FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC ADOPTS REVISIONS TO LEVERAGE CAPITAL STANDARD

The FDIC's Board has agreed to revise the agency's "leverage capital" requirements that ensure that a portion of a bank's existing assets and future asset growth will be funded by owners' equity and not just by insured deposits.

The FDIC's existing leverage ratio requirements have not been substantially changed since they were adopted in 1985. The revisions are intended primarily to bring the definition of capital under the leverage requirements more closely in line with that used in risk-based capital guidelines that went into effect at year-end 1990. The two standards are significant measurements of capital adequacy. The leverage ratio compares capital to total balance sheet assets, while the risk-based ratio compares capital to risk-weighted assets and off-balance sheet activity in order to make capital levels more sensitive to the risk profiles of individual banks.

In general, the revised leverage capital rule combines a more narrow definition of capital with a lower minimum acceptable ratio of capital to assets. As such, the net effect should be reduced confusion over the definition of capital but little, if any, change in minimum capital standards.

The FDIC noted that the leverage requirement is only a minimum standard. Most banks are expected to, and generally do, have capital well above the minimum.

The FDIC's new leverage capital rule is consistent with measures recently adopted by the other federal regulatory agencies and is substantially the same as an FDIC proposal issued for public comment last September.

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The revised rule will apply to the approximately 7,500 state nonmember banks and 500 savings banks that the FDIC supervises. However, the rule also will affect other depository institutions that file applications with the FDIC or that are deemed to be in an unsafe or unsound condition.

Under the previous rule, FDIC-supervised banks needed to maintain "primary capital" of at least 5.5 percent of total assets and "total capital" of at least six percent. Primary capital included common stockholders' equity, all forms of perpetual preferred stock, the entire allowance for loan and lease losses, and limited amounts of mandatory convertible debt. "Secondary capital," which also could be used to meet the total capital requirement, included subordinated debt and limited-life preferred stock.

Under the revised leverage standard, banks will have a single, more narrow definition of capital. In most instances, this "Tier 1" or "core" capital will consist of common equity capital minus all intangible assets other than for limited amounts of purchased mortgage servicing rights. Among the items excluded from the more narrow definition is a bank's loan loss allowance.

The most highly-rated banks in terms of safe and sound operations that are not anticipating or experiencing significant growth will be required to meet a minimum Tier 1 leverage capital ratio of at least three percent of total assets. All other banks must have at least 100-to-200 basis points above this three percent minimum (i.e., at least four percent). A state nonmember bank that is below the minimum leverage requirement will be deemed to be engaging in an "unsafe or unsound practice" that could trigger enforcement action unless the bank complies with a capital plan approved by the FDIC. Any FDIC-insured bank or savings association with less than a two percent Tier 1 leverage capital ratio will be considered to be in an "unsafe or unsound condition" that could lead to the termination of deposit insurance unless the institution complies with an FDIC agreement for increasing capital.

The rule will take effect 30 days after appearing in the <u>Federal Register</u>.

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