Joint News Release

Office of the Comptroller of the Currency
Federal Deposit Insurance Corporation

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The Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) are sending to the Federal Register final rules raising capital requirements for banks. The rules for the first time set the same capital requirements for all national and FDIC insured state nonmember banks, regardless of size. In the near future, the Board of Governors of the Federal Reserve System is expected to finalize its guidelines requiring identical minimum capital ratios for state member banks and bank holding companies.

The rules raise total capital levels in the banking system to 6 percent, and require that 5 1/2 percent be in primary capital. Previously, OCC's total capital requirement for national banks was 6 percent for community banks and 5 1/2 percent for multinational and regional banks. OCC's primary capital requirement for national banks was 5 percent for multinational and regional banks and 6 percent for community banks. Under the FDIC's previous guidelines, all state nonmember banks were subject to a 5 percent minimum equity capital ratio.

The agencies estimate that over $2.5 billion in capital has already been added to the banking system since the higher capital levels were originally proposed last year. Based on data from the third quarter of 1984, the capital shortfall in the banking system is about $6.3 billion.

Today's rules also define capital. The OCC and FDIC include in primary capital: common and perpetual preferred stock; capital surplus; undivided profits; capital reserves; some mandatory convertible debt; minority interests in consolidated subsidiaries; net worth certificates; and the allowance for loan and lease losses. All intangible assets except purchased mortgage servicing rights will be deducted from primary capital. The rules proposed last year deducted all intangible assets from primary capital, but added them back to secondary capital. The agencies' final rules now define secondary capital to include <u>only</u> subordinated notes and debentures and limited life preferred stock. The total of these instruments is limited to 50 percent of primary capital.

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The rules provide that the two agencies will set higher capital requirements when a bank's circumstances warrant. The rules also outline steps for issuing directives to enforce a specific bank's required capital levels. If the rules or the terms of an agency directive are violated, officers, directors or employees of a bank can be subject to civil money penalties. In addition, banks that do not comply with the provisions of the rules will be subject to agency enforcement action. The FDIC may bring an action to terminate the insurance of any insured bank operating with a primary capital ratio of less than 3 percent, unless the institution enters into a satisfactory agreement to correct its capital deficiency.

The agencies are concerned that some banks may attempt to comply with the regulation in ways that reduce liquidity or increase risk. Banks should avoid decreasing liquid asset levels to achieve the minimum capital ratios. The agencies will impose higher capital requirements on banks with low liquidity or high levels of risk, including standby letters of credit and other off-balance sheet risks.

The FDIC has adopted the same minimum capital requirements for mutual savings banks. However, due to the recent adverse conditions in the thrift industry, the FDIC also set guidelines that permit mutual savings banks more time to achieve these requirements. Qualifying mutual savings banks with primary capital ratios of 3 percent or more have up to 5 years to attain the minimum capital requirements.

The final rules will be effective 30 days after publication in the Federal Register.

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(Attached are copies of the FDIC's final rule on capital maintenance and a statement of policy explaining various parts of the rule and giving guidance on how the FDIC intends to apply the rule.)

Attachments

Distribution: Insured State Nonmember Banks (Commercial and Mutual)