FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC PROPOSES POLICY STATEMENT ON RISK-BASED CAPITAL

The Board of Directors of the Federal Deposit Insurance Corporation today agreed to seek public comment on a proposed statement of policy on risk-based capital. This proposal is part of an ongoing effort by federal banking agencies in the United States and foreign banking regulators which will result in the establishment and convergence of international capital standards for banks.

The risk-based capital framework reflected in the proposed policy statement was developed jointly with representatives from the Federal Reserve System and the Office of the Comptroller of the Currency. It is largely based on the December 10, 1987, consultative paper prepared by the Basle Committee on Banking Regulations and Supervisory Practices.[1/] The proposal also reflects comments received in response to the joint United States/United Kingdom risk-based capital proposal that was approved by the Board of Directors on March 31 of last year.

The FDIC proposal would apply to all state nonmember banks, regardless of size, but would not replace or eliminate the existing Part 325 primary and total capital to total assets ratios. However, the FDIC is seeking comments on ways to minimize the additional reporting burden a risk-based capital

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1/ The Committee is comprised of representatives from the central banks and supervisory authorities of the Group of Ten Countries (Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, United Kingdom, United States), Switzerland and Luxembourg. Officials from the Federal Deposit Insurance Corporation, the Federal Reserve System and the Office of the Comptroller of the Currency are members of the Basle Supervisors Committee. Copies of the Basle Committee's December 10 consultative paper are available upon request.

system could create, particularly for smaller banks and other institutions with minimal off-balance sheet exposure. The FDIC, in conjunction with the other federal banking agencies, will consider whether the existing leverage ratios should continue to be employed once the risk-based capital framework is fully implemented. If a decision is made to retain a leverage requirement, the agencies will also consider whether the definition of capital for leverage purposes should be revised to conform with the definition of capital used for risk-based capital purposes.

The proposed risk-based capital framework sets forth: a definition of capital for risk-based capital purposes; a system for calculating risk-weighted assets by assigning risk weights to balance sheet assets and off-balance items; and a schedule, including transitional arrangements, for achieving a minimum supervisory target ratio of capital to risk-weighted assets.

The framework establishes no initial target ratio but proposes an interim target risk-based capital ratio of 7.25 percent by year-end 1990 and a minimum target ratio of capital to risk-weighted assets of 8 percent by the end of 1992.

For risk-based capital purposes, capital would be divided into two tiers -- core capital (Tier 1) and supplementary capital (Tier 2). For state nonmember banks, core capital generally would consist of common stockholders' equity capital (including common stock, surplus and undivided profits) plus any minority interests in the common equity capital accounts of consolidated subsidiaries less the amount of all intangibles other than mortgage servicing rights.

Supplementary capital, which would be limited to 100 percent of core capital, would include perpetual preferred stock, mandatory convertible debt, the allowance for loan and lease losses, and certain forms of term subordinated debt and limited-life preferred stock.

The total amount of term subordinated debt and intermediate-term preferred stock eligible for inclusion as a component of supplementary capital would be limited to 50 percent of core capital. In addition, beginning at year-end 1990, certain restrictions would be placed on the amount of the allowance for loan and lease losses that can be included as a component of capital.

Under the risk-based capital framework, balance sheet assets are assigned to one of five risk weights -- 0, 10, 20, 50 or 100 percent. Off-balance sheet items are first converted to an on-balance sheet "credit equivalent" amount, usually by multiplying the face or notional amount of the off-balance sheet item by an appropriate "conversion factor." The resulting credit equivalent amount is then slotted in one of the five risk-weight categories.

A joint Federal Register notice on the proposed risk-based capital framework is being published by the Federal Deposit Insurance Corporation, the Federal Reserve System and the Office of the Comptroller of the Currency. This notice includes a common preamble which describes the risk-based capital framework, together with the proposed risk-based capital guidelines of each of the three agencies.

Individuals who wish to comment on the risk-based capital proposal may send their comments to Hoyle L. Robinson, Executive Secretary, Federal Deposit Insurance Corporation, 550 17th Street, N.W., Washington, D.C. 20429. Comments should be received no later than May 13, 1988.

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