

IB46 **Minimum Capital Ratios** [Section 11-108-305, C.R.S.]

A. Purpose

The Colorado State Banking Board believes that a minimum leverage ratio is necessary because the risk-based capital guidelines detailed in Banking Board Rule IB47 that are designed solely as a measure of credit risk, create the possibility for significant leverage. Assets that have no credit risk receive a zero percent risk weight and, therefore, require no capital. However, the Banking Board believes that every institution should have at least a base level of capital as protection against risks not measured by the risk-based capital ratio.

B. Definitions: For the purpose of this Rule:

1. Adjusted total assets means the average total assets figure required to be computed for and stated in an institution's most recent quarterly Consolidated Report of Condition and Income (Call Report), minus end-of-quarter intangible assets, deferred tax assets, and credit enhancing interest-only strips, that are deducted from Tier 1 capital, and minus nonfinancial equity investments for which a Tier 1 Capital deduction is required pursuant to Paragraph (C)(1)(h) of Rule IB47. The Banking Board reserves the right to require an institution to compute and maintain its capital ratios on the basis of actual, rather than average, total assets when necessary to carry out the purposes of this regulation.
2. Tier 1 Capital means "Tier 1 Capital" as determined according to Banking Board Rule IB47-Risk-Based Capital Definitions and Adequacy, including the deductions described therein.
3. Tier 2 Capital means "Tier 2 Capital" as determined according to Banking Board Rule IB47-Risk-Based Capital Definitions and Adequacy, including the limitations described therein.
4. Total Capital means "Total Capital" as determined according to Banking Board Rule IB47-Risk-Based Capital Definitions and Adequacy, including the deductions described therein.

C. Reservation of Authority

1. Deductions from capital. Notwithstanding the definitions of Tier 1 Capital and Tier 2 Capital, the Banking Board may find that a newly developed or modified capital instrument constitutes Tier 1 Capital or Tier 2 Capital, and may permit one or more institutions to include all or a portion of the funds obtained through such capital instruments as Tier 1 or Tier 2 Capital, permanently or on a temporary basis, for the purpose of compliance with the Banking Board Rules.

Similarly, the Banking Board may find that a particular intangible asset, deferred tax asset or credit-enhancing interest-only strip need not be deducted from Tier 1 or Tier 2 Capital. Conversely, the Banking Board may find that a particular intangible asset, deferred tax asset, credit-enhancing interest-only strip or other Tier 1 or Tier 2 Capital component has characteristics or terms that diminish its contribution to an institution's ability to absorb losses, and may require the deduction from Tier 1 or Tier 2 Capital of all of the component or of a greater portion of the component than is otherwise required.

2. Risk weight categories. Notwithstanding the risk categories in Banking Board Rule IB47, the Banking Board will look to the substance of the transaction and may find that the assigned risk weight for any asset or the credit equivalent amount or credit conversion factor for any off-balance sheet item does not appropriately reflect the risks imposed on an institution and may require another risk weight, credit equivalent amount, or credit conversion factor that the Banking Board deems appropriate. Similarly, if no risk weight, credit equivalent amount or credit conversion factor is specifically assigned, the Banking Board may assign any risk weight, credit equivalent amount, or credit conversion factor that the Banking Board deems appropriate. In making its determination, the Banking Board considers risks associated with the asset or off-balance sheet item as well as other relevant factors.

D. Minimum Capital Ratios

1. Risk-based capital ratio. All institutions must have and maintain the minimum risk-based capital ratios as set forth in Banking Board Rule IB47.
2. Total asset leverage ratio (Leverage Ratio). All institutions must have and maintain Tier 1 Capital in an amount equal to at least 3.0 percent of adjusted total assets.
3. Additional leverage ratio requirements. An institution operating at or near the level in Paragraph (D)(2) of this Rule should have well-diversified risks, including no undue interest rate risk exposure; excellent control systems; good earnings; high asset quality; high liquidity; and well managed on- and off-balance sheet activities; and in general be considered a strong organization, rated composite 1 under the CAMELS rating system. For all but the most highly-rated institutions meeting the conditions set forth in this Paragraph, the minimum Tier 1 leverage ratio is 4 percent. In all cases, institutions should hold capital commensurate with the level and nature of all risks.

E. Establishment of Minimum Capital Ratios for an Individual Institution

1. Applicability

The Banking Board may require higher minimum capital ratios for an individual institution in view of its circumstances. For example, higher capital ratios may be appropriate for:

- a. A newly chartered institution;
- b. An institution receiving special supervisory attention;
- c. An institution that has, or is expected to have, losses resulting in capital inadequacy;
- d. An institution with significant exposure due to risks from concentrations of credit, certain risks arising from nontraditional activities, or management's overall inability to monitor and control financial and operating risks presented by concentrations of credit and nontraditional activities;
- e. An institution with significant exposure to declines in the economic value of its capital due to changes in interest rates;
- f. An institution with significant exposure due to fiduciary or operational risk;
- g. An institution exposed to a high degree of asset depreciation, or a low level of liquid assets in relation to short term liabilities;
- h. An institution exposed to a high volume of, or particularly severe, problem loans;
- i. An institution that is growing rapidly, either internally or through acquisition; or

I. Section 11-108-703, C.R.S., shall refer to Total Capital.

Amended Effective June 30, 2005

Amendments correct minor grammatical and technical errors.

Amended Effective March 1, 2004

Statutory reference amendment to conform Rule to recodified statutes; update terminology to conform to recodified statutes; formatting changes to comply with Colorado Secretary of State guidelines.

Amended Effective October 30, 2002

Federal regulatory agencies issued rules amending the minimum capital standards for financial institutions; therefore, amendments made to maintain parity.

Amended Effective November 1, 1999

To maintain parity with federally regulated institutions with regard to minimum leverage ratios.

Amended Effective March 30, 1998

To establish the Banking Board requirements as being parallel with the federal requirements of Part 325 Capital Maintenance of the Federal Deposit Insurance Act.