 days or less.
▪ *Proposed Treatment:* - Eliminates existing 120-day exclusion. - All early payment default and premium refund clauses are treated as off-balance sheet guarantees for the duration of the enhancement.
▪ *Proposed Risk Weight*: - Credit Conversion Factor: 100%. - Risk Weight: 35% to 200% based on Category 1 or Category 2 and loan to value.

3. Collateralized Transactions Examples

Under the proposal, a bank ***may*** substitute the asset's risk weight with the collateral's risk weight.

	Risk Weights			
	0%	20%	50%	100%
Cash on deposit at the bank or third party custodian*				
US Government Securities (proposed: must discount market value by 20%)*				
Government Sponsored Entity securities				
Money market funds		Risk Weight Varies		
"Investment grade" securities (examples):				
▪ General Obligation Municipal				
▪ Revenue Municipal				
▪ Corporate				

"Investment grade" means that "the entity to which the bank is exposed through a loan or security, or the reference entity with respect to a credit derivative, has adequate capacity to meet financial commitments for the projected life of the asset or exposure."

*Current risk weight for state nonmember banks. Current risk weight may differ for national and state member banks.

3. Treatment of Guarantees

Standardized Approach NPR

Under the proposal, a bank ***may*** substitute the risk weight of an eligible guarantor for the risk weight of the exposure.

Eligible Guarantors Include:

- Depository institution or holding company
- Federal Home Loan Banks
- Farmer Mac
- Entity that has "investment grade" debt

Eligible Guarantees Must:

- Be written and either:
  - Unconditional, or
  - A contingent obligation of the U.S. government or its agencies
- Also meet other requirements

Standardized Approach NPR Questions

Standardized Approach NPR

Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements

Preamble Section	Questions
I. Introduction and Overview	1. The agencies seek comment on the advantages and disadvantages of the proposed standardized approach rule as it would apply to smaller and less complex banking organizations (community banking organizations). What specific changes, if any, to the rule would accomplish the agencies' goals of establishing improved risk-sensitivity and quality of capital in an appropriate manner? For example, in which areas might the proposed standardized approach for calculating risk-weighted assets include simpler approaches for community banking organizations or longer transition periods? Provide specific suggestions. 2. The agencies also seek comment on the advantages and disadvantages of allowing certain community banking organizations to continue to calculate their risk-weighted assets based on the methodology in the current general risk-based capital rules, as modified to meet the new Basel III requirements and any changes required under U.S. law, and as incorporated into a comprehensive regulatory framework. For example, under this type of alternative approach, community banking organizations would be subject to the proposed new prompt corrective action thresholds, a capital conservation buffer, and other Basel III revisions to the capital framework including the definition of capital, as well as any changes related to section 939A of the Dodd-Frank Act. As modified with these revisions, community banking organizations would continue using most of the same risk weights as under the current general risk-based capital rules, including for commercial and residential mortgage exposures. Under this approach, banking organizations other than community banking organizations would use the proposed standardized approach risk weights to calculate the denominator of the risk-based capital ratio. The agencies request comment on the criteria they should consider when determining which banking organizations, if any, should be permitted to continue to calculate their risk-weighted assets using the methodology in the current general risk-based capital rules (revised as described above). Which banking organizations, consistent with section 171 of the Dodd-Frank Act, should be required to use the standardized approach? What factors should the agencies consider in making this determination?
II. Standardized Approach for Risk-Weighted Assets	
A. Calculation of Standardized Total Risk-Weighted Assets	
B. Risk Weights for General Credit Risk (Residential Mortgages, High Volatility Commercial Real Estate, Past Due Exposures)	3. The agencies solicit comment on the proposed methodology for risk weighting sovereign exposures. Are there other alternative methodologies for risk weighting sovereign exposures that would be more appropriate? Provide specific examples and supporting data. 4. The agencies request comment on the proposed treatment of exposures to public service entities. 5. The agencies solicit comments on all aspects of this notice of proposed rulemaking for determining the risk weights of residential mortgage loans, including the use of the loan-to-value ratio to determine the risk-based capital treatment. What alternative criteria or approaches to categorizing mortgage loans would enable the agencies to appropriately and consistently differentiate among the levels of risk inherent in different mortgage exposures? For example, should all residential mortgages that meet the "qualified mortgage" criteria to be established for the purposes of the Truth in Lending Act pursuant to section 1412 of the Dodd-Frank Act be included in category 1? For category I residential mortgage exposures with interest rates that adjust or reset, would a proposed limit based directly on the amount the mortgage payment increases rather than on a change in interest rate be more appropriate? Why or why not? Does this proposal appropriately address loans with balloon payments and the risk of reverse mortgage loans? Why or why not? Provide detailed explanations and supporting data wherever possible. 6. The agencies solicit comment on whether to allow banking organizations to recognize mortgage insurance for purposes of calculating the loan-to-value ratio of a residential mortgage exposure under the standardized approach. What criteria could the agencies use to ensure that only financially sound private mortgage insurance providers are recognized? 7. The agencies request comment on whether loan modifications made pursuant to federal or state housing programs warrant specific provisions in the agencies' risk-based capital regulations at all, and if they do what criteria should be considered when determining the appropriate risk-based capital treatment for modified residential mortgages, given the risk characteristics of loans that require modification.. 8. The agencies solicit comment on the proposed treatment for high-volatility commercial real estate exposures.

Submitting Comments

- We welcome written comments on the NPRs.
- You may submit comments by any of the following methods:

  – **Federal Rulemaking Portal**: http://www.regulations.gov. Follow the instructions for submitting comments.

  – **FDIC.gov**: http://www.FDIC.gov/regulations/laws/federal/propose.html

  – **Mail**: Send to:
  Robert E. Feldman, Executive Secretary
  Attention: Comments/Legal ESS
  Federal Deposit Insurance Corporation
  550 17th Street, NW
  Washington, DC 20429

  – **Email**: comments@fdic.gov

All comments must include "FDIC" and "RIN 3064-AD95" (Basel III NPR) or "RIN 3064-AD96" (Standardized Approach NPR).

National Call

- Scheduled for Friday, August 3, 2012 at 1 p.m. Eastern Time: Toll-free number 1-888-455-0408, code 8824839#.
- Questions can be submitted in advance to NationalCall@fdic.gov.

Contact Information

Main Contact Point for NPR Questions

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Because of concerns arising from the Administrative Procedures Act, we can only answer questions seeking further clarification of the NPRs. However, all of your questions and concerns are important to us and to the rulemaking process. Therefore, if you have questions for which we cannot respond to at this time, you may include them in your formal comments and the FDIC will consider them as part of the rulemaking. For information on submitting a formal comment, please see slide 37.