June 4, 2020

Community Bank Leverage Ratio (CBLR) Fact Sheet

The Economic Growth, Regulatory Relief, and Consumer Protection Act (S.2155) was passed in 2018. 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. This document highlights key criteria including eligibility requirements, opting in and out of the framework as well as how CBLR changes are reflected in call report.

What is the CBLR Eligibility Criteria

- Leverage ratio greater than 9%
- Total consolidated assets of less than $10 billion
- Total trading assets plus liabilities of 5% or less of consolidated assets
- Total off-balance sheet exposures of 25% or less of consolidated assets
- Cannot be an advanced approaches banking organization

Please Note: The CARES Act has temporarily lowered the 9% threshold to 8% through December 31, 2020. Also, when the requirements in the transition interim final rule become applicable, the community bank leverage ratio requirement will be greater than 8% for the second through fourth quarters of calendar year 2020, greater than 8.5% for calendar year 2021, and greater than 9% thereafter. The transition interim final rule also maintains a two-quarter grace period for a qualifying community banking organization whose leverage ratio falls no more than 100 basis points below the applicable community bank leverage ratio requirement.

How to opt In and Out of the CBLR Framework

Opting In:
- Qualified institutions may elect the framework simply by completing the appropriate line items and making required elections on their Call Report and/or Form FR Y–9C, as applicable

Opting Out:
- May opt out of the framework and revert to the generally applicable capital rule by completing applicable line items on the Call Report and/or Form FR Y–9C.
- Can opt out of the CBLR framework between reporting periods by providing risk-based capital ratios under the generally applicable capital rule to appropriate regulators at that time.
- After a banking organization opts out of the CBLR framework, it can subsequently opt back in through the Call Report if it meets the qualifying criteria.

Reinstating the CBLR:
- If an institution ceases to qualify for the CBLR, it can resume CBLR calculations in the quarter it once again meets the qualification requirements and makes the re-election in the Call Report.
- Once re-election is made through the Call Report, it can suspend calculation of risk-based capital requirements and other calculations associated with the generally applicable capital rule.

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1 Reduced Community Bank Leverage Ratio. Section 4012 of the Act requires the federal banking agencies to adopt an interim rule relaxing certain requirements applicable to the capital requirements of a “qualifying community bank,” as defined in the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018. This interim rule would reduce the Community Bank Leverage Ratio to 8% and confer a reasonable grace period for restoring compliance with respect to a community bank that falls below the new 8% threshold. This provision expires on the termination date of the COVID-19 Emergency or December 31, 2020, whichever is sooner.

2 Financial Institution Letter: FIL-35-2020
What is the Grace Period
A two-quarter grace period (which begins at the end of the calendar quarter in which the electing banking organization ceases to satisfy any of the qualifying criteria) to either meet the qualifying criteria again or to comply with the generally applicable capital rule.

- Grace period applies when a banking organization’s leverage ratio is 9% or less but greater than 8%.
- A banking organization that fails to maintain a leverage ratio greater than 8% would not be permitted to use the grace period and must comply with the generally applicable capital rule and file the appropriate regulatory reports.
- Grace period does not apply in the case of a merger or acquisition.

If an electing banking organization fails to satisfy one or more of the qualifying criteria but maintains a leverage ratio of greater than 8%, that banking organization would have a “grace period” of up to two quarters during which it could continue to use the community bank leverage ratio framework and be deemed to meet the “well capitalized” capital ratio requirements. As long as the banking organization is able to return to compliance with all the qualifying criteria within two quarters, it continues to be deemed to meet the “well capitalized” ratio requirements and be in compliance with the generally applicable capital rule.

How is CBLR Calculated
The community bank leverage ratio is calculated like the leverage ratio under the generally applicable capital rule (tier 2 deductions that can affect tier 1 capital are not applicable under the CBLR).

What are the Qualifying Criteria for Off-Balance Sheet Exposures
The below qualifying criteria are calculated as the sum of these items and limited to 25% or less of total consolidated assets.

- Unused commitments, except for unconditionally cancellable commitments
- Self-liquidating, trade-related contingent items that arise from the movement of goods
- Transaction-related contingent items
- Sold credit protection through guarantees and credit derivatives
- Credit enhancing representations and warranties
- Securities lent and borrowed
- Off-balance sheet securitization exposures

3 The agencies note that, under existing PCA applicable to insured depository institutions, to be considered “well capitalized” a banking organization must demonstrate that it is not subject to any written agreement, order, capital directive, or as applicable, prompt corrective action directive, to meet and maintain a specific capital level for any capital measure. See 12 CFR 6.4(b)(1)(iv) (OCC); 12 CFR 208.43(b)(1)(v) (Board); 12 CFR 324.403(b)(1)(v) (FDIC). The same legal requirements would continue to apply under the community bank leverage ratio framework.
Financial standby letters of credit
- Forward agreements that are not derivative contracts

**What is the Qualifying Criteria for Trading Assets and Trading Liabilities**
Total Trading Assets Plus Trading Liabilities must be less than or equal to 5% of Total Consolidated Assets at the End of the Most Recent Calendar Quarter.

**How the CBLR Changes are reflected in the Call Report**

*To opt in to the CBLR Framework the Bank would enter “1” on line 31.a.*

<table>
<thead>
<tr>
<th>Leverage Ratio*</th>
<th>RCOA</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>31. Leverage ratio (item 26 divided by item 30)</td>
<td>7204</td>
<td>31.</td>
</tr>
<tr>
<td>a. Does your institution have a community bank leverage ratio (CBLR) framework election in effect as of the quarter-end report date? (enter “1” for Yes; enter “0” for No)</td>
<td>0=No RCOA 1=Yes LE74</td>
<td>31.a.</td>
</tr>
</tbody>
</table>

*The leverage ratio calculation has been moved up and is now after the tier 1 numerator calculation*

<table>
<thead>
<tr>
<th>Total Assets for the Leverage Ratio</th>
<th>RCOA</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>27. Average total consolidated assets²</td>
<td>KW03</td>
<td>27.</td>
</tr>
<tr>
<td>28. LESS: Deductions from common equity tier 1 capital and additional tier 1 capital (sum of items 6, 7, 8, 10.b, 13 through 15, 17, and certain elements of item 24 - see instructions)</td>
<td>P875</td>
<td>28.</td>
</tr>
<tr>
<td>29. LESS: Other deductions from (additions to) assets for leverage ratio purposes.</td>
<td>B596</td>
<td>29.</td>
</tr>
<tr>
<td>30. Total assets for the leverage ratio (item 27 minus items 28 and 29)</td>
<td>A224</td>
<td>30.</td>
</tr>
</tbody>
</table>

*If the bank has a leverage ratio of 9% or above or is within the grace period, it must complete the following section. This section collects applicable information for the qualifying criteria.*

<table>
<thead>
<tr>
<th>Qualifying Criteria and Other Information for CBLR Institutions*</th>
<th>RCOA</th>
<th>Amount</th>
<th>RCOA</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>32. Total assets (Schedule RC, item 12); (must be less than $10 billion).</td>
<td>2170</td>
<td>32.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>33. Trading assets and trading liabilities (Schedule RC, sum of items 5 and 15). Report as a dollar amount in column A and as a percentage of total assets (5% limit) in column B</td>
<td>KX77</td>
<td>33.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>34. Off-balance sheet exposures:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Unused portion of conditionally cancellable commitments</td>
<td>KX79</td>
<td>34.a.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Securities lent and borrowed (Schedule RC-L, sum of items 6.a and 6.b).</td>
<td>KX80</td>
<td>34.b.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Other off-balance sheet exposures</td>
<td>KX81</td>
<td>34.c.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. Total off-balance sheet exposures (sum of items 34.a through 34.c). Report as a dollar amount in column A and as a percentage of total assets (25% limit) in column B</td>
<td>KX82</td>
<td>34.d.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*The last section is for informational purposes and was added in order to track CECL impacts and other supervisory items*
CBLR Call Report Instructions

Off-Balance Sheet Excerpt (Lines 34.a to 34.b)

- 34: **Off-balance sheet exposures**: Report in the appropriate subitem the specified off-balance sheet exposure amounts.
- 34.a: **Unused portion of conditionally cancellable commitments**: Report the amount of unused commitments, excluding unconditionally cancellable commitments that are reported in Schedule RC-R, Part I, item 35, below. Include in this item legally binding arrangements (other than letters of credit, which are reported in Schedule RC-R, Part I, item 34.c) that obligate a bank to extend credit or to purchase assets. Where a bank provides a commitment structured as a syndication or participation, include the amount for the bank’s pro rata share of the commitment. In general, this item would include the unused portion of commitments reported in Schedule RC-L, item 1, that are not unconditionally cancelable.
- 34.b: **Securities lent and borrowed**: Report the sum of securities lent from Schedule RC-L, item 6.a, and securities borrowed from Schedule RC-L, item 6.b.

Off-Balance Sheet Excerpt (Line 34.c)

- 34.c Other off-balance sheet exposures. Report the sum of:
  - Financial standby letters of credit: Include the amount outstanding and unused of financial standby letters of credit reported in Schedule RC-L, item 2.
  - Transaction-related contingent items, including performance bonds, bid bonds, warranties, and performance standby letters of credit: Report transaction-related contingent items, which include the amount outstanding and unused of performance standby letters of credit reported in Schedule RC-L, item 3, and any other transaction-related contingent items.
  - Self-liquidating, trade-related contingent items that arise from the movement of goods: Include the amount outstanding and unused of self-liquidating, trade related contingent items that arise from the movement of goods reported in Schedule RC-L, item 4, “Commercial and similar letters of credit.”
  - Sold credit protection in the form of guarantees and credit derivatives: Include the notional amount of sold credit protection in the form of guarantees or credit derivatives (such as written credit option contracts). Do not include any non-credit derivatives, such as foreign exchange swaps and interest rate swaps.
  - Credit-enhancing representations and warranties: Include the off-balance sheet amount of exposures transferred with credit-enhancing representations and warranties as defined in §.2 of the regulatory capital rule. Credit-enhancing representations and warranties obligate an institution “to protect another party from losses arising from the credit risk of the underlying exposures” and “include provisions to protect a party from losses resulting from the default or nonperformance of the counterparties of the underlying exposures or from an insufficiency in the value of the collateral backing the underlying exposures.” Thus, when loans or other assets are sold “with recourse” and the recourse arrangement provides protection from losses as described in the preceding definition, then recourse arrangement constitutes a credit-enhancing representation and warranty.
  - Forward agreements that are not derivative contracts: Include the notional amount of all forward agreements, which are defined in §.2 of the regulatory capital rule as legally binding contractual...
obligations to purchase assets with certain drawdown at a specified future date, not including commitments to make residential mortgage loans or forward foreign exchange contracts.

- **Off-balance sheet securitizations**: Report the notional amount of off-balance sheet items that qualify as securitization exposures. Refer to the definitions of securitization exposure, synthetic securitization, traditional securitization, and tranche in §.2 of the regulatory capital rules and to §.42 of the regulatory capital rules to calculate the relevant exposure amount.

**Off-Balance Sheet Excerpt (line 34.d)**

- **Total off-balance sheet exposures**: Report in column A the sum of Schedule RCR, Part I, items 34.a through 34.c. Report in column B total off-balance sheet exposures as a percentage of total assets by dividing the total amount of off-balance sheet exposures reported in column A of this item by total assets reported in Schedule RC-R, Part I, item 32, above, rounded to four decimal places. The percentage reported in this item must be 25% or less as part of the qualifying criteria for the CBLR framework.

**Resources**

- Call Report Forms: [https://www.ffiec.gov/ffiec_report_forms.htm](https://www.ffiec.gov/ffiec_report_forms.htm)
- UBPR: [https://www.ffiec.gov/ubpr.htm](https://www.ffiec.gov/ubpr.htm)
- 2020 UBPR Changes due to Capital Changes: [2020 UBPR Changes Due to Capital Changes 3 25 draft.docx](https://www.ffiec.gov/ubpr.htm)
- CARES Act: [https://www.congress.gov/116/bills/hr748/BILLS-116hr748enr.pdf](https://www.congress.gov/116/bills/hr748/BILLS-116hr748enr.pdf)