TO BE RESCINDED

113-40-04 **Reduced collateral floor criteria.**

(A) A financial institution participating in OPCP may apply for a reduced collateral floor, which will be evaluated by the treasurer of state, in accordance with the following criteria.

(1) The treasurer of state shall use required variables and influencing variables to determine and maintain the reduced collateral floor for a financial institution. The use of the SCALE model shall be conducted in accordance with the following objectives:

(a) Use data only from publically available sources with no additional reporting requirements from a financial institution;

(b) Evaluate a financial institution both individually, as well as within a defined peer group, against the required and influencing variables as applicable;

(c) Evaluate and take into account trends in the economy in Ohio and nationally;

(d) Evaluate the capacity, nature, and complexity of the financial institution's activities and risk profile, as well as any other pertinent information related to the overall condition of the financial institution; and

(e) Does not imply or construe the treasurer of state as a de facto ratings agency.

(2) A financial institution that applies for a reduced collateral floor will have a SCALE report generated. This report will be available on OPCS.

(3) The SCALE model consists of five components, each containing both required variables and influencing variables further defined in the operating policies, in accordance with the following:

(a) Sensitivity to risk:

(i) Required variables:

*(a)* De novo status;

*(b)* Operating assets;

*(c)* Test for restart stress; and

*(d)* Federal home loan bank advances to assets ratio.

(ii) Influencing variables:

*(a)* Publically traded test;

*(b)* Operating efficiency;

*(c)* Long-term assets to total assets ratio;

*(d)* At-risk market assets to lending ratio;

*(e)* Loans and commitments to assets;

*(f)* Deposit dollars per lending dollar;

*(g)* Institutional and miscellaneous lending to total lending ratio;

*(h)* Reciprocal adjusted brokered deposits to total deposits ratio;

*(i)* Foreign deposits to total deposits ratio; and

*(j)* Cost of funds, including the aggregate cost of funds and component costs of funds for selected classes of funding sources.

(b) Capital adequacy:

(i) Required variables:

*(a)* Common equity tier one ratio;

*(b)* Tier one leverage ratio;

*(c)* Tier one to risk weighted assets ratio;

*(d)* Risk based capital to risk weighted assets ratio;

*(e)* Tangible common equity ratio;

*(f)* Supplemental (tier one and tier two) to risk weighted assets ratio; and

*(g)* Supplemental tier one leverage margin.

(ii) Influencing variable:

Risk-based capital growth rate.

(c) Asset quality:

(i) Required variables:

*(a)* Risk-adjusted return on economic capital;

*(b)* Net interest margin annualized;

*(c)* Texas ratio; and

*(d)* Credit benchmark, probability of default rating method one and two.

(ii) Influencing variables:

*(a)* Weighted average maturity;

*(b)* Economic capital to tier one capital;

*(c)* Loss given default;

*(d)* Exposure at default;

*(e)* Defaults to provisions;

*(f)* Lending gross default rate;

*(g)* Troubled lending as percentage of lending;

*(h)* Loss provisions to adjusted loans; and

*(i)* One-year loan growth and decline.

(d) Liquidity:

(i) Required variables:

*(a)* Thirty-day operational liquidity ratio, via cash flows; and

*(b)* Balance sheet nominal and stress scenario test.

(ii) Influencing variables:

*(a)* On-hand liquidity to average assets ratio;

*(b)* Loss absorption capacity margin for uninsured deposit counterparties;

*(c)* One-year short-term debt service test;

*(d)* Short-term liabilities to total assets ratio; and

*(e)* Non-core deposits to total liabilities ratio.

(e) Earnings:

(i) Required variables:

*(a)* Return on average assets;

*(b)* Return on adjusted equity; and

*(c)* Non-interest income to average assets.

(ii) Influencing variables:

*(a)* Return on tangible assets;

*(b)* Gross profit rate, year-to-date; and

*(c)* Return on lending.

(4) A financial institution that applies for a reduced collateral floor will receive both a SCALE component score and a SCALE composite score.

(a) The SCALE component score will be calculated by the financial institution's individual and peer group based performance against the required variables and influencing variables.

(i) The SCALE component score will be calculated based on a one point zero zero to five point zero zero numerical scale.

(ii) A one point zero score indicates strong individual and peer group based performance relative to the financial institution's size, complexity, and risk profile.

(iii) A five point zero score indicates a low level of individual and peer group based performance relative to the financial institution's size, complexity, and risk profile.

(iv) A financial institution cannot score higher than a one point zero, or lower than a five point zero.

(b) The SCALE composite score will be calculated by weighting the SCALE component scores and summing the results. The assigned weights indicate the reflective strength for each SCALE component within the SCALE model.

(i) Sensitivity to risk will have a twenty per cent component weight.

(ii) Capital adequacy will have a thirty per cent component weight.

(iii) Asset quality will have a twenty per cent component weight.

(iv) Liquidity will have a twenty per cent component weight.

(v) Earnings will have a ten per cent component weight.

(5) The SCALE model will evaluate specific SCALE component variable performance by an individual financial institution against the peer group mean from a representative sample of the peer group. A financial institution seeking and using a reduced collateral floor will be placed into one of six peer groups, based on asset size and other characteristics. The peer groups will not differentiate between commercial and savings banks.

(a) Peer group one will consist of certain United States financial institutions that have been determined by government regulators as global systemically important banking organizations.

(b) Peer group two will consist of financial institutions with assets in excess of ten billion dollars that are not global systemically important banking organizations.

(c) Peer group three will consist of financial institutions with assets in excess of three billion dollars, but less than ten billion dollars, that are not global systemically important banking organizations.

(d) Peer group four will consist of financial institutions with assets in excess of one billion dollars, but less than three billion dollars.

(e) Peer group five will consist of financial institutions with assets in excess of one hundred million dollars, but less than one billion dollars.

(f) Peer group six will consist of financial institutions with assets less than one hundred million dollars.

(6) To be initially approved for a reduced collateral floor, a financial institution must meet all of the following criteria:

(a) Have SCALE component and SCALE composite scores of two point two five or less for the current quarter;

(b) Have SCALE component and SCALE composite scores of two point two five or less for the average of the preceding five quarters;

(c) Meet all of the required variables for the average of the preceding five quarters;

(d) Have no concerning trends related to sensitivity to risk, capital adequacy, asset quality, liquidity, or earnings for a rolling three-year period;

(e) Be in good standing with government regulators with respect to their deposit business;

(f) Not be a de novo bank, as reported by the federal deposit insurance corporation;

(g) Not receive or have on deposit at any one time public moneys, including public moneys as defined in section 135.31 of the Revised Code, in an aggregate amount in excess of thirty per cent of its total assets, pursuant to section 135.03 of the Revised Code; and

(h) Have executed all applicable OPCS and OPCP contracts and documents.

(7) If a financial institution meets the foregoing criteria, but the treasurer of state has identified adverse macroeconomic or regional economic trends or indicators pursuant to the monitoring protocols in paragraph (B) of rule 113-40-05 of the Administrative Code, then the reduced collateral floor approval may be withheld at the sole discretion of the treasurer of state.

Effective:

Five Year Review (FYR) Dates: 2/2/2023

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Certification

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Date

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| Promulgated Under: | 119.03 |
| Statutory Authority: | R.C. 135.182 |
| Rule Amplifies: | R.C. 135.18, R.C. 135.182 |
| Prior Effective Dates: | 08/06/2017 |