

# RESCINDED

OCC Bulletin 2019-6 | February 8, 2019

Transmittal rescinded.

## Community Bank Leverage Ratio: Notice of Proposed Rulemaking

To

Chief Executive Officers of All National Banks and Federal Savings Associations, Department and Division Heads, All Examining Personnel, and Other Interested Parties

### Summary

The Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively, the agencies) are issuing a notice of proposed rulemaking that would provide a simplified measure of capital adequacy for qualifying community banking organizations consistent with section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. Qualifying community banking organizations that comply with and elect to use the community bank leverage ratio (CBLR) framework and that maintain a CBLR greater than 9 percent would be considered to have met the

capital requirements for the “well-capitalized” capital category under the agencies’ prompt corrective action (PCA) frameworks and would no longer be subject to the generally applicable capital rule.

### **Note for Community Banks**

This proposed rule would apply to qualifying community banks, which include national banks and federal savings associations that have less than \$10 billion in total consolidated assets and meet other prudential criteria.

## **Highlights**

The proposed CBLR framework is a simple alternative methodology to measure capital adequacy for qualifying community banks. The proposal would provide material regulatory relief while maintaining safety and soundness in the banking system. Because the CBLR framework is intended to be relatively simple to implement, it is based on a subset of data that are currently reported by banks in their regulatory filings.

To begin using the proposed CBLR framework, a bank would have to meet the following requirements:

- Have average total consolidated assets of less than \$10 billion and not be an affiliate or subsidiary of a banking organization subject to the advanced approaches rule.
- Have mortgage servicing assets of 25 percent or less of CBLR tangible equity.
- Have deferred tax assets arising from temporary timing differences, net of valuation allowances, of 25 percent or less of CBLR tangible equity.

- Have off-balance-sheet exposures (excluding derivative exposures and unconditionally cancelable commitments) of 25 percent or less of total consolidated assets.
- Have total trading assets and trading liabilities of 5 percent or less of total consolidated assets.
- Have a CBLR greater than 9 percent.

For qualifying community banks that used the CBLR but no longer met all of the requirements (other than the minimum CBLR), the proposal would provide a grace period of two consecutive calendar quarters during which a bank could continue to use the CBLR framework, providing the bank time to return to compliance with the qualifying criteria or move to the generally applicable capital rule. If the bank did not meet the qualifying criteria at the end of the grace period, it would be required to move promptly to the generally applicable capital rule.

If a qualifying community bank's CBLR fell below 9 percent, the bank would have the option of using the generally applicable capital rule or continuing to use the CBLR framework. If the bank decided to continue using the CBLR framework, it would be considered to have met the requirements of a specific PCA capital category if it met the corresponding CBLR threshold and would be subject to the same restrictions that currently apply to any other bank in the same PCA category. Specifically, under the proposal, a qualifying community bank that used the CBLR would be considered

- well capitalized if its CBLR were greater than 9.0 percent.
- adequately capitalized if its CBLR were greater than or equal to 7.5 percent but less than or equal to 9 percent.
- undercapitalized if its CBLR were greater than or equal to 6.0 percent but less than 7.5 percent.
- significantly undercapitalized if its CBLR were less than 6.0 percent.

If a qualifying community bank's CBLR fell below 6 percent, the qualifying community bank would be required to promptly provide the information necessary for the OCC to calculate the tangible equity ratio pursuant to the PCA framework under 12 CFR 6.

## Background

On May 24, 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act became law. Section 201 of the act directs the agencies to develop a CBLR of not less than 8 percent and not more than 10 percent for depository institutions and depository institution holding companies with total consolidated assets of less than \$10 billion. Section 201 of the act further provides that the agencies may determine that a banking organization is not a qualifying community banking organization based on the banking organization's risk profile. The act states that such a determination shall be based on consideration of off-balance-sheet exposures, trading assets and liabilities, total notional derivatives exposures, and such other factors as the agencies determine appropriate.

## Further Information

Please contact Christine Smith, Risk Analyst, David Elkes, Risk Expert, or Jung Sup Kim, Risk Specialist, Capital Policy Division, at (202) 649-6370; or Carl Kaminski, Special Counsel, Chief Counsel's Office, at (202) 649-5490.

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## Related Link

- ["Regulatory Capital Rule: Capital Simplification for Qualifying Community Banking Organizations"](#)

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