Final Rule on Enhanced Regulatory Capital Standards–Implications for Community Banking Organizations

On July 2, 2013, the Federal Reserve Board approved a final rule that implements changes to the regulatory capital framework for all banking organizations.[1] This table highlights the provisions that are most relevant to smaller, non-complex banking organizations and compares the new capital requirements to the current standards.

	Current Treatment	Treatment in Final Rule	Section(s) in Rule Text
Minimum Regulatory Capital Ratios and Capital Buffer			
Common equity tier 1 capital (CET1) ratio	N/A	4.5%	Subpart B, § 10
Tier 1 capital ratio	4%	6%	
Total capital ratio	8%	8% (no change)	
Leverage ratio	4% (or 3%)[2]	4%	
Capital conservation buffer	N/A	Capital conservation buffer (composed of CET1 capital) equivalent to 2.5% of risk-weighted assets in addition to the minimum CET1, tier 1, and total capital ratios	Subpart B, § 11
Definition of Capital			
CET1	No specific definition	Common stock (plus related surplus) and retained earnings less the majority of the regulatory deductions	Subpart C, § 20(b) and § 22
Tier 1 capital	Common stock (plus related surplus) and retained earnings plus preferred stock and trust-preferred securities (for bank holding companies), less regulatory deductions	CET1 plus non-cumulative perpetual preferred stock and grandfathered trust-preferred and other securities, less certain regulatory deductions	Subpart C, § 20(c) and § 22
Mortgage servicing assets (MSAs), certain deferred tax assets (DTAs) arising from temporary differences, and certain significant investments in the stock of unconsolidated financial institutions	MSAs and DTAs that are not deducted are subject to a 100% risk weight	These items are subject to more stringent limits and a 250% risk weight; amounts above the limits are deducted from CET1 capital	Subpart C, § 22(d)
Standardized Approach for Risk-Weighted Assets			
Commercial real estate (CRE) loans	100%	100% for most CRE loans and 150% for high volatility commercial real estate (HVCRE),[3] which is a subset of CRE	Subpart D, § 32(j)
Past due exposures	Risk weight generally does not change when loan is past due (except for residential mortgage exposures)	Generally, 150% risk weight (except for sovereign and residential mortgage exposures)	Subpart D, § 32(k)
Conversion factors for commitments with an original maturity of one year or less	0%	0% if unconditionally cancellable at any time; otherwise 20%	Subpart D, § 33

[1] The final rule includes transition periods to help ease potential burden; community banking organizations must begin complying with the rule on January 1, 2015.

[2] Currently, banking organizations with the highest supervisory composite rating are subject to a 3% minimum leverage ratio; generally, other community banking organizations are subject to a 4% minimum leverage ratio.

[3] HVCRE is a credit facility that, prior to conversion to permanent financing, finances or has financed the acquisition, development, or construction of real property, unless the facility finances: (1) one- to four-family residential properties; (2) certain community development projects; (3) the purchase or development of agricultural land; or (4) commercial real estate projects that meet the criteria in the rule, including criteria regarding the loan-to-value ratio and capital contributions to the project.