“Nothing behind me, everything ahead of me, as is ever so on the road.”

? Jack Kerouac, author of "On the Road"

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Federal, State Regulators Encourage Consumer Support During Coronavirus Crisis

The following press release was issued by the Board of Governors of the Federal Reserve System, Consumer Financial Protection Bureau, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, and Conference of State Bank Supervisors

Federal financial institution regulators and state regulators this week encouraged financial institutions to meet the financial needs of customers and members affected by the coronavirus. The agencies recognize the potential impact of the coronavirus on the
customers, members, and operations of many financial institutions and will provide appropriate regulatory assistance to affected institutions subject to their supervision.

Regulators note that financial institutions should work constructively with borrowers and other customers in affected communities. Prudent efforts that are consistent with safe and sound lending practices should not be subject to examiner criticism.

The agencies understand that many financial institutions may face current staffing and other challenges. In cases in which operational challenges persist, regulators will expedite, as appropriate, any request to provide more convenient availability of services in affected communities. The regulators also will work with affected financial institutions in scheduling examinations or inspections to minimize disruption and burden.

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FFIEC Highlights Pandemic Preparedness Guidance

The Federal Financial Institutions Examination Council (FFIEC) this week updated guidance identifying actions that financial institutions should take to minimize the potential adverse effects of a pandemic.

Pandemic preparedness is an important part of a financial institution's business continuity planning. The guidance provides the Council’s prudent expectations that regulated institutions should periodically review related risk management plans, including continuity plans, to ensure their ability to continue to deliver their products and services in a wide range of scenarios and with minimal disruption.

Sound planning, in advance of imminent risk to particular institutions, helps minimize the disruptions to services to consumers, businesses, and communities when such contingencies occur.

Related Link: FFIEC Statement on Pandemic Planning
Understanding Capital and the New Community Bank Leverage Ratio

With passage of the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 (S. 2155), community banks gained exemption from several key facets of the post-crisis financial regulatory framework. Included among the provisions of S. 2155 was the Community Bank Leverage Ratio (CBLR), a special alternative capital framework available only to banks holding less than $10 billion in assets.

Under the requirements of the CBLR, qualifying institutions are provided the option to meet a simple leverage ratio of 9% tier 1 capital to average total consolidated assets, instead of the risk-weighted requirements currently in place. Proponents of the measure argue that by reducing burdensome risk-weighting requirements, the CBLR standard provides community banks a more level playing field on which to compete with large institutions.

Capital Regulation Fundamentals

In order to understand the potential impact of the CBLR, it is important to have some background on the basics of capital regulation.

In a basic sense, capital represents the amount of funding a financial institution has secured from equity, and thus the amount of losses it can sustain without defaulting on its obligations to creditors. Regulators use several measures to assess a bank’s capital adequacy, established under an international regulatory accord known as Basel III.

The simplest measure of capital adequacy is a leverage ratio, which measures a bank’s
The proportion of core capital – consisting mostly of common stock and retained earnings – to average total assets over a quarterly period. Regulators often use several complementary leverage ratios which distinguish between the quality of capital held in order to capture a full picture of a bank’s overall solvency.

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\text{Leverage Ratio} = \frac{\text{Capital}}{\text{Average Assets}}
\]

In addition, regulators use \textit{risk-weighted ratios}, which assign each asset on a bank’s balance sheet a weight based on likelihood of default, to provide a more complete picture of an institution’s exposure to risk. Under current Basel III rules, banks must maintain a total risk-based capital ratio of 8%, with an additional buffer of 2.5%.

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\text{Total Risk-Based Capital Ratio} = \frac{\text{Capital}}{\text{Risk-Weighted Assets}}
\]

For example, US Treasury Securities are assigned a risk weight of 0% under current capital rules. Consequently, banks are not required to hold capital against US Treasuries on their balance sheet. However, if the same bank holds $5 million in senior debt securities issued by ABC Widgets Inc. – which are risk weighted at 100% – it must recognize $5 million of risk-weighted assets for that particular exposure. In order to meet its 10% total risk-based capital requirement under Basel III, the bank must hold at least $500,000 in capital against the exposure.

To learn more about eligibility requirements for the CBLR and its potential impact on community banks, visit the FDIC Community Banking Initiative website.
On this edition of Simply Stated, host Matt Longacre chats with Rachel Siegel, Senior Associate in Consumer Finance at The Pew Charitable Trusts, about both the opportunities and potential dangers presented by mobile payment technologies. Together, they dive into the pertinent questions: do we really know what’s
going on with our money on these apps? Is the cash we store on them secure? Are your payments protected from fraud like they are with a credit card? Am I the only one who is totally clueless about this yet still continue to use these apps?

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