

REGULATORY ALERT: COMMUNITY BANK LEVERAGE RATIO

The federal bank regulatory agencies today announced the issuance of two interim final rules to provide temporary relief to community banking organizations. The agencies are acting to implement Section 4012 of the Coronavirus Aid, Relief, and Economic Security Act, which requires the agencies to temporarily lower the community bank leverage ratio to 8 percent.

The two rules will modify the community bank leverage ratio framework so that:

- Beginning in the second quarter 2020 and until the end of the year, a banking organization that has a leverage ratio of 8 percent or greater and meets certain other criteria may elect to use the community bank leverage ratio framework; and
- Community banking organizations will have until January 1, 2022, before the community bank leverage ratio requirement is re-established at greater than 9 percent.

Under the interim final rules, the community bank leverage ratio will be 8 percent beginning in the second quarter and for the remainder of calendar year 2020, 8.5 percent for calendar year 2021, and 9 percent thereafter. The interim final rules also maintain a two-quarter grace period for a qualifying community banking organization whose leverage ratio falls no more than 1 percent below the applicable community bank leverage ratio.

The agencies are providing community banking organizations with a clear and gradual transition back to the 9 percent leverage ratio requirement previously established by the agencies. This transition will allow community banking organizations to focus on supporting lending to creditworthy households and businesses given the recent strains on the U.S. economy caused by the coronavirus.

The changes will be effective as of the publication of the rules in the Federal Register and the agencies will accept comments on the interim final rules for 45 days after publication.

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