Community Bank Leverage Ratio

November 26, 2018

The banking agencies on November 21st issued a long-awaited NPR on Capital Simplification for Qualifying Community Banking Organizations. Please note the following key takeaways:

- S.2155 became law on May 24, 2018. Section 201 specifically mandates the establishment of a Community Bank Leverage Ratio (CBLR).
- Community banking organizations are eligible to elect the CBLR if less than $10B in total assets, limited amounts of certain assets and off-balance sheet exposures, and a CBLR of greater than 9%. Based on June 30 regulatory filings, it is estimated approximately 83% of insured depository institutions (and 56% of such depository institution holding companies) would meet the proposed qualifications.
- Assuming a bank meets the above qualifications, all rules related to risk-weighting and leverage requirements are no longer applicable, as the bank would be considered to have met the requirements for "well capitalized" minimums per PCA rules. Summary of proposed PCA minimums are below:
    - Well capitalized – CBLR of 9% or greater
    - Adequately capitalized - CBLR of 7.5% or greater
    - Undercapitalized – CBLR less than 7.5%
    - Significantly undercapitalized – CBLR less than 6%
- It is anticipated a CBLR bank would report a simpler regulatory schedule (Call Report), to be proposed separately.
- The CBLR will be calculated as the ratio of tangible equity capital divided by average total consolidated assets, as defined below:
    - CBLR tangible equity will be defined as total bank equity capital excluding accumulated other comprehensive income (AOCI), DTAs arising from net operating loss and tax credit carryforwards, goodwill, and other intangible assets (other than MSAs).
    - Average total consolidated assets will be calculated similarly to the current tier 1 leverage ratio denominator with amounts deducted from the CBLR numerator also excluded from the CBLR denominator.
- A CBLR bank that fails established minimums in a future period would have two reporting periods (representing a grace period) to either satisfy the CBLR requirement or comply with generally applicable capital requirements.

Comments will be accepted for 60 days after publication in the Federal Register. We will advise of further developments as they occur. Thanks. B.

SMITH SHELLNUT WILSON

Brandy Smith
SSW Research Department
Office: (601) 605-1776
Email: brandys@ssw1776.com
website: www.ssw1776.com

Smith Shellnut Wilson, LLC
150 Fountains Blvd., Ste A
Madison, MS 39110-6377
Office: (601) 605-1776
Fax: (601) 605-1710
Website: www.ssw1776.com