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ABA De Novo Quarterly Statistics Offer New Features

An enhancement to the ABA De Novo Quarterly Statistics has been added to enable bankers to show bank specific figures, compared to the top 25% or bottom 25% categories. Your bank's figures will appear by typing your FDIC number in the box at the middle of the page. Questions about how to use this new tool? Contact [Kim Michael](#).

2010 Second Quarter De Novo Performance Statistics Now Available

The 2010 second quarter De Novo Statistics compared to the 2009 year end statistics reflect continued positive performance in the most important areas of growth, profitability and quality of assets.

All de novos had increases in total assets and deposits. All classes had increases in total loans, except the 2006 de novos, which showed a small decrease in total loans of \$3.3 million (3.6%) from year-end.

All de novos reflect an increase in return on average assets and return on average equity.

Net charge-offs to average loans decreased for 2006 and 2007 de novos. 2008 and 2009 de novos had no loan charge-offs.

The 2008 and 2009 de novos had no non-performing loans. 2006 and 2007 classes had minor non-performing loans. 2006 de novos had only a .34% increase from year-end, while the 2007 class had only a minor .37% increase. [View Statistics](#). For more information, contact [Bob Turicchi](#).

The Changing Face of Bank Capital -- What Does the Basel Committee's New Agreement Mean for Me?

Mark Tenhundfeld, Senior Vice President, ABA Office of Regulatory Policy

People sometimes think of the biggest banks when they hear the words "Basel Committee." Indeed, much of the Basel Committee's work has focused on multinational banks. However, a recent announcement by the Committee has the potential to change the capital rules for all banks, regardless of size.

On September 12, the Basel Committee issued a [press release](#) announcing an agreement on higher minimum capital standards. This article attempts to answer some questions about how this new agreement will play out.

How will the minimum capital requirements change? Under current rules, banks effectively have to hold an

amount of common stock equal to only 2% of their risk-weighted assets and total capital equal to at least 8% of risk-weighted assets. The new agreement will require banks to hold common stock in an amount equal to at least 7% of risk-weighted assets and total capital of at least 10.5%. These minimums must be met by January 1, 2019. Before then, the required minimum will be raised gradually starting in 2013.

I thought the new minimums were 4.5% for common stock and 8% for total capital. Technically, that's correct. However, the agreement calls for a "capital conservation buffer," which will require another 2.5% of risk-weighted assets in common stock on top of the minimums. Thus, as a practical matter, banks will have to hold common stock equal to at least 7% of their risk-weighted assets and total risk-based capital equal to at least 10.5%.

How does the capital conservation buffer work? A bank that drops below 7% common equity and 10.5% total capital will be subject to increasingly onerous requirements, including limits on the ability of a bank to pay dividends, bonuses, or other payments that could be used to increase the bank's capital.

Are there other "buffers" being contemplated? Yes. The Basel Committee is working on a "countercyclical" buffer, which would be used to take the steam out of an economy that is overheating. That buffer could be as high as an additional 2.5% of common equity, although much more work will need to be done before this is finalized. It's not clear at this point when exactly the countercyclical buffer would be imposed.

What about deductions from capital for things like mortgage servicing rights (MSRs) and deferred tax assets (DTAs)? The Basel Committee has agreed that there should be a limit on how much Tier 1 capital can be comprised of MSRs, DTAs, and investments in subsidiaries. The aggregate limit will be 15% of common equity and 10% for each individual component. These limits will be phased in starting in 2014 and will be fully phased-in by 2018.

Will the risk weighting change in the capital calculations? Yes. While the most recent announcement from the Basel Committee did not address the denominator of the capital-to-assets ratio, work is progressing on changing the risk weights for categories of assets.

Are there any provisions in the Basel Committee agreement that will affect de novo banks in particular? There is nothing in the agreement that applies solely to de novos. However, de novos will be subject to the rules along with all other banks once the rules are finalized. Whether a particular de novo bank is affected will depend on how much capital it has (and how much of that is held in the form of common stock), how the regulators change the risk-weights of assets, and whether a bank's primary regulator concludes that the bank needs capital above the required minimums in light of the bank's risk profile.

Will there still be a leverage ratio? Yes. The Basel Committee agreed to adopt a minimum leverage ratio requirement (which is, in essence, a minimum ratio of Tier 1 capital to total assets – both on- and off-balance sheet--with no risk-weighting) of 3%. Even this fairly modest requirement will not be imposed until 2013. At that point, the Basel Committee members will conduct a parallel run of this requirement for 4 years; then, perhaps, add the leverage requirement as a binding constraint starting in 2018. The amount and timing of the leverage requirement reflects a compromise intended to resolve differences of opinion among the Basel Committee members on the issue of whether to impose a minimum leverage ratio.

Do these new minimum capital requirements change the Prompt Corrective Action (PCA) rules? There has been no discussion of changing the PCA rules at this point to conform to the recent Basel Committee announcement. The PCA rules require progressively more severe supervisory responses as a bank's

capital declines. Under the PCA rules, a bank is considered “well capitalized” if it has total capital equal to at least 10% of risk-weighted assets, Tier 1 capital equal to at least 6% of risk-weighted assets, and a leverage ratio of at least 5%. As the regulatory minimum requirements increase, it is possible that the U.S. regulators will be reviewing whether the current PCA rules remain appropriate.

What is the process going forward? The Basel Committee agreement must be ratified by the G20 Leaders. This is expected to occur during their meeting scheduled for November of this year in Seoul. At that point, the U.S. regulators will need to put the agreement into the form of a proposed rulemaking and provide interested parties with an opportunity to comment. Given the enormous amount of work done to date within the Basel Committee, and given the mood of the regulators and Congress to increase capital cushions, it is probable that the U.S. regulators will propose and eventually adopt a rule that conforms very closely to the Basel Committee agreement. It is possible that the U.S. regulators may adopt a phase-in period that is more rapid than that outlined in the Basel Agreement and/or impose capital requirements that are even higher than what the Basel Committee approved. This rulemaking likely will be completed next year.

The ABA has submitted comments on the various Basel Committee proposals and will be submitting comments on the proposed rule once it is published by the U.S. regulators. For more information, contact ABA's [Mark Tenhundfeld](#).

ABA De Novo Bank Executive Compensation Survey – Survey Results Now Available!

ABA De Novo Bank Executive Compensation Survey is now available to all ABA member de novo bank CEOs. Email Kim Michael at kmichael@aba.com to receive your free copy.

ABA's Business Solutions Launches Community Bank Prepaid Program

Business Solutions, an ABA subsidiary, recently launched a new turnkey program that will enable ABA community banks to offer customers prepaid, bank-branded MasterCard cards, including general-purpose reloadable, payroll and gift cards.

Under the Community Bank Prepaid Program -- administered by Chattanooga, Tenn.-based TransCard, a company specializing in prepaid programs -- community banks will be able to create a new revenue stream while tapping into the growing popularity of prepaid cards.

Bank customers can use the cards to pay employees, support college students or help young people learn how to budget. Cardholders will benefit from the fact that the cards are FDIC-insured, are a safer alternative to expensive check-cashing services, have a 100 percent approval rate and carry no risk of overdraft fees.

Cardholders also will be able to use their mobile phones to pay bills, check their balances and receive text-message alerts when there is a transaction or their balance is low.

“This is a real opportunity for banks to expand their revenue by reaching out to members of the under-banked community, who have expressed a desire to have more control of their money,” Business Solutions President Bill Kroll said. “This program eliminates the traditional barriers of entry for banks to become prepaid issuers,” added TransCard CEO Craig Fuller. [Read more](#). For more information, contact ABA's [David Ridley](#).

Don't Miss this Must-Attend CEO Event

The premier event for community bank CEOs takes place February 20-23, 2011, in San Diego at the [ABA](#)

[National Conference for Community Bankers](#), where bankers will have the opportunity to learn the latest information, share ideas with peers and bring back solutions they can put to work immediately. Our banker-designed program, "*Preparing Your Community Bank for Change: Tools for an Evolving Financial Environment*," features sessions on new regulatory reforms, new sources of capital, effective social media, talent retention and mobile banking. For information and to register, [click here](#).

New Alliance with TeleTech Loan Services

ABA Business Solutions recently announced a partnership with TeleTech Loan Services to provide an enhanced mortgage origination and fulfillment solution to address the requirements of today's challenging lending environment. TeleTech manages the complete mortgage origination lifecycle on a turnkey basis with fully licensed representatives based in the United States. All services are provided as private label to keep your brand and messaging at the forefront. TeleTech's mortgage solution helps increase revenue and lower costs while improving efficiency and capital ratios. Visit [TeleTech's Web page](#), or contact ABA's Jerry Sebold at jsebold@aba.com for more information.

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