Revisions to the Deposit Insurance Assessment Program to Apply the Community Bank Leverage Ratio Framework

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Robert E. Feldman, Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
RIN 3064-AE98

Re: Revisions to the Deposit Insurance Assessment Program to Apply the Community Bank Leverage Ratio Framework

Dear Sir or Madam,

The Conference of State Bank Supervisors ("CSBS") appreciates the opportunity to comment on the Notice of Proposed Rulemaking (the "proposed rule" or "proposal") issued by the Federal Deposit Insurance Corporation (the "FDIC") to amend the deposit insurance assessment regulations to apply the community bank leverage ratio ("CBLR") Framework to the deposit insurance assessment system. The primary objective of this proposal is to incorporate the alternative measure of capital adequacy established under the CBLR Framework into the current risk-based deposit insurance assessment system in a manner that: (1) maximizes regulatory relief for small institutions that use the CBLR Framework; and (2) minimizes increase in deposit insurance assessments that may arise without change in risk.

While state regulators support maintaining fair and appropriate pricing of deposit insurance for institutions that use the CBLR, we believe that the proposed revisions to the deposit insurance assessment system are ultimately unnecessary because the CBLR should be defined as a Tier 1 leverage ratio.[1] The proposed rule would amend the definition of “tangible equity”, in the assessment regulations governing the calculating of a CBLR bank’s assessment base, to mean either CBLR tangible equity or Tier 1 capital. In light of this change, CBLR banks would have the option to use Tier 1 capital or CBLR tangible equity when calculating their assessment base. Additionally, the proposed rule would amend the definition of the Leverage Ratio in the small bank pricing methodology, which is used to calculate an established small bank’s assessment rate, to mean the higher of either the CBLR or Tier 1 leverage ratio for CBLR banks, as applicable. Consequently, CBLR banks would have the option to elect to report its Tier 1 leverage ratio for purposes of calculating its assessment rate.

As stated in the proposed rule, the FDIC expects that a CBLR bank would only elect the options to use Tier 1 capital in calculating its assessment base and the Tier 1 leverage ratio in calculating its assessment rate if doing so would result in a lower assessment. Accordingly, to reduce its assessment, a CBLR bank would be incentivized to calculate and report its Tier 1 capital and its Tier 1 leverage ratio and maintain records needed to verify the correctness of its calculations and assessments. Due to these incentives, a CBLR bank would need to calculate and report both CBLR tangible equity and Tier 1 capital. State bank regulators believe this duplication is yet another reason that the CBLR should be defined as a Tier 1 leverage ratio and that the development of an alternative measure of capital adequacy, namely, CBLR tangible equity, is misguided.

While we appreciate the intent of affording some flexibility to CBLR banks in the calculation of their assessments, making the CBLR a Tier 1 leverage ratio by making Tier 1 capital the numerator of the CBLR would render this rulemaking unnecessary and avoid compelling community banks to update their current systems for calculating deposit insurance assessments.

Conclusion

State bank regulators appreciate the opportunity to comment on the proposed amendments to the FDIC’s deposit insurance assessment regulations. This letter was intended to reiterate our belief that relying on Tier 1 capital, rather than tangible equity is the best path forward for achieving the regulatory relief intended by the CBLR Framework. This approach not only will incentivize reliance on the CBLR, but it will avoid necessitating reform of existing regulatory frameworks that rely on Tier 1 capital and the Tier 1 leverage ratio, including the FDIC’s deposit assessment regulations

Sincerely,

John Ryan
President & CEO

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1 Community banks are already well-acquainted and familiar with the calculation of Tier 1 capital and the Tier 1 leverage ratio and thus, creating a new, simpler leverage ratio would likely create more of a burden for banks to change their internal processes than relief. For a more detailed explanation please see CSBS's February 14, 2019 letter on the CBLR Framework available here.

Image

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202.296.2840
newsroom@csbs.org
1129 20th Street, N.W., 9th Floor, Washington, DC 20036