FHLBank Topeka

Community Bank Leverage Ratio

MPF® PROGRAM REPORTING UNDER THE NEW FRAMEWORK

THE COMMUNITY BANK LEVERAGE RATIO (CBLR) FINAL RULE WAS RECENTLY ADOPTED BY THE FEDERAL BANKING AGENCIES AND BECAME EFFECTIVE ON JANUARY 1, 2020, thereby providing qualifying community banking organizations a simple measure of capital adequacy. The community bank leverage ratio framework is an optional process that is designed to reduce burden by removing the requirements for calculating and reporting risk-based capital ratios.

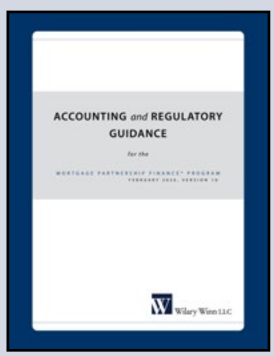
So, what does this mean for Participating Financial Institutions (PFIs) who originate and sell loans under the FHLBank's Mortgage Partnership Finance® (MPF) Program? Prior to the passing of the CBLR framework, PFIs were required to risk-weight MPF-related transactions and report that amount in the denominator of their risk-based capital ratio. Now, *qualifying* banks electing to follow the CBLR framework will not be required to calculate or report risk-based capital ratios.

A *qualifying* community banking organization must comply with the following requirements:

- Leverage ratio (Tier 1 Equity divided by total assets) greater than 9 percent (8% for quarters 2 through 4 of 2020; 8.5% in 2021 and back to 9% in 2022);
- Less than $10 billion in total consolidated assets;
- **Off-balance sheet exposures of 25% or less of total consolidated assets;** and
- Trading assets and liabilities of 5% or less of total consolidated assets.

A community bank that satisfies the qualifying criteria and opts in to the framework will not be subject to other risk-based capital and leverage requirements. In addition, the institution will be deemed to have met the "well-capitalized" ratio requirements and be in compliance with the agencies' generally applicable capital rule. Institutions should reference the final rule implementing the CBLR framework.

Under current rules for capital reporting, a PFI's MPF Program-related transactions are considered off-balance sheet, contingent liabilities. This classification continues under the CBLR framework, specifically the aforementioned off-balance sheet exposures of 25% or less of total consolidated assets qualifying component. The only difference now is the amount you report. It's very simple under the CBLR framework. Report the total net Credit Enhancement (CE) obligation for applicable MPF Program master commitments. There is no risk-weighting or taking the CE obligation amount times 12.5 or any other data manipulations that are required under the current capital rule. **Use the net CE obligation amount on the applicable line when determining your qualifying status.**



Available for download at www.wilarywinn.com/resources

MORE ON CBLR

One of the many resources on the newly established CBLR framework is Accounting & Regulatory Guidance for the MPF Program, authored by Wilary Winn, LLC, a company that provides interest rate and credit risk management advice. The document contains specific references to the MPF Program as well as reporting requirements under the current capital rule.

(continued on next page)

MPF Member

Current Tier 1 Leverage Ratio		9.38%
Qualifying Criteria for Using the CBLR Framework:		
Total Consolidated Assets < $10 billion		$ 450,000
Trading Assets and Trading Liabilities as a % of Total Consolidated Assets (5% limit)	0.00%	-
Off-Balance Sheet Exposures:		
Unused Portion of Conditionally Cancellable Commitments	$ -	
Securities Lent or Borrowed	-	
Other Off-Balance Sheet Exposures	$ 7,000	
Total Off-Balance Sheet Exposures as % of Total Consolidated Assets (25% limit)	1.56%	$ 7,000

The illustration (left) shows the CBLR framework qualifying requirements for a community banking institution. Note that the total net CE obligation for all applicable MPF Program Master Commitments would be reported on the line entitled **Other Off-Balance Sheet Exposures**. The related call report schedules are being amended to reflect the implementation of the CBLR framework.

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