



Basel III Capital Standards: *What It Means for Community Banks*

Tier 1 Common Equity Ratio

- **Background:** The rules will increase the minimum common equity ratio from 2 percent to 4.5 percent of total risk-weighted assets.
- **What's Next:** The ratio will be set at 3.5 percent on Jan. 1, 2013, 4 percent on Jan 1, 2014, and 4.5 percent on Jan. 1, 2015. The standard will apply regulatory adjustments to be phased in between Jan. 1, 2014, and Jan. 1, 2018.
- **What It Means for Community Banks:** *Most community banks already meet these higher standards, though some large banks will need to raise a significant amount of additional capital to meet the requirements.*

Capital Conservation Buffer

- **Background:** Banks will be required to hold a capital conservation buffer (i.e., ratio of Tier 1 common equity net of regulatory deductions to total risk-weighted assets) of 2.5 percent to withstand future periods of stress, bringing the total common equity requirements to 7 percent. Banks that do not maintain the buffer are subject to limitations on dividends and other earnings distributions.
- **What's Next:** The buffer will be phased-in between Jan. 1, 2016, and Jan. 1, 2019, though national authorities may impose shorter phase-in periods.
- **What It Means for Community Banks:** *Most community banks already meet the higher standards. The new rules will offer certainty to the banking industry regarding the capital levels all banks, including the large, internationally active banks, must hold.*

Tier 1 Capital Minimum

- **Background:** The minimum ratio of Tier 1 capital to total risk-weighted assets gradually will be increased from 4 percent to 6 percent.
- **What's Next:** The ratio will be set at 4.5 percent on Jan. 1, 2013, 5.5 percent on Jan. 1, 2014, and 6 percent on Jan. 1, 2015.
- **What It Means for Community Banks:** *U.S. depository institutions currently must meet a 4 percent Tier 1 capital ratio to be deemed adequately capitalized and a 6 percent ratio to be deemed well capitalized, so these standards are expected to have little effect. We will have to wait to see what capital instruments the U.S. regulators will accept for inclusion as Tier 1 capital.*

Countercyclical Buffer

- **Background:** A countercyclical buffer between zero and 2.5 percent common equity will be implemented when there is excess credit growth that is resulting in a system-wide buildup of risk.
- **What's Next:** The timing of implementing the buffer is left to national circumstances. In proposing the standard, the Basel Committee said it would be imposed rarely, estimated at once every 10-20 years.
- **What It Means for Community Banks:** *It is unclear at this point when, if ever, this type of buffer would be imposed in the United States.*