



New Capital Rule Quick Reference Guide for Community Banks

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The new capital rule implements revisions to the risk-based regulatory capital framework for national banks and federal savings associations (collectively, banks). This quick reference tool is a high-level summary of the aspects of the new rule that are generally relevant for smaller, non-complex banks that are not subject to the market risk rule or the advanced approaches capital rule. This quick reference guide does not carry the force and effect of law. The new rule, which can be found on the OCC's Web site along with a Community Bank Guide, sets forth the revised capital standards. Community banking organizations become subject to the new rule on January 1, 2015.

Key Changes From the June 2012 Proposals

Residential Mortgage Exposures: Relative to the existing rules, the risk-based capital treatment of residential mortgage exposures remains unchanged, with available risk weights including 50 percent and 100 percent and a safe harbor from recourse treatment for loans sold with certain repurchase triggers such as early default clauses.

Accumulated Other Comprehensive Income (AOCI) Filter:

Banks have a one-time irrevocable option to neutralize certain AOCI components, comparable to the treatment under the prior rules. If banks do not exercise this option, AOCI will be incorporated into common equity tier 1 capital (CET1), including unrealized gains and losses on all available-for-sale securities.

Trust Preferred Securities (TRuPS): Holding companies with assets less than \$15 billion as of December 31, 2009, or organized in mutual form as of May 19, 2010, are allowed to grandfather into tier 1 capital. TRuPS issued before May 19, 2010, are subject to a maximum of 25 percent of tier 1 capital.

Risk-Weighted Assets (RWA)

- The new rule increases risk weights for past-due loans (150 percent risk weight for the portion that is not guaranteed or secured) and high-volatility commercial real estate exposures (150 percent risk weight), and increases credit conversion factors (CCF) for certain short-term loan commitments (20 percent CCF).
- The new rule expands recognition of collateral and guarantors in determining RWAs.

Capital Requirements & PCA

The new rule revises Prompt Corrective Action (PCA) capital category thresholds to reflect the new capital ratio requirements and introduces CET1 as a PCA capital category threshold.

| PCA Capital Category | Threshold Ratios | | | |
|--------------------------------|-----------------------------------|-------------------|-----------------|-----------------------|
| | Total RBC* ratio | Tier 1 RBC* ratio | CET1 RBC* ratio | Tier 1 Leverage ratio |
| Well capitalized | 10% | 8% | 6.5% | 5% |
| Adequately capitalized | 8% | 6% | 4.5% | 4% |
| Undercapitalized | < 8% | < 6% | < 4.5% | < 4% |
| Significantly undercapitalized | < 6% | < 4% | < 3% | < 3% |
| Critically undercapitalized | Tangible Equity/Total Assets ≤ 2% | | | |

*RBC = risk-based capital

- The new rule removes references to credit ratings.
- For securitization exposures, the new rule establishes due diligence requirements and introduces an approach for assigning regulatory capital that does not rely on external credit ratings.
- Relative to the existing rules, the treatment of corporate and retail loans and U.S. government (and related) entities remains unchanged.

Transition Schedule for New Ratios and Capital Definitions for Community Banks

| Year (as of Jan. 1) | 2015 | 2016 | 2017 | 2018 | 2019 |
|---------------------------------------------------------|-------|--------|-------|--------|--------|
| Minimum CET1 ratio | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% |
| Capital conservation buffer | N/A | 0.625% | 1.25% | 1.875% | 2.50% |
| CET1 plus capital conservation buffer | 4.5% | 5.125% | 5.75% | 6.375% | 7.0% |
| Phase-in of deductions from CET1* | 40.0% | 60.0% | 80.0% | 100.0% | 100.0% |
| Minimum tier 1 capital | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% |
| Minimum tier 1 capital plus capital conservation buffer | N/A | 6.625% | 7.25% | 7.875% | 8.5% |
| Minimum total capital | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% |
| Minimum total capital plus conservation buffer | N/A | 8.625% | 9.25% | 9.875% | 10.5% |

* Including threshold deduction items that are over the limits.

N/A means not applicable.

Common Equity Tier 1 Capital

The sum of common stock instruments and related surplus net of treasury stock, retained earnings, AOCI, and qualifying minority interests—less applicable regulatory adjustments and deductions that include AOCI (if irrevocable option to neutralize AOCI is exercised).

Mortgage-servicing assets, deferred tax assets, and investments in financial institutions are limited to 15 percent of CET1 and 10 percent of CET1 individually.

Additional Tier 1 Capital

Noncumulative perpetual preferred stock, tier 1 minority interests, grandfathered TRuPS, and Troubled Asset Relief Program instruments—less applicable regulatory adjustments and deductions.

Tier 2 Capital

Subordinated debt and preferred stock, total capital minority interests not included in tier 1, allowance for loan and lease losses not exceeding 1.25 percent of risk-weighted assets—less applicable regulatory adjustments and deductions.

Capital Conservation Buffer

The new rule requires banks to hold CET1 in excess of minimum risk-based capital ratios by at least 2.5 percent to avoid limits on capital distributions and certain discretionary bonus payments to executive officers and similar employees.

| Capital Conservation Buffer (as a percentage of RWA) | Maximum Payout Ratio (as a % of the previous four quarters of net income) |
|---------------------------------------------------------|---------------------------------------------------------------------------|
| Greater than 2.5% | No payout limitation applies |
| Less than or equal to 2.5% and greater than 1.875% | 60% |
| Less than or equal to 1.875% and greater than 1.25% | 40% |
| Less than or equal to 1.25% and greater than 0.625% | 20% |
| Less than or equal to 0.625% | 0% |

