Today, we interview Mike Townsley, CSBS Policy Counsel, to discuss what a leverage ratio is and why a proposed leverage ratio for community banks still needs some work.

What we learned in today’s podcast:

So, what did we learn? (Forgive me to the policy wonks for my vast oversimplification here).

- First, that banks use both a simple leverage ratio and a risk-weighted asset ratio. The risk-weighted asset ratio is complicated.
- While capital, the numerator of the ratio, is somewhat straightforward, risk-weighted assets, the denominator, has become increasingly complicated over time. Small
banks who do not have the same risk profile as large banks are facing a compliance challenge when they are calculating their risk-weighted assets.

- Congress noticed this problem and passed legislation, as part of a broader package, asking regulators to make a new “Community Bank Leverage Ratio.” The promise is that, if a community bank holds a high level of capital, they will no longer need to calculate their risk-weighted assets. The intent was to reduce burden.

- However, if a small bank falls below this new leverage ratio requirement of 9%, they will either need to revert back to the risk-weighted asset calculation, or they will face prompt corrective action and get reigned in by regulators.

- CSBS is concerned that, should a bank choose to follow this new leverage ratio, it will become increasingly difficult to switch back to the risk-weighted capital ratio if necessary. Not only will they need to calculate the more burdensome leverage ratio, they will have to start over from scratch and may not have the same compliance staff and knowledge they once had.

- CSBS is working with state and federal regulators to find a solution that either allows community banks time to return to compliance with the new community bank leverage ratio, or provide community banks with the appropriate amount of time and assistance to return to the more complicated asset calculation.

Soundcloud iFrame Link
https://w.soundcloud.com/player/?url=https%3A//api.soundcloud.com/tracks/594112...
Podcast Length
22:25

Tags

- Community Banks
- Regulations
- Podcast
- Community Banks
- Community Bank Leverage Ratio (CBLR)