NEWS RELEASE

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FDIC ISSUES PROPOSED REVISIONS TO MINIMUM CAPITAL STANDARDS

The FDIC Board of Directors today proposed for public comment a plan to streamline the agency's minimum capital standards for banks while still ensuring that they have adequate minimum capital to protect against losses.

The proposed standards would apply to the approximately 7,500 state nonmember commercial banks and 500 savings banks the FDIC supervises. However, it also would affect other depository institutions that file applications with the FDIC.

In general, the proposal would change the FDIC's "leverage capital requirements," essentially the minimum requirements for capital as a percentage of total assets. The leverage requirement ensures that a portion of total assets and future asset growth is funded by owners' equity and not exclusively by FDIC-insured deposits.

Under the existing leverage capital requirements, state nonmember banks must maintain "primary capital" of at least 5.5 percent of total assets and "total capital" of six percent. Primary capital includes common stockholders' equity, all forms of perpetual preferred stock, the entire allowance for loan and lease losses, and certain amounts of mandatory convertible debt.

The new proposal instead would be based on a single, narrower category of capital called "Tier 1" or "core" capital. For most banks, core capital would consist only of common equity capital minus all intangible assets other than mortgage servicing rights. Under the proposal:

o The most highly-rated state nonmember banks in terms of safe and sound operations (those rated a "1" on the so-called CAMEL system

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used by the three federal bank regulators) that are not anticipating or experiencing significant growth would be required to have Tier 1 capital of at least three percent of total assets.

- o All other FDIC-supervised banks would need to meet a minimum leverage ratio that is at least 100-to-200 basis points above the three percent minimum -- meaning not less than four percent.
- o A bank with capital below the minimum leverage requirement would be considered to be engaging in an unsafe and unsound practice that could trigger a variety of enforcement actions unless the bank is in compliance with a capital plan approved by the FDIC.
- o Any FDIC-insured bank or savings association with less than two percent Tier 1 capital would be considered in an "unsafe or unsound condition" that could lead to the removal of deposit insurance.

The proposed definition of Tier 1 capital is being considered largely because it would be less confusing and burdensome than the existing system while still comparable to it. For example, the proposed Tier 1 definition is consistent with a similar category used in a risk-based capital policy adopted by the FDIC, the Federal Reserve Board and the Comptroller of the Currency in 1989. The proposed benchmark ratio also would be comparable to the existing one in terms of the resulting required dollars of capital since the components of capital would be revised. The FDIC plan also is similar to leverage ratio guidelines issued by the Federal Reserve Board on August 2.

The FDIC will accept comments on its leverage capital proposal for 45 days after it is published in the <u>Federal Register</u>. The agency expects to adopt a final revised leverage capital standard by year-end 1990, when institutions must begin meeting the risk-based capital standards.

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