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WASHINGTON POLICY STRATEGY Potomac Perspective

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Congress is out of session ahead of the holiday, so the policy calendar is relatively light this week. The Federal Deposit Insurance Corporation's (FDIC) Board of Directors, however, is scheduled to meet this week and is scheduled to propose a change in bank capital rules which we think is positive for banks under \$10 billion in assets. The Board is also scheduled to finalize changes to the Enhanced Supplementary Leverage Ratio (eSLR) and Total Loss-Absorbing Capacity (TLAC) requirements.

In anticipation of the holiday, Happy Thanksgiving to all of our great clients and colleagues!

The FDIC's Board of Directors will meet on Tuesday. The meeting's agenda includes two items which have been telegraphed for a while. The news might already be priced into bank stocks, but we view the meeting as positive for banks, nonetheless.

- **Community Bank Leverage Ratio (CBLR)** – The CBLR, which was created by the Crapo Bill (Section 2155), allows banks under \$10 billion in assets to opt out of the risk-based capital framework and maintain a Tier 1 leverage ratio of not less than eight percent or more than 10 percent. Banking regulators have set the CBLR at nine percent. We expect the FDIC will propose lowering the minimum requirement to eight percent. Most changes in banking regulation that have so far been proposed by the Trump administration have benefitted larger banks more than smaller institutions. The CBLR proposal is intended to benefit community banks, and we view it as positive for smaller banks.
- **Enhanced Supplementary Leverage Ratio, Total Loss-Absorbing Capacity, and Long-term Debt Requirements** – The FDIC will also vote on a final rule regarding the eSLR and TLAC requirements. The initial proposal applies to Global Systemically Important Banks (G-SIBs). This proposal would modify G-SIBs' eSLR buffer standard to equal 50 percent of the bank holding company's method 1 surcharge, as determined by the Federal Reserve's risk-based capital surcharge framework. The TLAC proposal was intended to maintain alignment between the two requirements. We do not anticipate significant changes to the proposal in the final rule.
 - We view the eSLR as part of the administration's agenda to drive down interest rates (i.e. financial repression). The changes in the rule could increase demand by the largest banks for U.S. Treasuries, which could in turn pressure yields lower.

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