New Capital Rules for Community Banks

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Capital Rules Proposal: June 2012

• On June 7, 2012, the OCC, Federal Reserve Board and FDIC) (the “Agencies”) proposed significant changes to the U.S. regulatory capital framework:

  • U.S. version of the Basel III Proposal

  • The Standardized Approach Proposal

  • The Market Risk Proposal – applicable generally to those with aggregate trading assets and trading liabilities of at least 10% of total assets, or $1 billion
Capital Rules Proposal: June 2012

• U.S. Basel III and Standardized Approaches
  • Far broader than Basel III itself
  • Basel III developed primarily to address the systemic risk presented by large, internationally active banks

• Coverage
  • All banks and thrifts
  • All bank holding companies > $500 million
  • All thrift holding companies
  • Top-tier U.S. holding companies in FBO structure
Major Changes Inherent in Proposal

• Established capital rules and capital floors generally applicable to U.S. banking organizations under Section 171 of Dodd-Frank (the “Collins Amendment”)
• Higher capital ratios
• Changes in components of capital
• New capital ratio: Common equity Tier 1 ("CET1") RBC ratio
• Capital Conservation Buffer
• New PCRA thresholds
• Substantial changes to credit risk weightings (by adopting material elements of Basel II standardized approach for risk-weightings)
Criticisms from Community Banks

• Basel III-based capital should be limited to Advance Approaches banking organizations (generally, those with assets of $250 billion, or those that elect to use the advance approaches rule to calculate total risk-weighted assets under Basel II)
  • Basel III designed to address conditions that caused financial crisis: community banks not implicated
  • Proposal doesn’t fit community bank business model and risk profile

• Higher capital ratios will impact ability of small banks to lend
• Community banks have less access to capital
• Too complex and expensive to administer
• Risk weights on mortgages will adversely affect mortgage market
• Proposed LTV ratios on mortgages (for risk-weights) impose recordkeeping burden
• Inclusion of unrealized gains and losses on AFS debt securities introduces volatility
• Phase out of TruPS inconsistent with Dodd-Frank
Interim Final Capital Rules

- Adopted in July of 2013 separately by Fed, FDIC and OCC (substantially the same)
- Generally consistent with June 2012 Proposal
- Principal concessions:
  - Ability to “opt-out” of AOCI as capital component
  - Retention of existing risk-weightings for residential mortgages
  - Grandfathering of TRuPS/cumulative preferred for smaller bank holding companies
  - Temporary exemptions for savings and loan holding companies deriving >25% of assets from (non-credit) insurance underwriting and unitaries predominantly engaged in non-financial activities
  - For BOLI: look through to risk weight of underlying assets or guarantor
  - Longer phase-in periods
- Agencies propose changes to Market Risk Proposal (to align with changes made by Basel Committee)
Adoption of Interim Final Rules

- Adopted unanimously by 3 banking agencies (except for dissent by FDIC Vice-Chair Thomas Hoenig)

- Hoenig (consistent with this public statements) expressed concern about complexity and disparate impact of the rules; and failure to assure adequate levels of capital in relation to the leverage ratio

- FDIC Director Jeremiah Norton supported adoption of rules but expressed concern about significant shortcomings in treatment of various bank exposures (such as residential mortgages and sovereign exposures)

- These rules likely to continue to be a work in progress
Pro Forma Effect (Fed staff)

- 95% of bank holding companies under $10 billion and all with $10 billion or more that meet current regulatory capital requirements would meet the 4.5% minimum CET1 ratio

- Nearly 90% with less than $10 billion in assets would meet the CET1 plus the capital conservation buffer (7%)

- Nearly 95% of bank holding companies with $10 billion or more would meet the 7% CET1 threshold

However, this does not address cost and complexity of application
Interim Final Capital Rules

• Structure of regulatory capital rules
  • Capital components
  • Risk adjusted assets
  • Ratios

• Purpose
  • Better loss absorption on a going-concern basis
  • Behavior modification

• Legal Foundation
  • Commitment to Basel III
  • Collins Amendment (Section 171 of Dodd-Frank)
  • New explicit authority to impose capital requirements
Three Broad Issues in Capital Rules

- Capital Ratios
- Components of Capital
- Risk Weights
Capital Ratios

Capital Ratios
Minimum Capital Ratios (fully phased-in)

- **3 minimum risk-based capital ratios**
  - Common equity Tier 1 (“CET1”) capital ratio of **4.5 percent** (new)
  - Tier 1 capital ratio of **6 percent** (increase from 4%)
  - Total capital ratio of **8 percent** (same)

- **Leverage ratio**
  - Tier 1 ratio to average consolidated assets of **4 percent**
    - Similar to current rule for most U.S. banks
    - Current favorable 3 percent requirement for CAMELS 1-rated U.S. banks and comparably ranked bank holding companies eliminated
    - New definition of Tier 1 capital excludes some instruments currently included
    - Unlike Basel leverage ratio of 3 percent, denominator does not include off-balance sheet items
Supplemental Leverage Ratios

• Additional Tier 1 leverage ratios proposed (not adopted as part of final rule) for 8 largest US banking holding companies (considered as global systemically important banks by Basel), effective January 1, 2018
  • Minimum supplemental leverage ratio of 6 percent of Tier 1 capital for any insured bank in order to be considered “well capitalized” under PCA framework
  • Minimum supplemental leverage ratio of 3 percent, plus an additional leverage “buffer” of 2 percent (for a total of 5 percent) of Tier 1 capital to be maintained at holding company level
  • As with conservation buffer, described below, failure to meet the leverage buffer would result in restriction on payouts of capital distributions and discretionary bonus payments to executives
• The supplemental leverage ratios would be measured against both on-balance sheet and off-balance sheet assets, but the proposal doesn’t address the specific exposures
• These supplemental leverage ratios are higher than 3 percent capital ratio proposed by Basel Committee
• Intended to encourage conservation of capital and to address, in part, the risk of being “too big to fail”
Capital Conservation Buffer ("CCB")

- Ratio of CET1 capital to risk-based assets of 2.5 percent (on top of each risk-based ratio)

- A bank’s CCB will equal the lowest of the following three amounts:
  - Bank’s CET1 ratio minus 4.5%
  - Bank’s Tier 1 RBC ratio minus 6%
  - Bank’s Total RBC ratio minus 8%

- Failure to meet buffer results in restrictions on payouts of capital distributions and discretionary bonus payments to executives

- Maximum amount of restricted payout equals eligible retained income* times a specified payout ratio. Payout ratio is a function of the amount of the bank’s capital conservation buffer capital

  *Most recent 4 quarters of net income, net of cap distributions and certain discretionary bonus payments
Countercyclical Capital Buffer

• For Advanced Approaches banking organizations:
  • Not a concern for community banks
  • A macro-economic countercyclical capital buffer of up to 2.5 percent of CET1 capital to risk-weighted assets
  • Augments the capital conservation buffer
  • Applied upon a joint determination by federal banking agencies
  • Unrestricted payouts of capital and discretionary bonuses would require full satisfaction of countercyclical capital buffer as well as capital conservation buffer
## Capital ratio table

<table>
<thead>
<tr>
<th>Type of ratio</th>
<th>Current</th>
<th>New</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Minimum risk-based ratios</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CET1 risk-based</td>
<td>N/A</td>
<td>4.5%</td>
</tr>
<tr>
<td>Tier 1 risk-based*</td>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td>Total risk-based</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>CET1 capital conservation buffer (risk-based)</td>
<td>N/A</td>
<td>+2.5%</td>
</tr>
<tr>
<td>CET1 countercyclical capital buffer (risk-based for Advanced Approaches banks)</td>
<td>N/A</td>
<td>+2.5%</td>
</tr>
<tr>
<td><strong>Minimum Leverage ratios</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier 1 leverage to average assets</td>
<td>3% / 4%</td>
<td>4%</td>
</tr>
<tr>
<td>Tier 1 supplement proposal for 8 largest banks</td>
<td>N/A</td>
<td>3% + 2%</td>
</tr>
</tbody>
</table>

*Existing: at least 50% of qualifying total capital must be Tier 1; no such limit under new rule
Supervisory Assessment of Capital

• Supervisory Assessment of Capital Adequacy
  • Banking organizations must maintain capital “commensurate with the level and nature of all risks” to which the banking organization is exposed

• General authority for regulatory approval, on a joint consultation basis, of other Tier 1 or Tier 2 instruments on a temporary or permanent basis

• The regulators can also invalidate/modify capital instruments and risk-weighting charges on a case-by-case basis
Capital Components

Capital Components
Capital Components

• Three buckets:
  
  • Common equity Tier 1 (“CET1”)
  
  • Additional Tier 1
  
  • Tier 2
CET1 Components

- **Common stock** classified as equity under GAAP. Can include nonvoting common, but voting common should be the dominant element within Common Equity Tier 1 capital.

- **Retained earnings**

- **“AOCI”—**Accumulated other comprehensive income (except unrealized gains/losses on cash flow hedges relating to items that aren’t fair valued on the balance sheet). However, community banks can make a one-time election (at time March 31, 2015 call report or FR Y-9C is filed) not to include most AOCI components in CET1 capital. Represents change from proposal.

- **Qualifying CET1 minority interest** (in a subsidiary that is a depository institution)
CET1 Deductions

- Goodwill + all other intangibles (other than MSAs), net of associated deferred tax liabilities (“DTLs”)
- Deferred tax assets (“DTAs”) arising from NOLs and tax credit carry forwards (net of DTA valuation allowance and net of DTLs)
- Gain-on-sale of securitization exposures
- Defined benefit plan net assets net of DTLs (excluding those of depository institutions with their own plans)
- Certain investments in the capital instruments of other unconsolidated financial institutions
Other CET1 Deductions/Adjustments

• Deductions
  • Investments in financial subsidiaries
  • Savings association impermissible activities
  • Following items >10% individually or >15% aggregate of CET1 capital: DTAs related to temporary timing differences; MSAs; and “significant”* investments in capital instruments of other unconsolidated financial institutions
  • For Advanced Approaches banks, expected credit losses exceeding eligible credit reserves

• Adjustments
  • Deduct unrealized gains and add unrealized losses on cash flow hedges

* If bank owns >10% of other institution’s common stock, all investments are “significant”
Additional Tier 1 Capital

• Noncumulative perpetual preferred stock
• Other capital instruments that satisfy specific criteria
• Tier 1 minority interests that are not included in a banking organization’s CET1 capital
• Qualifying bank-issued TARP and SBLF preferred securities that previously were included in Tier 1 capital
Significant exclusions from Tier 1 Capital

• Cumulative preferred stock no longer qualifies as Tier 1 capital of any kind (subject to phase-out)

• Certain hybrid capital instruments, including trust preferred securities, no longer qualifies as Tier 1 capital of any kind (subject to phase-out)

• But such non-qualifying capital instruments issued before May 9, 2010 by banking organizations with less than $15 billion in assets (as of December 31 2009) are grandfathered, except grandfathered capital instruments can’t exceed 25% of Tier 1 capital. This is consistent with Section 171 of DFA and is a change from June 2012 Proposal
Tier 2 Capital Components

- Cumulative and limited life preferred, subordinated debt and other qualifying instruments that satisfy specified criteria (including qualifying TARP and SBLF preferred securities that currently qualify as Tier 2 capital). No limit on such instruments includible in Tier 2
- Qualifying total capital minority interest not included in Tier 1 capital
- Allowance for loan and lease losses ("ALLL") up to 1.25% of risk-weighted assets excluding ALLL
- No limit on Tier 2 capital includible in total capital
Deductions from Tier1/Tier2 capital

- Direct and indirect investments in own capital instruments
- Reciprocal cross-holdings in financial institution capital instruments
- Direct, indirect and synthetic investments in unconsolidated financial institutions. Three basic types:
  - “Significant” Tier 1 common stock investments
  - “Significant” non-common-stock Tier 1 investments
  - Non-significant investments (aggregate 10% ceiling)
- The Basel III “corresponding deduction” approach for reciprocal cross holdings, non-significant investments in capital of unconsolidated financial institutions, significant non-common stock investments and non-significant investments
- Volcker Rule covered fund investments (from Tier 1)
- Insurance underwriting subsidiaries
Minority Interests

- Limits on type and amount of qualifying minority interests that can be included in capital
- Minority interests would be classified as a CET1, additional Tier 1, or total capital minority interest depending on the classification of the underlying capital instrument and on the type of subsidiary issuing such instrument
- Qualifying CET1 minority interests are limited to a depository institution ("DI") or foreign bank that is a consolidated subsidiary of a banking organization
- Limits on the amount of includible minority interest would be based on a computation generally based on the amount and distribution of capital of the consolidated subsidiary
# Prompt Corrective Action (PCA)*

<table>
<thead>
<tr>
<th>Category</th>
<th>Total RBC</th>
<th>Tier 1 RBC</th>
<th>CET1 RBC</th>
<th>Tier 1 Leverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Well capitalized</td>
<td>10%</td>
<td>8%</td>
<td>6.5%</td>
<td>5%</td>
</tr>
<tr>
<td>Adequately capitalized</td>
<td>8%</td>
<td>6%</td>
<td>4.5%</td>
<td>4%</td>
</tr>
<tr>
<td>Undercapitalized</td>
<td>&lt;8%</td>
<td>&lt;6%</td>
<td>&lt;4.5%</td>
<td>&lt;4%</td>
</tr>
<tr>
<td>Significantly undercapitalized</td>
<td>&lt;6%</td>
<td>&lt;4%</td>
<td>&lt;3%</td>
<td>&lt;3%</td>
</tr>
<tr>
<td>Critically undercapitalized</td>
<td></td>
<td></td>
<td></td>
<td>Tangible equity**/total assets ≤ 2%</td>
</tr>
</tbody>
</table>

*For non-Advance Approaches Institutions

**Tier 1 Capital plus non-Tier 1 perpetual preferred stock
Risk-Weights

Risk-Weighted Assets

(Following are summaries of the new risk-weightings: this is a complex area; please refer to the actual rules for a full explanation)
Risk Weights that are the same

- Exposures to cash, CIPC, U.S. Government and its agencies, U.S. GSEs, U.S. banks, US PSEs, non-structured corporate investment securities, fixed assets

- The following credit exposures:
  - 1-4 family residential mortgages
  - Consumer loans and credit cards
  - Owner-occupied CRE loans
  - 1-4 family acquisition, construction and development ("ADC") loans
  - Income property real estate loans (that are not ADC loans)
  - Statutory multifamily loans
  - Pre-sold construction loans
New: Eleven Broad Asset Classes

- Residential mortgages
- Commercial real estate lending
- Corporate exposures
- Off-balance sheet exposures
- OTC derivatives
- Cleared transactions
- Unsettled transactions
- Securitization exposures
- Equity exposures
- Sovereign, public sector entities (“PSEs”) and foreign bank exposures
- Other assets
Residential Mortgages

• June 2012 proposal for residential mortgages abandoned; existing risk weights to be used going forward:
  • 50% for first-lien residential mortgages (no change)
  • 100% for all others (no change)
  • 100% for all residential mortgages that are past due 90 days or more
  • 50%/100% for loans on multifamily properties (no change)
Commercial Real Estate ("CRE") Loans

• Current 100% weight still generally applies with exceptions
• High Volatility Commercial Real Estate ("HVCRE") loans (150%). ADC CRE loans are presumptively HVCRE Loans unless:
  • LTV equal to or less than maximum supervisory ratio (65% acquisition; 75% development; 80% construction);
  • Developer contributes up front capital of at least 15% of appraised “as completed” value; and
  • Capital remains in project through the life of the project
• The following ADC loans are not HVCRE loans:
  • 1- to 4- family residential projects
  • Community development loans
  • Loans for purchase or development of agricultural land
Corporate exposures

• Essentially a default category exposure where the exposure does not fall into another category
• Current 100% weight still generally applies with exceptions
• Securities firms (100%) (up from 20% under current rules)
Off-balance sheet exposures

• Credit conversion factors (CCFs):
  • 0% CCF – unconditionally cancelable commitments
  • [10% CCF – short-term ABCP facilities – eliminated]
  • 20% CCF – self liquidating, short-term (original maturity of one year or less) commitments and trade-related contingent claims
  • 50% CCF – long-term commitments and transaction-related contingent claims—e.g., performance bonds, standby L/Cs; (no change)
  • 100% CCF – guarantees; “repo-style” transactions now subject to conversion; off-balance sheet securities lending transactions and securities borrowings; financial standby letters of credit; forward agreements; credit enhancing reps and warranties
OTC Derivatives

• Current 50% cap is eliminated
• Retention, generally, of treatment of OTC derivatives in existing rules—which is similar (but not identical) to Basel II standardized approach
• Capital impact depends on measurement of exposure: current credit exposure (fair value but not less than 0) plus probability of future exposure (“PFE”). PFE calculated by multiplying notional principal amount of the OTC derivative contract by an appropriate conversion factor, set out in a table in the rules
  • Conversion factor increases as maturity of contract increases
  • Conversion factor least for interest rate and FX swaps, most for
• Multiple contracts subject to “qualifying master netting agreement” can take advantage of risk-mitigation from netting
Cleared Transactions

• A “cleared transaction” is a derivative or repo-style transaction cleared with a central clearing party (“CCP”)
• Such transactions are granted lower risk weights than trades with counterparties that are not CCPs
• In addition, if a CCP is a “qualified central clearing party” (“QCCP”), then risk weights are even lower
• Under the rules, a QCCP must be a designated financial market utility (“FMU”)
• Only eight FMUs designated to date
• Consistent with Dodd-Frank goal to encourage central clearing of derivatives to reduce systemic risk
Unsettled transactions: new asset class

- Risk of delayed settlement or delivery outside the market standard
- 100% risk weight begins 5 days after failure in delivery vs. payment ("DvP") (securities/commodities) and payment vs. payment ("PvP") (forex) transactions; escalates to 1,250% after 45 days
- Non-DvP/non-PvP transaction involving cash, securities, commodities or currencies with normal settlement period: risk-weighting against fair value of the deliverables begins business day after bank makes its delivery, using counterparty risk-weight; if no delivery by fifth business day, 1,250% risk weight
- Does not apply to certain transactions:
  - Cleared transactions marked to market daily
  - Repo-style transactions
  - One-way cash payments on OTC derivative contracts
  - Transactions with contractual settlement longer than normal
Securitization exposures

• Examples: CMO’s, TruPS, CDOs, MBS, ABS

• New due diligence requirement to demonstrate understanding of risks of particular transaction. Detailed quarterly analysis of each position. Credit ratings eliminated. 20% minimum risk weight

• Three Risk-weighting alternatives (applied consistently)
  • Simplified supervisory formula approach – borrowed from Basel II;
  • Gross-up approach (as currently used);
  • Alternatively: – 1,250% risk weight (may always be used)

• Interest only strips
  • Credit-enhancing interest-only strips – 1,250%, to extent not deducted in connection with gain on sale
  • Non-credit enhancing interest-only strips – 100%
Securitization: alternatives

• Simplified Supervisory Formula: Risk Weight assigned based on several criteria:
  • Weighted average risk weight of underlying collateral
  • Relative size and seniority of a particular security in a structure
  • Delinquency level of underlying collateral

• Gross up Method (similar to current rules)
  • Capital required for subordinated tranches based on the amount of the tranche held plus the pro-rata support provided to senior tranches
  • Use weighted average risk weight of underlying collateral
# Equity Exposures

- **Unconsolidated entities**
  - Current rule – 100%
  - Exposure baseline – adjusted carrying value

<table>
<thead>
<tr>
<th>Sovereigns, international funds, MDBs, FRB stock</th>
<th>0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public sector entities, FHLBs, Farmer Mac</td>
<td>20%</td>
</tr>
<tr>
<td>Community development, effective hedge pairs</td>
<td>100%</td>
</tr>
<tr>
<td>Significant investments in capital of unconsolidated financial institutions and not deducted from capital</td>
<td>250%</td>
</tr>
<tr>
<td>Publicly traded equities; ineffective hedge pair*</td>
<td>300%</td>
</tr>
<tr>
<td>Non-publicly traded equities*</td>
<td>400%</td>
</tr>
<tr>
<td>Investments in hedge funds/certain leveraged investment firms*</td>
<td>600%</td>
</tr>
</tbody>
</table>

*If aggregate carrying value of certain equity exposures does not exceed 10% of total capital, a 100% risk weight may be applied.
Equity Exposures (continued)

• Investment funds (20% risk weight floor-unchanged)
  • Look-through approaches for investment fund exposures
    • Full look-through: investment risk-weighted based on assets owned by fund (new)
    • Simple modified look-through: investment risk-weighted based on highest risk weight of permissible fund investment under prospectus or other offering document (unchanged)
    • Alternative modified look-through: investment risk-weighted based on proportions of risk weights of permissible fund investments under prospectus or other offering document (unchanged)
  • Special rules for assets for nonbanking exposures that are unique to insurance underwriting activities
Sovereign, PSE, bank exposures

- Sovereign exposures
  - 0% for U.S. gov’t, its agencies and the Federal Reserve
  - 20% on conditional claims on U.S. gov’t or its agencies
  - Municipal bonds: go’s (20%); revenue bonds (50%); IDBs (100%)
  - Range of risk weights assigned to those OECD countries with a country risk classification (“CRC”) based on the CRC
  - Zero risk weights for those OECD countries without a CRC
  - 100% risk weight for nonmember countries without a CRC rating
  - 150% risk weight for country with a default within last 5 years
PSE, bank exposures (continued)

- PSE exposures
  - Certain supranational and multilateral development banks (0%)
  - US PSEs general obligations and GSEs-non equity (20%); US PSE’s revenue-based obligations (50%)
  - GSE Preferred Stock: Fed/FDIC (100%); OCC (20%)
  - Foreign PSEs:
    - OECD, no CRC rating: general obligations (20%); revenue (50%)
    - CRC-based scale for general obligations—from 20% to 100%
    - CRC-based scale for revenue obligations—from 50% to 150%
    - Non-OECD, no CRC rating—100%
    - PSE in country with sovereign default (150%)
Bank exposures (cont’d)

• Bank exposures
  • US depository institutions and OECD foreign banks without a CRC (20%)
  • Foreign banks with a CRC (one category higher than applicable country risk weight)
  • Non OECD foreign banks without a CRC (100%)
  • Foreign banks from a country within default during last 5 years (150%)
  • Exposure to a financial institution included in that financial institution’s capital is (100%) unless the exposure is (1) an equity exposure (2) a “significant” investment in the capital of an unconsolidated financial institution in the form of common stock (3) an exposure that is deducted from regulatory capital or (4) an exposure subject to 150% risk weight
  • Self-liquidating, trade-related contingent items with maturity of 3 months or less (20%)
  • Securities firms (100%)
Other Assets

• Cash – 0%
• Own-vault gold bullion, and conditionally other-vault bullion – 0%
• Certain cash-settled transactions with a CCP – 0%. Items in process of collection – 20%
• DTAs – 100% for realizable NOL carrybacks, and 250% for non-realizable NOL carrybacks (if not deducted from capital)
• MSAs – 250% if not deducted from capital
• Any asset not otherwise assigned a risk-weight – 100%
Past-due Risk Weights

- Unsecured past-due loans are risk-weighted at 150% except for:
  - 1 - 4 family residential exposures 90 days or more past due (100%) (no change to current treatment)
  - HVCRE (already 150%)
  - Portion of loan balances with eligible guarantees or collateral (risk weight varies based on reliance on guarantee or collateral)
Credit Risk Mitigants

• Unconditional Guarantees from eligible guarantors:
  • Sovereigns, MDBs, BIS, IMF, ECB, EC, QCCPs; GSEs; FHLBs, Farmer Mac
  • FBO, bank holding companies, US banks
  • Entities with investment grade* debt

• Conditional guarantees: contingent obligations of U.S. Gov’t or agencies

• Substitute risk weight of an eligible guarantor for risk weight of exposure (subject to adjustments, e.g., for maturity or currency mismatches)

• Credits derivatives (CDS; total return swaps) that meet specified criteria from eligible counterparties

  *An exposure is “investment grade” if the obligor has adequate capacity to meet financial commitments for the projected life of the asset or exposure: i.e., the risk of its default is low and the full and timely repayment of principal and interest is expected.
Credit Risk Mitigants (Cont’d)

• Eligible collateral on which there is a perfected, first-lien position:
  • Cash (bank deposits); gold bullion; investment grade debt (other than securitized debt); publicly traded equity and convertible debt securities; MMF shares; and other mutual fund shares that are quoted daily*

• Two alternatives:
  • Simple approach – subject to conditions, substitute risk weight of collateral for risk weight of exposure, with 20% minimum risk weight (with some exceptions, e.g., 0% for cash on deposit**)—similar to current rules
  • Collateral haircut approach – available only for eligible margin loans, repo-style transactions and collateralized derivative contracts: haircuts for market volatility of collateral and, if any, currency mismatch

* Agencies rejected use as collateral of conforming residential mortgages and/or those insured by FHA or VA collateralizing warehouse loans
** 0% risk weight for U.S.gov’t securities (but only after discounting market value by 20%).
## Effective Dates and Transition

<table>
<thead>
<tr>
<th>Date</th>
<th>Banks not subject to Advanced Approaches</th>
</tr>
</thead>
</table>
| 1/1/2015   | • Begin compliance with minimum capital ratios  
             • Begin transition for revised definitions of capital (and adjustments and deductions)  
             • Comply with new risk weights  
             • PCA categories effective                                                                 |
| 1/1/2016   | Begin transition for the capital conservation buffer                                                     |
# Effective Dates and Transition

<table>
<thead>
<tr>
<th>Date</th>
<th>Advanced Approaches institutions</th>
</tr>
</thead>
</table>
| 1/1/14     |  • Begin transition for revised capital ratios, definitions of regulatory capital (and adjustments and deductions)  
              • Begin compliance with advanced approaches rule for determining risk-weighted assets     |
| 1/1/15     |  Begin compliance with standardized approach for risk-weight; PCA categories effective            |
| 1/1/16     |  Begin transition for capital conservation and countercyclical buffers                             |
| 2019       |  End of phase in for community banks                                                               |
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