FEDERAL DEPOSIT INSURANCE CORPORATION
12 CFR Part 365
RIN 3064-AF72

Real Estate Lending Standards

AGENCY: Federal Deposit Insurance Corporation (FDIC).

ACTION: Notice of proposed rulemaking and request for comment.

SUMMARY: The FDIC is inviting comment on a proposed rule to amend Interagency Guidelines for Real Estate Lending Policies (Real Estate Lending Standards). The purpose of the proposed rule is to align the Real Estate Lending Standards with the community bank leverage ratio (CBLR) rule, which does not require electing institutions to calculate tier 2 capital or total capital. The proposed rule would allow a consistent approach for calculating the ratio of loans in excess of the supervisory loan-to-value limits (LTV Limits) at all FDIC-supervised institutions, using a methodology that approximates the historical methodology the FDIC has followed for calculating this measurement without requiring institutions to calculate tier 2 capital. The proposed rule would also avoid any regulatory burden that could arise if an FDIC-supervised institution subsequently decides to switch between different capital frameworks.

DATES: Comments must be received by [INSERT DATE 30 DAYS FROM DATE OF PUBLICATION IN THE FEDERAL REGISTER]

ADDRESSES: Interested parties are encouraged to submit written comments. Commenters should use the title "Real Estate Lending Standards (RIN 3064-AF72)" to facilitate the organization of comments. Interested parties are invited to submit written comments, identified by RIN 3064-AF72, by any of the following methods:

- ***FDIC Website***: *https://www.FDIC.gov/regulations/laws/federal*.
- *Mail*: James P. Sheesley, Assistant Executive Secretary, Attention: Comments/Legal ESS (RIN 3064-AF72), Federal Deposit Insurance Corporation, 550 17th Street, NW, Washington, DC 20429.
- *Hand Delivery/Courier*: The guard station at the rear of the 550 17th Street, NW, building (located on F Street) on business days between 7:00 a.m. and 5:00 p.m.
- *Email*: *Comments@FDIC.gov*. Comments submitted must include "RIN 3064-AF72."

Please include your name, affiliation, address, e-mail address, and telephone number(s) in your comment. All statements received, including attachments and other supporting materials, are part of the public record and are subject to public disclosure. You should submit only information that you wish to make publicly available.

Please note: All comments received will be posted generally without change to *https://www.fdic.gov/regulations/laws/federal/*, including any personal information provided.

FOR FURTHER INFORMATION CONTACT:

Alicia R. Marks, Examination Specialist, Division of Risk Management and Supervision, (202) 898-6660, AMarks@FDIC.gov; Navid K. Choudhury, Counsel, (202) 898-6526, or Catherine S. Wood, Counsel, (202) 898-3788, Federal Deposit Insurance Corporation, 550 17th Street, N.W., Washington, DC 20429. For the hearing impaired only, TDD users may contact (202) 925-4618.

SUPPLEMENTARY INFORMATION:

I. POLICY OBJECTIVES

The policy objective of the proposed rule is to provide consistent calculations of the ratios of loans in excess of the supervisory LTV Limits between banking organizations that elect,

and those that do not elect, to adopt the CBLR framework, while not including capital ratios that some institutions are not required to compute or report. The proposed rule would amend the Real Estate Lending Standards set forth in Appendix A of 12 CFR part 365.

Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) directs the FDIC, the Board of Governors of the Federal Reserve System (FRB), and the Office of the Comptroller of the Currency (OCC) (collectively, the agencies) to develop a community bank leverage ratio for qualifying community banking organizations. The CBLR framework is intended to simplify regulatory capital requirements and provide material regulatory compliance burden relief to the qualifying community banking organizations that opt into it. In particular, banking organizations that opt into the CBLR framework do not have to calculate the metrics associated with the applicable risk-based capital requirements in the agencies' capital rules (generally applicable rule), including total capital.

The Real Estate Lending Standards set forth in Appendix A of 12 CFR part 365, as they apply to FDIC-supervised banks, contain a tier 1 capital threshold for institutions electing to adopt the CBLR and a total capital threshold for other banks. The proposed rule would provide a consistent treatment for all FDIC-supervised banks without requiring the computation of total capital. The proposed amendment is described in more detail in Section III, below.

II. BACKGROUND

The Real Estate Lending Standards, which were issued pursuant to section 304 of the Federal Deposit Insurance Corporation Improvement Act of 1991, 12 U.S.C. 1828(o), prescribe standards for real estate lending to be used by FDIC-supervised institutions in adopting internal real estate lending policies. Section 201 of the EGRRCPA amended provisions in the Dodd-Frank Wall Street Reform and Consumer Protection Act relative to the capital rules administered

by the agencies. The CBLR rule was issued by the agencies to implement section 201 of the EGRRCPA, and it provides a simple measure of capital adequacy for community banking organizations that meet certain qualifying criteria.[1] The FDIC is issuing this proposal to amend part 365 in response to changes in the type of capital information available after the implementation of the CBLR rule. Qualifying community banking organizations[2] that elect to use the CBLR framework (Electing CBOs) may calculate their CBLR without calculating tier 2 capital, and are therefore not required to calculate or report tier 2 capital or total capital.[3] The proposed revision to the Real Estate Lending Standards would allow a consistent approach for calculating loans in excess of the supervisory LTV Limits without having to calculate tier 2 or total capital as currently included in part 365 and its Appendix.

The proposal would also ensure that the FDIC's regulation regarding supervisory LTV Limits is consistent with how examiners are calculating credit concentrations, as provided by a statement issued by the agencies on March 30, 2020. The statement provided that the agencies' examiners will use tier 1 capital plus the appropriate allowance for credit losses as the denominator when calculating credit concentrations.[4]

III. REVISIONS TO THE REAL ESTATE LENDING STANDARDS

The FDIC is proposing to amend the Real Estate Lending Standards so all FDIC-supervised institutions, both Electing CBOs and other insured financial institutions, would calculate the ratio of loans in excess of the supervisory LTV Limits using tier 1 capital plus the

[1] 85 FR 64003 (Oct. 9, 2020).

[2] The FDIC's CBLR rule defines qualifying community banking organizations as "an FDIC-supervised institution that is not an advanced approaches FDIC-supervised institution" with less than $10 billion in total consolidated assets that meet other qualifying criteria, including a leverage ratio (equal to tier 1 capital divided by average total consolidated assets) of greater than 9 percent. 12 CFR 324.12(a)(2).

[3] Total capital is defined as the sum of tier 1 capital and tier 2 capital. *See* 12 CFR 324.2.

[4] See the Joint Statement on Adjustment to the Calculation for Credit Concentration Ratios (FIL-31-2020).

appropriate allowance for credit losses[5] in the denominator. The proposed amendment would provide a consistent approach for calculating the ratio of loans in excess of the supervisory LTV Limits for all FDIC-supervised institutions. The proposed amendment would also approximate the historical methodology specified in the Real Estate Lending Standards for calculating the loans in excess of the supervisory LTV Limits without creating any regulatory burden for Electing CBOs and other banking organizations.[6] Further, the FDIC is proposing this approach to provide regulatory clarity and avoid any regulatory burden that could arise if Electing CBOs subsequently decide to switch between the CBLR framework and the generally applicable capital rules. The FDIC is proposing to amend the Real Estate Lending Standards only relative to the calculation of loans in excess of the supervisory LTV Limits due to the change in the type of capital information that will be available, and is not considering any revisions to other sections of the Real Estate Lending Standards.

IV. EXPECTED EFFECTS

As of September 30, 2020, the FDIC supervises 3,245 insured depository institutions. The proposed revision to the Real Estate Lending Standards, if adopted, would apply to all FDIC-supervised institutions. The effect of the proposed revisions at an individual bank would depend on whether the amount of its current or future real estate loans with loan-to-value ratios

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[5] Banking organizations that have not adopted the current expected credit losses (CECL) methodology will use tier 1 capital plus the allowance for loan and lease losses (ALLL) as the denominator. Banking organizations that have adopted the CECL methodology will use tier 1 capital plus the portion of the allowance for credit losses (ACL) attributable to loans and leases.

[6] The proposed amendment approximates the historical methodology in the sense that both the proposed and historical approach for calculating the ratio of loans in excess of the LTV Limits involve adding a measure of loss absorbing capacity to tier 1 capital, and an institution's ALLL (or ACL) is a component of tier 2 capital. Under the agencies' capital rules an institution's entire amount of ALLL or ACL could be included in its tier 2 capital, depending on the amount of its risk-weighted assets base. Based on December 31, 2019, Call Report data—the last Call Report date prior to the introduction of the CBLR framework—96.0 percent of FDIC-supervised institutions reported that their entire ALLL or ACL was included in their tier 2 capital, and 50.5 percent reported that their tier 2 capital was entirely composed of their ALLL.

that exceed the supervisory LTV thresholds is greater than, or less than, the sum of its tier 1 capital and allowance (or credit reserve in the case of CECL adopters) for loan and lease losses. Allowance levels, credit reserves, and the volume of real estate loans and their loan to value ratios can vary considerably over time. Moreover, the FDIC does not have comprehensive information about the distribution of current loan to value ratios. For these reasons, it is not possible to identify how many institutions have real estate loans that exceed the supervisory LTV thresholds that would be directly implicated by either the current Real Estate Lending Standards or the proposed revisions.

Currently, 3,080 FDIC supervised institutions have total real estate loans that exceed the tier 1 capital plus allowance or reserve benchmark in the proposed revision and are thus potentially affected by the proposed revisions depending on the distribution of their loan to value ratios. In comparison, 3,088 FDIC supervised institutions have total real estate loans exceeding the current total capital benchmark and are thus potentially affected by the current Real Estate Lending Standards. As described in more detail below, the population of banks potentially subject to the Real Estate Lending Standards is therefore almost unchanged by these proposed revisions, and their substantive effects are likely to be minimal.[7]

The FDIC believes that a threshold of "tier 1 capital plus an allowance for credit losses" is consistent with the way the FDIC and institutions historically have applied the Real Estate Lending Standards. Also, the typical (or median) FDIC-supervised institution that had not elected the CBLR framework reported no difference between the amount of its allowance for

[7] September 30, 2020, Call Report data.

credit losses and its tier 2 capital.[8] Consequently, although the FDIC does not have information about the amount of real estate loans at each institution that currently exceeds, or could exceed, the supervisory LTV limits, the FDIC does not expect the proposed rule to have material effects on the safety-and-soundness of, or compliance costs incurred by, FDIC-supervised institutions.

V. ALTERNATIVES

The FDIC considered two alternatives, however it believes that none are preferable to the proposal. The alternatives are discussed below.

First, the FDIC considered making no change to its Real Estate Lending Standards. The FDIC is not in favor of this approach because the FDIC does not favor an approach in which some banks use a tier 1 capital threshold and other banks use a total capital threshold, and because the existing provision could be confusing for institutions.

Second, the FDIC considered revising its Real Estate Lending Standards so that both Electing CBOs and other institutions would use tier 1 capital in place of total capital for the purpose of calculating the supervisory LTV Limits. While this would subject both Electing CBOs and other institutions to the same approach, because the amount of tier 1 capital at an institution is typically less than the amount of total capital, this alternative would result in a relative tightening of the supervisory standards with respect to loans made in excess of the supervisory LTV Limits. The FDIC believes that the general level of the current supervisory LTV Limits, which would be retained by this proposed rule, is appropriately reflective of the safety and soundness risk of depository institutions, and therefore the FDIC does not consider this alternative preferable to the proposed rule.

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[8] September 30, 2020, Call Report data.

VI. REQUEST FOR COMMENTS

The FDIC invites comment on all aspects of the proposed rule. In particular, the FDIC invites comment on the use of tier 1 capital plus the appropriate allowance for credit losses in the denominator to calculate the level of loans in excess of the supervisory LTV Limits. Additionally, what alternative capital metric for the denominator when calculating loans in excess of the supervisory LTV Limits should the FDIC consider?

IV. REGULATORY ANALYSIS

A. Proposed Waiver of Delayed Effective Date

The FDIC proposes to make all provisions of the rule effective upon publication of the final rule in the Federal Register. The Administrative Procedure Act (APA) allows for an effective date of less than 30 days after publication "as otherwise provided by the agency for good cause found and published with the rule."[9] The purpose of the 30-day waiting period prescribed in APA section 553(d)(3) is to give affected parties a reasonable time to adjust their behavior and prepare before the final rule takes effect. The FDIC believes that this waiting period would be unnecessary as the proposed rule, if codified, would likely lift burdens on FDIC-supervised institutions by allowing them to calculate the ratio of loans in excess of the supervisory LTV Limits without calculating tier 2 capital, and would also ensure that the approach is consistent, regardless of the institutions' CBLR election status. Consequently, the FDIC believes it would have good cause for the final rule to become effective upon publication.

[9] 5 U.S.C. 553(d)(3).

The FDIC invites comment on whether good cause exists to waive the delayed effective date of the rule once finalized.

B. Regulatory Flexibility Act

The Regulatory Flexibility Act (RFA) generally requires that, in connection with a proposed rule, an agency prepare and make available for public comment an initial regulatory flexibility analysis that describes the impact of the proposed rule on small entities.[10] However, a regulatory flexibility analysis is not required if the agency certifies that the rule will not have a significant economic impact on a substantial number of small entities, and publishes its certification and a short explanatory statement in the Federal Register together with the rule. The Small Business Administration (SBA) has defined "small entities" to include banking organizations with total assets of less than or equal to $600 million.[11] Generally, the FDIC considers a significant effect to be a quantified effect in excess of 5 percent of total annual salaries and benefits per institution, or 2.5 percent of total noninterest expenses. The FDIC believes that effects in excess of these thresholds typically represent significant effects for FDIC-supervised institutions. For the reasons provided below, the FDIC certifies that the proposed rule will not have a significant economic impact on a substantial number of small banking organizations. Accordingly, a regulatory flexibility analysis is not required.

As of September 30, 2020, the FDIC supervised 3,245 institutions, of which 2,434 were "small entities" for purposes of the RFA.[12] The effect of the proposed revisions at an individual

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[10] 5 U.S.C. 601 *et seq.*

[11] The SBA defines a small banking organization as having $600 million or less in assets, where "a financial institution's assets are determined by averaging the assets reported on its four quarterly financial statements for the preceding year." 13 CFR 121.201 n.8 (2019). "SBA counts the receipts, employees, or other measure of size of the concern whose size is at issue and all of its domestic and foreign affiliates. . . ." 13 CFR 121.103(a)(6) (2019). Following these regulations, the FDIC uses a covered entity's affiliated and acquired assets, averaged over the preceding four quarters, to determine whether the covered entity is "small" for the purposes of RFA.

[12] September 30, 2020, Call Report data.

bank would depend on whether the amount of its current or future real estate loans with loan-to-value ratios that exceed the supervisory LTV thresholds is greater than, or less than, the sum of its tier 1 capital and allowance (or credit reserve in the case of CECL adopters) for loan and lease losses. Allowance levels, credit reserves, and the volume of real estate loans and their loan to value ratios can vary considerably over time. Moreover, the FDIC does not have comprehensive information about the distribution of current loan to value ratios. For these reasons, it is not possible to identify how many institutions have real estate loans that exceed the supervisory LTV thresholds that would be directly implicated by either the current Guidelines or the proposed revisions.

Currently, 2,305 small, FDIC supervised institutions have total real estate loans that exceed the tier 1 capital plus allowance or reserve benchmark in the proposed revision and are thus potentially affected by the proposed revisions depending on the distribution of their loan to value ratios. In comparison, 2,312 small, FDIC supervised institutions have total real estate loans exceeding the current total capital benchmark and are thus potentially affected by the current Real Estate Lending Standards. As described in more detail below, the population of banks potentially subject to the Real Estate Lending Standards is therefore almost unchanged by these proposed revisions, and their substantive effects are likely to be minimal.[13]

The FDIC believes that a threshold of "tier 1 capital plus an allowance for credit losses" is consistent with the way the FDIC and institutions historically have applied the Real Estate Lending Standards. Also, the typical (or median) small, FDIC-supervised institution that had not

[13] *Id.*

elected the CBLR framework reported no difference between the amount of its allowance for credit losses and its tier 2 capital.[14] Consequently, although the FDIC does not have information about the amount of real estate loans at each small institution that currently exceeds, or could exceed, the supervisory LTV limits, the FDIC does not expect the proposed rule to have material effects on the safety-and-soundness of, or compliance costs incurred by, small FDIC-supervised institutions. However, small institutions may have to incur some costs associated with making the necessary changes to their systems and processes in order to comply with the terms of the proposed rule. The FDIC believes that any such costs are likely to be minimal given that all small institutions already calculate tier 1 capital and the allowance for credit losses and had been subject to the previous thresholds for many years before the changes in the capital rules.

Therefore, and based on the preceding discussion, the FDIC certifies that the proposed rule, if codified as written, would not significantly affect a substantial number of small entities.

The FDIC invites comments on all aspects of the supporting information provided in this section, and in particular, whether the proposed rule would have any significant effects on small entities that the FDIC has not identified.

C. Paperwork Reduction Act

In accordance with the requirements of the Paperwork Reduction Act of 1995 (PRA), [15] the FDIC may not conduct or sponsor, and a respondent is not required to respond to, an information collection unless it displays a currently-valid Office of Management and Budget (OMB) control number. The FDIC has reviewed this proposed rule and determined that it would not introduce any new or revise any collection of information pursuant to the PRA. Therefore, no submissions will be made to OMB with respect to this proposed rule.

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[14] *Id.*

[15] 44 U.S.C. 3501-3521.

D. Riegle Community Development and Regulatory Improvement Act of 1994

Pursuant to section 302(a) of the Riegle Community Development and Regulatory Improvement Act (RCDRIA),[16] in determining the effective date and administrative compliance requirements for new regulations that impose additional reporting, disclosure, or other requirements on insured depository institution, each Federal banking agency must consider, consistent with principles of safety and soundness and the public interest, any administrative burdens that such regulations would place on depository institutions, including small depository institutions, and customers of depository institutions, as well as the benefits of such regulations. In addition, section 302(b) of RCDRIA requires new regulations and amendments to regulations that impose additional reporting, disclosures, or other new requirements on insured depository institutions generally to take effect on the first day of a calendar quarter that begins on or after the date on which the regulations are published in final form.[17]

The FDIC believes that this proposed rule, if implemented, would not impose new reporting, disclosure, or other requirements, and would likely instead reduce such burdens by allowing Electing CBOs to avoid calculating and reporting tier 2 capital, as would be required under the current Real Estate Lending Standards. Additionally, even if this proposed rule could be considered subject to the requirements of section 302(b) of RCDRIA, the FDIC believes that there is good cause under section 302(b)(1)(A) to have the rule become effective upon publication in the Federal Register for the same reasons that it believes good cause exists under the APA (*see Proposed Waiver of Delayed Effective Date*, *supra*). The FDIC invites comment on the applicability of section 302(b) of RCDRIA to the proposed rule and, if it is applicable, whether good cause exists to waive the delayed effective date of the rule once finalized.

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[16] 12 U.S.C. 4802(a).

[17] *Id.* at 4802(b).

E. Solicitation of Comments on Use of Plain Language

Section 722 of the Gramm-Leach-Bliley Act[18] requires the Federal banking agencies to use plain language in all proposed and final rules published after January 1, 2000. The FDIC has sought to present the proposed rule in a simple and straightforward manner and invites comment on the use of plain language.

List of Subjects in 12 CFR Part 365

Banks, Banking, Mortgages, Savings associations.

Part 365 – REAL ESTATE LENDING STANDARDS

Authority and Issuance

For the reasons stated in the preamble, the Federal Deposit Insurance Corporation proposes to amend part 365 of chapter III of title 12 of the Code of Federal Regulations as follows:

1. The authority citation for part 365 continues to read as follows:

   AUTHORITY: 12 U.S.C. 1828(o) and 5101 *et seq*.

2. Amend Appendix A by revising to read as follows:

Appendix A to Subpart A of Part 365—Interagency Guidelines for Real Estate Lending Policies

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Loans in Excess of the Supervisory Loan-to-Value Limits

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[18] Pub. L. 106-102, section 722, 113 Stat. 1338, 1471 (1999).

The aggregate amount of all loans in excess of the supervisory loan-to-value limits should not exceed 100 percent of total capital.[4] Moreover, within the aggregate limit, total loans for all commercial, agricultural, multifamily or other non-1-to-4 family residential properties should not exceed 30 percent of total capital. An institution will come under increased supervisory scrutiny as the total of such loans approaches these levels.

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[4] For the purposes of these Guidelines, for state non-member banks and state savings associations, "total capital" refers to the FDIC-supervised institution's tier 1 capital, as defined in § 324.2 of this chapter, plus the allowance for loan and leases losses or the allowance for credit losses attributable to loans and leases, as applicable. The allowance for credit losses attributable to loans and leases is applicable for institutions that have adopted the Current Expected Credit Losses methodology.

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Federal Deposit Insurance Corporation.

By order of the Board of Directors.

Dated at Washington, DC, on [date].

James P. Sheesley,

Assistant Executive Secretary.

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