The Community Bank Leverage Ratio: A Model of State and Federal Regulators Working Together

Sep 17

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The Federal Deposit Insurance Corporation today voted to adopt the final rule for the community bank leverage ratio (CBLR). The rule will establish a simplified capital regime for a qualifying community bank. The state regulators and CSBS staff worked closely with federal regulators to craft a final rule that will provide much needed regulatory relief for community banks.

The decision is an example of state and federal regulators working together at our best.

Congress directed the federal agencies to develop the CBLR in Section 201 of the Economic Growth Regulatory Relief and Consumer Protection Act last year. The goal was to provide qualifying community banks relief from the complexities and burdens of the current risk-based capital rules while ensuring that they maintain a high quality and quantity of capital consistent with requirements of the current rules. In an unusual move, lawmakers required the federal agencies to consult with state regulators in the CBLR implementation.

We were encouraged by the interagency CBLR proposal released by the OCC, Federal Reserve and FDIC in February. But we were concerned that the proposed CBLR would actually create more regulatory burdens for community banks. The final rule adopted several of the recommendations made by state regulators and CSBS, including:

- The elimination of a proposed proxy prompt corrective action framework that would
be punitive for banks that opted for the CBLR and fell below the 9% capital threshold.
• Adoption of the existing definition of Tier 1 capital as the numerator of the CBLR rather than creating a new and additional capital adequacy measure.
• Creation of a two-quarter transition period for a bank that fall below the 9% CBLR level before the bank would need to begin reporting risk-based capital ratios again.

State regulators met with federal regulators multiple times over the past six months to explain our concerns and offer alternatives. And we are thankful that they listened.

The final CBLR rule more appropriately tailors capital requirements for community banks without adding more burdens. That means that community banks that opt to use the CBLR will find real relief, as Congress intended, and their communities, in turn, will benefit.

We look forward to further dialogue with our federal counterparts to better appropriately tailor supervision and regulation to the unique risks presented by community banks.