FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC APPROVES POLICY STATEMENT ON RISK-BASED CAPITAL

The Board of Directors of the Federal Deposit Insurance Corporation today approved a framework for bank capital standards that would reflect the relative investment risks of various assets banks hold in their portfolios.

The risk-based capital policy statement approved today applies to all state-chartered banks supervised by the FDIC. It does not replace or eliminate existing minimum capital requirements. These existing standards define the components of bank capital and establish leverage ratios that are based on primary and total capital as a percent of total assets. Once the risk-based capital framework is implemented, the FDIC, in conjunction with the other federal banking agencies, will consider whether the definitions of capital and the minimum leverage ratios should be amended.

The FDIC's new risk-based capital policy is part of an ongoing effort by banking regulators in the United States and other major industrialized countries to achieve common international capital standards for banks. Similar risk-based capital standards have been adopted by the Office of the Comptroller of the Currency and by the Board of Governors of the Federal Reserve System. The framework for the risk assessment system closely follows the working paper on capital convergence approved in July 1988 by the Basle Committee on Banking Regulations and Supervisory Practices.

The risk-based capital framework includes: (1) a definition of capital; (2) a system for calculating risk-weighted assets, including off-balance sheet activity; and (3) a schedule, including transitional arrangements, for achieving a minimum supervisory ratio of capital to risk-weighted assets. The risk based capital system will become effective 30 days after the policy

-morestatement is published in the Federal Register. Banks will be expected to achieve a minimum interim supervisory ratio of capital to risk-weighted assets of 7.25 percent by year-end 1990. A final minimum supervisory risk-based capital ratio of 8 percent should be achieved by year-end 1992.

The risk-based capital system divides capital into two tiers -- core capital (Tier 1) and supplementary capital (Tier 2). For FDIC-supervised banks, core capital is defined as common stockholders' equity (including common stock, surplus and undivided profits), noncumulative perpetual preferred stock, and minority interests in consolidated subsidiaries. Core capital excludes all intangible assets except mortgage servicing rights.

Supplementary capital is limited to 100 percent of core capital. Supplementary capital includes cumulative perpetual preferred stock, auction rate preferred stock, mandatory convertible debt, the allowance for loan and lease losses, term subordinated debt and limited-life preferred stock. The amount of term subordinated debt and intermediate term preferred stock that can be included in supplementary capital is limited to 50 percent of Tier 1 capital. In addition, beginning at year-end 1990, restrictions will be placed on the amount of the allowance for loan and lease losses that can be credited toward supplementary capital.

The risk-based capital framework assigns one of four weights to balance sheet assets -- 0, 20, 50 and 100 percent. Off-balance sheet items are converted to an on-balance sheet "credit equivalent" amount, usually by multiplying the face amount of the off-balance sheet item by a "conversion factor." The resulting credit equivalent amount is then assigned to one of the four risk-weight categories.

Although the policy statement does not immediately change existing regulatory reporting requirements, revisions to the Reports of Income and Condition filed quarterly by banks ultimately will be made. The FDIC, in conjunction with the other federal banking agencies, will seek to minimize the extent of the additional reporting burden that the risk-based capital framework may entail, particularly as it relates to smaller banks.

Banks are encouraged to begin monitoring their risk-based capital positions and to work toward achieving or maintaining at least the interim and final minimum supervisory risk-based capital ratios. To aid state nonmember banks in this endeavor, a simplified risk-based capital worksheet will be provided to these banks by the FDIC in the near future.

The FDIC's risk-based capital policy statement and the July 1988 working paper of the Basle Committee on Banking Regulations and Supervisory Practices are available from the FDIC Corporate Communications Office.

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