

COMMUNITY BANK LEVERAGE RATIO (CBLR) FRAMEWORK

**FDIC STAFF PRESENTATION
FEBRUARY 25, 2020**

Presentation Objectives

- Provide an overview of the CBLR final rule
- Describe how to elect the CBLR
- Discuss implementation of the CBLR
- Respond to questions



**Submit questions during the presentation to
RAC@fdic.gov**

CBLR Background



The final rule implements section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act.

Beginning with the March 31, 2020 Call Report, qualifying community banking organizations may opt-in at their discretion.



Institutions with ratios exceeding the CBLR minimum meet the generally applicable capital rule.

Key Aspects of the Final Rule

Community Bank Leverage Ratio (CBLR) Framework

- An optional, simple leverage capital measure which is based on the generally applicable capital rule's leverage ratio.

Treatment of Institutions meeting all qualifying criteria

- Considered to meet the “well capitalized” ratio requirements under the prompt corrective action (PCA) framework and the generally applicable capital rule.

Qualifying Criteria

- Has a leverage ratio of greater than 9 percent
- Meets the framework's qualifying criteria including total consolidated assets less than \$10 billion.
- Electing institutions may suspend risk weighting and risk-based ratio capital computations under Part 324 as long as they remain eligible for the CBLR framework.

Grace Period

- Applies to institutions failing to satisfy any of the qualifying criteria. However, an institution must maintain a leverage ratio of greater than 8 percent to use the grace period.
- Continue to be considered “well capitalized” for a period of up to two quarters.

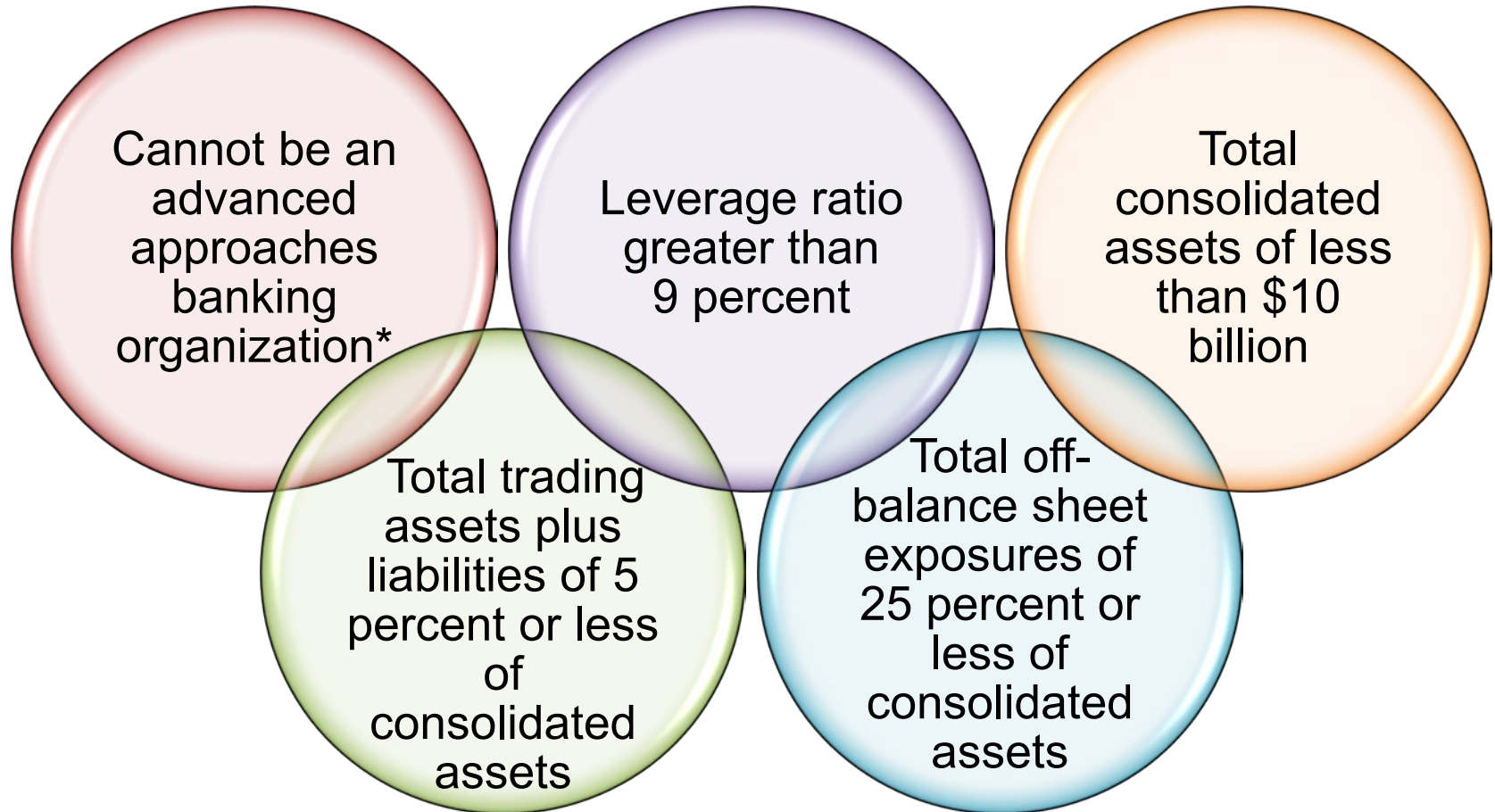
Calculation of the CBLR

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

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

The community bank leverage ratio is calculated similar to the leverage ratio under the generally applicable capital rule (tier 2 deductions that can affect tier 1 capital are not applicable under the CBLR).

CBLR Eligibility Criteria



*Including a subsidiary of an advanced approaches banking organization

Qualifying Criteria for Off-Balance Sheet Exposures

Calculated as
the sum of
these items and
limited to 25%
or less of total
consolidated
assets

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

Securities lent and borrowed

Off-balance sheet securitization exposures

Financial standby letters of credit

Forward agreements that are not derivative contracts

CBLR Call Report Instructions: Off-Balance Sheet Excerpt (Lines 34.a to 34.b)

34 Off-balance sheet exposures. Report in the appropriate subitem the bank's off-balance sheet exposure amounts.

34.a Unused portion of conditionally cancellable commitments. Report the amount of unused commitments, excluding unconditionally cancellable commitments that are reported in Schedule RC-R, Part I, item 35, below. Include in this item legally binding arrangements (other than letters of credit, which are reported in Schedule RC-R, Part I, item 34.c) that obligate a bank to extend credit or to purchase assets. Where a bank provides a commitment structured as a syndication or participation, include the amount for the bank's pro rata share of the commitment.

In general, this item would include the unused portion of commitments reported in Schedule RC-L, item 1, that are not unconditionally cancelable.

34.b Securities lent and borrowed. Report the sum of securities lent from Schedule RC-L, item 6.a, and securities borrowed from Schedule RC-L, item 6.b.

CBLR Call Report Instructions: Off-Balance Sheet Excerpt (Line 34.c)

34.c Other off-balance sheet exposures. Report the sum of:

- ***Financial standby letters of credit:*** Include the amount outstanding and unused of financial standby letters of credit reported in Schedule RC-L, item 2.
- ***Transaction-related contingent items, including performance bonds, bid bonds, warranties, and performance standby letters of credit:*** Report transaction-related contingent items, which include the amount outstanding and unused of performance standby letters of credit reported in Schedule RC-L, item 3, and any other transaction-related contingent items.
- ***Self-liquidating, trade-related contingent items that arise from the movement of goods:*** Include the amount outstanding and unused of self-liquidating, trade-related contingent items that arise from the movement of goods reported in Schedule RC-L, item 4, “Commercial and similar letters of credit.”
- ***Sold credit protection in the form of guarantees and credit derivatives:*** Include the notional amount of sold credit protection in the form of guarantees or credit derivatives (such as written credit option contracts). Do not include any non-credit derivatives, such as foreign exchange swaps and interest rate swaps.

CBLR Call Report Instructions: Off-Balance Sheet Excerpt (line 34.c)

- ***Credit-enhancing representations and warranties:*** Include the off-balance sheet amount of exposures transferred with credit-enhancing representations and warranties as defined in §.2 of the regulatory capital rule. Credit-enhancing representations and warranties obligate an institution “to protect another party from losses arising from the credit risk of the underlying exposures” and “include provisions to protect a party from losses resulting from the default or nonperformance of the counterparties of the underlying exposures or from an insufficiency in the value of the collateral backing the underlying exposures.” Thus, when loans or other assets are sold “with recourse” and the recourse arrangement provides protection from losses as described in the preceding definition, the recourse arrangement constitutes a credit-enhancing representation and warranty.
- ***Forward agreements that are not derivative contracts:*** Include the notional amount of all forward agreements, which are defined in §.2 of the regulatory capital rule as legally binding contractual obligations to purchase assets with certain drawdown at a specified future date, not including commitments to make residential mortgage loans or forward foreign exchange contracts.

CBLR Call Report Instructions: Off-Balance Sheet Excerpt (lines 34.c to 34.d)

- **Off-balance sheet securitizations:** Report the notional amount of off-balance sheet items that qualify as securitization exposures. Refer to the definitions of securitization exposure, synthetic securitization, traditional securitization, and tranche in §.2 of the regulatory capital rules and to §.42 of the regulatory capital rules to calculate the relevant exposure amount.

34.d Total off-balance sheet exposures. Report in column A the sum of Schedule RC-R, Part I, items 34.a through 34.c.

Report in column B total off-balance sheet exposures as a percentage of total assets by dividing the total amount of off-balance sheet exposures reported in column A of this item by total assets reported in Schedule RC-R, Part I, item 32, above, rounded to four decimal places. The percentage reported in this item must be 25 percent or less as part of the qualifying criteria for the CBLR framework.

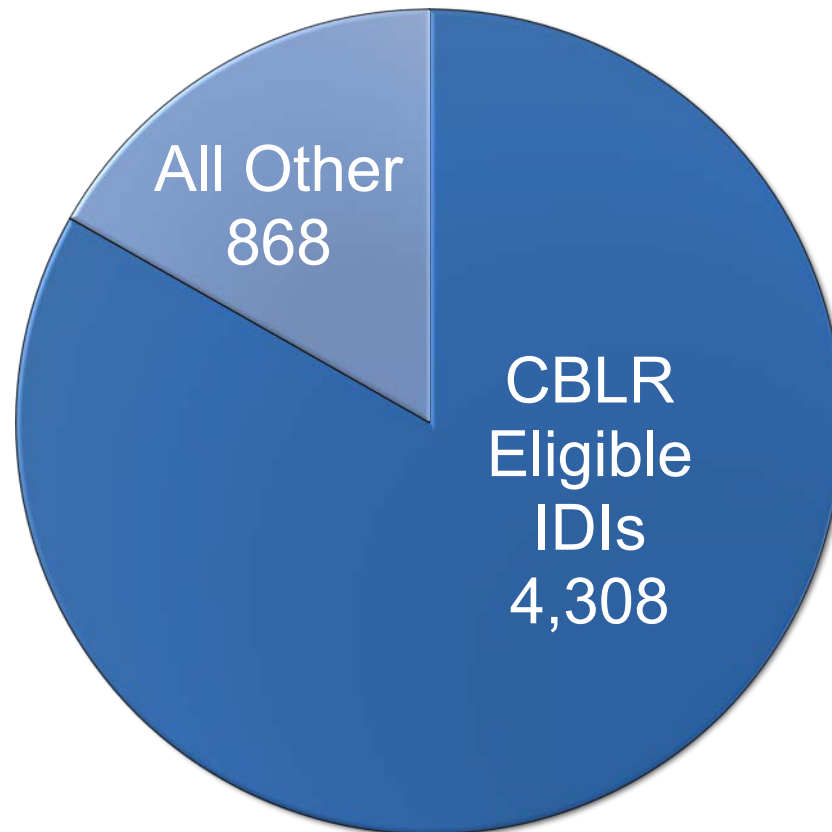
Qualifying Criteria for Trading Assets and Trading Liabilities

**Total Trading
Assets Plus
Trading
Liabilities**

$\leq 5\%$ of

**Total Consolidated
Assets at the End of
the Most Recent
Calendar Quarter**

Insured Depository Institutions Potentially Eligible for CBLR (estimated) As of December 2019



Opting In and Out of the CBLR Framework

Opting In

Qualified institutions may elect the framework simply by completing the appropriate line items and making required elections on their Call Report and/or Form FR Y-9C, as applicable.

Opting Out

May opt out of the framework and revert to the generally applicable capital rule by completing applicable line items on the Call Report and/or Form FR Y-9C.

Can opt out of the CBLR framework between reporting periods by providing risk-based capital ratios under the generally applicable capital rule to appropriate regulators at that 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.

Reinstating the CBLR

If an institution ceases to qualify for the CBLR, it can resume CBLR calculations in the quarter it once again meets the qualification requirements and makes the re-election in the Call Report.

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

CBLR Call Report Changes

- To opt in to the CBLR framework, enter “1” on line 31.a.

Leverage Ratio*

31. Leverage ratio (item 26 divided by 30)

a. Does your institution have a community bank leverage ratio (CBLR) framework election in effect as of the quarter-end report date? (enter "1" for Yes; enter "0" for No).....

RCOA	Percentage	
7204		
0 = No	RCOA	
1 = Yes	LE74	

CBLR Call Report Changes

Total Assets for the Leverage Ratio

27. Average total consolidated assets¹.....
28. LESS: Deductions from common equity tier 1 capital and additional tier 1 capital (sum of items 6, 7, 8, 10.b, 13 through 15, 17, and certain elements of item 24 - see instructions)...
29. LESS: Other deductions from (additions to) assets for leverage ratio purposes.....
30. Total assets for the leverage ratio (item 27 minus items 28 and 29)

RCOA	Amount
KW03	
P875	
B596	
A224	



The leverage ratio calculation has been moved up and is now after the tier 1 numerator calculation

Leverage Ratio*

31. Leverage ratio (item 26 divided by 30)

RCOA	Percentage
7204	

- a. Does your institution have a community bank leverage ratio (CBLR) framework election in effect as of the quarter-end report date? (enter "1" for Yes; enter "0" for No).....

0 = No	RCOA
1 = Yes	LE74

Qualifying Criteria and Other Information for CBLR Institutions*

32. Total assets (Schedule RC, item 12); (must be less than \$10 billion)
33. Trading assets and trading liabilities (Schedule RC, sum of items 5 a. and 15). Report as a dollar amount in Column A and as a percentage of total assets (5% limit) in Column B.....
34. Off-balance sheet exposures:
- a. Unused portion of conditionally cancellable commitments.....
- b. Securities lent and borrowed (Schedule RC-L, sum of items 6.a and 6.b)
- c. Other off-balance sheet exposures.....
- d. Total off-balance sheet exposures (sum of items 34.a through 34.c). Report as a dollar amount in Column A and as a percentage of total assets (25% limit) in Column B.....

Column A		Column B	
RCOA	Amount	RCOA	Percentage
2170			
KX77		KX78	
KX79			
KX80			
KX81			
KX82		KX83	



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

35. Unconditionally cancellable commitments.....
36. Investments in the tier 2 capital of unconsolidated financial institutions.....
37. Allocated transfer risk reserve.....
38. Amount of allowances for credit losses on purchased credit-deteriorated assets:²
- a. Loans and leases held for investment.....
- b. Held-to-maturity debt securities.....
- c. Other financial assets measured at amortized cost.....

RCOA	Amount
S540	
LB61	
3128	
JJ30	
JJ31	
JJ32	



The last section is for informational purposes and was added in order to track CECL impacts and other supervisory items

Simplifications due to CBLR Election

- Based on existing tier 1 leverage ratio calculation
- Reduced reporting requirements:
 - No risk-based capital calculations
 - No high volatility commercial real estate calculations
- No higher risk weights for mortgage servicing assets, deferred tax assets, or investments in unconsolidated financial institutions

CBLR Implementation

- Conduct Banker outreach
 - Webinars, Community Bank Guide
- Provide Examiner training and outreach
- Update Call Reports
- Update Report of Examination
- Update Risk Management Manual of Examination Policies
- Coordinate with other banking regulators

CBLR References

- CBLR Community Bank Guide
<https://www.fdic.gov/regulations/capital/>
- FDIC Rules and Regulations Part 324.12
https://www.ecfr.gov/cgi-bin/text-idx?SID=c0998adaffde5f4a1bb238ef5704df85&mc=true&node=pt12.5.324&rgn=div5#se12.5.324_112
- FDIC Rules and Regulations Part 324.403 (PCA)
https://www.ecfr.gov/cgi-bin/text-idx?SID=c0998adaffde5f4a1bb238ef5704df85&mc=true&node=pt12.5.324&rgn=div5#se12.5.324_1403
- CBLR Call Report Instructions
Instructions will be posted prior to the filing deadline. Links will be available on www.fdic.gov
- Regulatory Capital Mailbox
regulatorycapital@fdic.gov

Questions?

