# FDIC NEWS RELEASE

FEDERAL DEPOSIT INSURANCE CORPORATION

FOR IMMEDIATE RELEASE

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## FDIC ANNOUNCES PROPOSED REGULATION SETTING MINIMUM CAPITAL ADEQUACY LEVELS

The Board of Directors of the Federal Deposit Insurance Corporation has issued for public comment a proposed regulation to be used in determining the capital adequacy of insured nonmember commercial and savings banks. The deadline for submitting comments is September 18, 1984.

The proposed regulation will be applied to the examination and supervisory process as well as the analysis of applications acted upon by the agency. The regulation will be reviewed periodically for possible adjustment due to changes in the economy, financial markets, and banking practices.

In the proposed regulation, the FDIC would establish definitions and minimum requirements for primary and total capital. Under the proposal, a minimum acceptable level of total capital to assets is six percent, of which five and one-half percent must be in the form of primary capital.

The proposed regulation also would provide for implementation of the International Lending Supervision Act of 1983 (ILSA). This legislation requires the federal banking agencies to establish minimum levels of capital for individual banks and the industry as a whole. It also authorizes the regulators to issue and enforce directives to individual banks regarding their capital levels.

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The proposed capital regulation is designed to:

. strengthen the banking system's capital base in light of existing conditions in the national and international economies.

. eliminate existing disparities in capital minimums required of banks of different sizes supervised by the FDIC.

. provide direction to banks for capital and strategic planning purposes.

The proposed minimums would apply to sound and well-managed banks of all sizes that exhibit no material financial weaknesses. Banks that are below the minimum level on the effective date of the regulation will be given a reasonable time to bring their capital levels into compliance. Higher capital levels will be mandated for banks that exhibit more than a moderate degree of on or off-balance sheet risk or other characteristics that indicate the need for maintenance of higher capital levels. The FDIC will retain the prerogative to require more primary or total capital than the minimums if conditions warrant.

Under the proposed regulation, total capital includes all primary capital components plus, subject to certain restrictions, subordinated notes and debentures, limited life preferred stock and that portion of undivided profits represented by intangible assets. Primary capital consists of common stock, capital surplus, undivided profits (less intangible assets), reserves for contingencies and other capital reserves, net worth certificates issued to the FDIC, minority interests in consolidated subsidiaries, allowances for possible loan and lease losses, and certain mandatory convertible instruments limited to 20 percent of the other primary capital components.

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Banks with capital ratios below the minimum will be subject to appropriate administrative actions. In addition, those banks can expect to have their applications denied. Any insured bank operating with less than three percent primary capital also will be subject to possible termination of insurance proceedings by the FDIC.

To provide protection against unforeseen adversity the FDIC expects even the highest quality banks to maintain primary and total capital above the levels in the proposed regulation. For institutions that currently have ratios in excess of the levels proposed, the FDIC said that it will not condone a decrease in capital ratios through payment of excessive dividends or unsound asset growth.

The FDIC solicited comments on the proposed rule from interested parties. Comments must reach the FDIC no later than 30 days following the proposal's publication in the Federal Register. Copies are available from the FDIC Information Office.

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