



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D.C. 20551

DIVISION OF SUPERVISION
AND REGULATION

SR 21-21

December 21, 2021

**TO THE OFFICER IN CHARGE OF SUPERVISION AND APPROPRIATE
SUPERVISORY AND EXAMINATION STAFF AT EACH FEDERAL RESERVE BANK
AND INSTITUTIONS SUPERVISED BY THE FEDERAL RESERVE**

SUBJECT: Interagency Statement on the Community Bank Leverage Ratio Framework

Applicability: This letter applies to qualifying banking organizations with less than \$10 billion in total consolidated assets supervised by the Federal Reserve.

The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (collectively, the agencies) today issued a statement to provide information on the use of the two-quarter grace period under the optional community bank leverage ratio framework. The community bank leverage ratio framework provides qualifying community banking organizations the option to calculate only a simple leverage ratio, rather than both risk-based and leverage-based measures of capital adequacy. Following the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the agencies temporarily lowered the framework's community bank leverage ratio requirement to better allow community banking organizations to support households and businesses during the COVID-19 pandemic.

The statement notes that beginning in the first quarter of 2022, the community bank leverage ratio requirement will revert to its original level of 9 percent. In addition, the statement discusses the availability of a two-quarter grace period that generally allows banking organizations additional time to build capital and manage their balance sheets to either remain in the framework or prepare to comply with risk-based capital requirements. The statement from the agencies does not alter any existing agency rules or regulations.

Reserve Banks are asked to distribute this letter to the supervised organizations in their districts and to appropriate supervisory staff. Questions may be sent via the Board's public website.¹

Michael S. Gibson
Director

¹ See <http://www.federalreserve.gov/apps/contactus/feedback.aspx>

Division of
Supervision and Regulation

Attachments:

- *Interagency Statement on the Community Bank Leverage Ratio Framework*

**Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
Office of the Comptroller of the Currency**

Interagency Statement on the Community Bank Leverage Ratio Framework

December 21, 2021

The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (collectively, the agencies) are issuing this statement to provide information and guidance on the use of the two-quarter grace period under the optional community bank leverage ratio framework when the temporary relief measures affecting the framework expire on December 31, 2021. A banking organization that elects the community bank leverage ratio framework when it submits its March 31, 2022, Call Report or Form FR Y-9C will be subject to the 9 percent community bank leverage ratio requirement and must use total consolidated assets as of the report date to determine eligibility.¹ The community bank leverage ratio framework includes a two-quarter grace period that generally allows banking organizations additional time to build capital and manage their balance sheets to either remain in the framework or prepare to comply with the generally applicable risk-based and leverage capital requirements (generally applicable rule).² The agencies encourage affected banking organizations to communicate with their primary federal supervisor should they have any questions.

Background

The agencies adopted the community bank leverage ratio framework to provide a simple measure of capital adequacy for qualifying community banking organizations, consistent with the directive set forth in section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (2019 final rule).³ This optional framework is available to depository institutions and depository institution holding companies that have less than \$10 billion in total consolidated assets and meet other qualifying criteria. A qualifying community banking organization that has elected the framework is not required to calculate and report risk-based capital.

In 2020, the agencies issued a final rule⁴ that temporarily lowered the community bank leverage ratio requirement from 9 percent to 8 percent, consistent with section 4012 of the Coronavirus Aid, Relief, and Economic Security Act. The agencies also established a gradual transition back to the original 9 percent requirement consistent with the 2019 final rule. Pursuant to this transition, in calendar year 2021, the community bank leverage ratio requirement increased to 8.5 percent and beginning on January 1, 2022, will revert to 9 percent.

¹ Consistent with the CBLR framework, an electing banking organization must report a leverage ratio level that exceeds the framework's leverage ratio requirement to qualify for the framework. Similarly, an electing banking organization in the grace period must report a leverage ratio level that exceeds the minimum leverage ratio requirement for the grace period.

² 12 CFR 3 (OCC); 12 CFR 217 (Board); and 12 CFR 324 (FDIC).

³ 84 FR 61776 (November 13, 2019).

⁴ 85 FR 22924 (April 23, 2020) and 85 FR 22930 (April 23, 2020), as finalized at 85 FR 64003 (October 9, 2020).

In 2020, the agencies also issued an interim final rule that permitted banking organizations with under \$10 billion in total consolidated assets as of December 31, 2019, to use asset data as of December 31, 2019, to determine certain regulatory asset thresholds, including eligibility for the community bank leverage ratio framework during calendar years 2020 and 2021.⁵ This interim final rule expires on December 31, 2021. Starting on January 1, 2022, banking organizations must use total consolidated assets as of the report date to determine eligibility for the community bank leverage ratio framework.⁶

Two-Quarter Grace Period

The community bank leverage ratio framework includes a two-quarter grace period during which a qualifying community banking organization that elects the framework and temporarily fails to meet any of the qualifying criteria generally would still be deemed to satisfy the minimum requirements of the agencies' capital rule. Under the framework, a qualifying community banking organization satisfies the capital ratio requirements to be "well capitalized" so long as the banking organization's leverage ratio falls no more than 1 percentage point below the applicable community bank leverage ratio requirement. At the end of the grace period, the banking organization must meet all qualifying criteria to remain in the community bank leverage ratio framework or must comply with the generally applicable rule and the associated reporting requirements.

Starting on January 1, 2022, a qualifying community banking organization will be subject to a leverage ratio requirement of 8 percent in order to use the two-quarter grace period.⁷ At the end of the two-quarter grace period, the banking organization must meet all the qualifying criteria to remain in the community bank leverage ratio framework, including less than \$10 billion in total consolidated assets as of the end of the most recent calendar quarter and a community bank leverage ratio requirement of 9 percent. A community banking organization that does not meet all the qualifying criteria at the end of the grace period must comply with the generally applicable rule and associated reporting requirements. For example, a banking organization that reported under the community bank leverage ratio framework as of December 31, 2021, and met the 8.5 percent leverage ratio requirement and all other qualifying criteria as of December 31, 2021,⁸ would not have to meet the 9 percent leverage ratio requirement until its September 30, 2022 Call Report or Form Y-9C submission in order to remain eligible for the framework.⁹

⁵ 85 FR 77345 (December 2, 2020).

⁶ For example, a banking organization that meets the framework's size qualifying criteria and all other qualifying criteria based on its December 31, 2021 Call Report or Form FR Y-9C submission and does not meet the size criteria in its March 31, 2022 regulatory filing would have until the September 30, 2022 regulatory filing (i.e. by utilizing the two-quarter grace period) to meet all qualifying criteria to remain eligible for the framework.

⁷ For the December 31, 2021 Call Report or Form FR Y-9C submission, the grace period minimum leverage ratio requirement will be 7.5 percent.

⁸ A banking organization whose eligibility for the framework was based on December 31, 2019, total consolidated assets, not current total consolidated assets, would not have been considered to be in the grace period as of December 31, 2021 even though its current consolidated assets as of December 31, 2021 may have exceeded \$10 billion.

⁹ In this example, the banking organization would be required to meet the 8 percent leverage ratio requirement during the grace period (i.e. for the March 31, 2022 and June 30, 2022 Call Report or Form FR Y-9C submission) in

As applicable, community banking organizations that have elected the community bank leverage ratio framework may use the two-quarter grace period included in the framework, and any that do will not be viewed negatively in the examination process due solely to use of the grace period.

Related Links

- [Regulatory Capital Rule: Capital Simplification for Qualifying Community Banking Organizations](#) (PDF)
- [Community Bank Compliance Guide](#) (PDF)
- [Regulatory Capital Rule: Temporary Changes to and Transition for the Community Bank Leverage Ratio Framework](#) (PDF)

order to remain in the framework. A banking organization that began its grace period with its September 30, 2021 regulatory filing or would begin its grace period with its December 31, 2021 regulatory filing must meet a leverage ratio requirement of 9 percent in its March 31, 2022 or June 30, 2022 regulatory filing, respectively, to remain in the framework.