FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. **10320**
December 1, 1989]

Announcement Regarding Proposed Transition Capital Standards for State Member Banks and Bank Holding Companies

*To All Depository Institutions and Bank Holding Companies
in the Second Federal Reserve District, and Others Concerned:*

Following is the text of a statement issued by the Board of Governors of the Federal Reserve System:

> The Federal Reserve Board has announced it will seek public comment shortly on proposed transition capital standards for state member banks and bank holding companies through the end of 1990.
>
> The attached statement outlining the proposed standards also sets forth the Board's preliminary views on the appropriate leverage standard to be applied to banking organizations in conjunction with the risk-based capital framework after year-end 1990.
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> The Board expects to issue these standards, as well as elaborating details, for public comment before the end of the year.

Printed on the reverse side is the Board's statement outlining the proposed standards. The full text of the Board's proposal will be sent to you when it becomes available.

Questions on this matter may be directed to Manuel Schnaidman of our Bank Analysis Department (Tel. No. 212-720-6710).

E. Gerald Corrigan,
President.

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Proposed Transition Capital Standards

Risk-based capital standards become effective at year-end 1990 and are to be fully phased in by the end of 1992. In order to assist banking organizations in their capital planning process, the Federal Reserve has adopted the following standards through the end of 1990. Through 1990, a banking organization may choose to conform to either the existing minimum capital adequacy ratios (5.5 percent primary capital and 6 percent total capital to total assets) or the 7.25 percent year-end 1990 risk-based capital standard. In addition, a minimum ratio of 3 percent Tier 1 capital to total assets (leverage ratio) will be established and applied during this period. Tier 1 for leverage purposes will be defined consistent with the year-end 1992 risk-based capital guidelines.

After year-end 1990, the existing 5.5 percent primary and 6.0 percent total capital to total assets leverage ratios will be dropped. The 3 percent Tier 1 capital to total assets ratio will then constitute the leverage standard for banking organizations.

It is emphasized that these are minimum requirements and that an institution operating at or near these levels is expected to have well-diversified risk, including no undue interest rate risk exposure, excellent asset quality, high liquidity, good earnings and in general be considered a strong banking organization, rated composite 1 under the CAMEL rating system. It is expected that institutions experiencing or anticipating significant growth will maintain capital well above the minimum levels as has been the case in the past. For example, most such banking organizations have generally operated at capital levels ranging from 100 to 200 basis points above the stated minimums.