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

<table>
<thead>
<tr>
<th>Revised Regulatory Capital Minimum Ratios (%)</th>
<th>Current Rule</th>
<th>Interim Final Rule</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1 Leverage Capital</td>
<td>3.0 / 4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Common Equity Tier 1 Risk-based Capital</td>
<td>n/a</td>
<td>4.5</td>
</tr>
<tr>
<td>Tier 1 Risk-based Capital</td>
<td>4.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Total Risk-based Capital</td>
<td>8.0</td>
<td>8.0</td>
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</tbody>
</table>
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


- Mailbox for Questions: regulatorycapital@fdic.gov