



FEDERAL RESERVE BANK *of* KANSAS CITY

November 8, 2017

Federal Banking Agencies Propose Simplifications to the Capital Rule

Attention: Chief Executive Officer of Each Tenth District State Member Bank and Large Holding Company

In Brief: The Federal Reserve, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (the agencies) issued a notice of proposed rulemaking (NPR) on September 27, 2017, to simplify the capital treatment for certain threshold items and higher risk acquisition, development, or construction (ADC) loans.

Highlights: As part of the recent review of regulations under the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA), the agencies announced that they are developing a proposal that would simplify the capital rules to reduce regulatory burden, particularly for community banks. This NPR is in response to the EGRPRA review, and it applies to banks that are not subject to the advanced capital approaches rules¹.

The proposal would replace the complex definition of high volatility commercial real estate (HVCRE) exposures in the agencies' standardized approach capital framework with a more straightforward definition for higher-risk ADC loans called high volatility acquisition, development, or construction (HVADC). The risk weight for new HVADC exposures would be 130 percent. The proposal would also simplify the threshold deduction treatment for mortgage servicing assets (MSAs), temporary difference deferred tax assets (DTAs) not realizable through carryback, and investments in the capital of unconsolidated financial institutions.

In addition to the NPR, the agencies released a Community Bank Summary of the proposed changes. The summary does not provide complete coverage of the NPR, and banks are encouraged to review the proposed changes in their entirety.

Comments on this proposal must be received by December 26, 2017 and may be provided at <https://www.federalreserve.gov/apps/foia/proposedregs.aspx>.

Contact: Please direct any questions concerning the advisory to your Federal Reserve Bank of Kansas City central point of contact at (800) 333-1010.

Internet Link: A copy of the NPR and a Community Bank Summary are available on the Board's public website at: <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20170927a.htm>

¹ Banking organizations that are not subject to the advanced approaches capital rules are generally those with less than \$250 billion in total consolidated assets and less than \$10 billion in total foreign exposure.