FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

Teleconference for Community Banks on the Interim Final Capital Rule

Topic Outline

August 15, 2013

Accumulated Other Comprehensive Income (AOCI)

- Who does this effect?
  - BHC and all banks within the HC
- AOCI Opt-Out Election Process
  - One-time election made on March 31, 2015 with the call report filing for community banks
  - Results in current treatment where unrealized gains and losses on AFS debt securities are excluded from capital
- Effect of Mergers on the AOCI Election

Treatment of ALLL Under the Capital Rules

- ALLL (Allowance for Loan and Lease Losses)
  - Retains current treatment
  - Inclusion of ALLL in tier 2 capital limited to 1.25% of RWA

Investments in Capital Instruments of Unconsolidated Financial Institutions

- The determination is based on the ownership percentage of common stock
- Deductions depend on which category of investment

- Significant Investments
  - The bank owns greater than 10% of the other institution's common stock
  - Includes the common stock and all other investments in capital instruments
- Nonsignificant Investments
  - If the bank owns 10% or less of the other institution's common stock
  - Investments in other capital instruments are nonsignificant if the bank does not own any common stock of the other institution

Investments in Capital Instruments of Unconsolidated Financial Institutions

- Capital Treatment Of Significant Investments
  - Significant Investments – Common Shares
    - 250% RW (beginning in 2018)
    - Subject to 10% (individual) and 15% (aggregate) threshold deductions
    - Amounts exceeding thresholds are deducted
    - Amount under thresholds are risk-weighted.
  - Significant Investments – Non-common investments
    - Fully deducted using corresponding deduction approach

Investments in Capital Instruments of Unconsolidated Financial Institutions

- Treatment of Nonsignificant Investments
  - Do not have to deduct unless aggregate amount of nonsignificant investments is above 10% CET1

- Investments in Bankers' Bank Stock
  - Treated the same as other investments in unconsolidated financial institutions
  - Most are likely to be nonsignificant investments

PCA Changes and Capital Conservation Buffer (Relationship between the two)

- Effective Date for revised PCA: January 1, 2015
- New Ratio: Common Equity Tier 1 Risk-based Capital

Revised Regulatory Capital Minimum Ratios (%)		
	Current Rule	Interim Final Rule
Tier 1 Leverage Capital	3.0 / 4.0	4.0
Common Equity Tier 1 Risk-based Capital	n/a	4.5
Tier 1 Risk-based Capital	4.0	6.0
Total Risk-based Capital	8.0	8.0

Capital Conservation Buffer

- Required Buffer Amount: 2.5% of total risk-weighted assets above the regulatory minimums
- The lowest difference determines the restriction level
- Eligible Retained Income
- Discretionary Bonus Payments: non-contractual bonus payments made to executive officers

Capital Treatment of Trust-Preferred Securities

- Different treatment for issuers of TruPS and investors in TruPS related securities
- Issuers of TruPS
  - Treatment is consistent with Dodd-Frank Act
  - Some TruPS are grandfathered
- Investments in TruPS
  - Subject to deduction
  - If not deducted, the investments are risk-weighted.
  - Capital Treatment
    - Multiple issuer TruPS – Securitization framework
    - Single issue – 100% RW generally

Threshold Deductions

- 10% (individually) and 15% (aggregate) of a CET1 calculation (which will be detailed in the revised Call Report)
- Three items subject to these limits
  - Significant Investments – Common Shares
  - DTAs
  - MSAs
- DTAs
  - Elimination of 12 month recognition period
  - New Treatment: depends on type of DTA
- 250% risk weight for these three items beginning in 2018

Standardized Approach – 1-4 Family Residential Mortgages

- NPR vs. interim final rule difference
  - Treatment proposed in NPR categorized loans into two categories with RW ranging from 35% - 200% was not adopted.
- New rule retains current treatment for 1-4 family loans:
  - 50% RW and 100% RW
  - Include PMI in LTV calculations
  - Retention of the 120 day safe-harbor provisions for loans sold
- Treatment of restructured/modified loans: 100% RW except for HAMP loans

HVCRE/CRE

- HVCRE – a subset of ADC loans that receive 150% RW
- Loans not included in HVCRE:
  - 1-4 family projects
  - Community Dev. loans
  - Loans secured by agricultural properties
  - CRE that meet 15% contributed equity requirements, LTV requirements and equity criteria
- Contributed equity includes:
  - Cash
  - Unencumbered, readily marketable assets
  - Borrower contributed and internally generated capital – must remain for the life of the project

Equity Exposures

- Significant RW changes for some exposures
- RW range from 0% to 600%
- Mutual funds –use one of the three look thru approaches to determine the risk weight for the particular fund

Bank-Owned Life Insurance (BOLI)

- Treatment under the new rule:
  - Look thru to underlying assets
  - Apply risk weight applicable to insurer

Securitizations/Structured Products

- Introduces SSFA in place of credit ratings
  - Inputs (A, D, W, Kg)
- Gross up approach still available
- TruPS CDOs are subject to deduction – those not deducted are treated as securitizations
- Due diligence requirements

Collateralized Transactions/Guarantees

- Expansion of eligible collateral and eligible guarantors
  - Risk weight substitutions for secured or guaranteed portion of exposure
  - Collateral or guarantor must meet definition of financial collateral or eligible guarantor under the rule
- Financial collateral includes cash, investment grade debt securities, publicly traded equities, and certain money market fund shares
- Eligible guarantors include banks, U.S. government, U.S. government agencies, and any other entity that has issued and outstanding unsecured debt that is investment grade

Other Issues and Resources

- A 20% Credit Conversion Factor for commitments with an original maturity of one year or less that are not unconditionally cancellable
  - a change from current rules, which applies a 0% credit conversion factor to these exposures
- Estimation Tool
  - In development
- Call Report Schedules and Instructions
  - Capital Calculations: published in Federal Register for comment
  - Risk-weighted Assets: in development
- FDIC Capital Web Page: www.fdic.gov/regulations/capital
- Mailbox for Questions: regulatorycapital@fdic.gov