

DEPARTMENT OF TREASURY

Office of the Comptroller of the Currency

12 CFR Part 3

Docket ID OCC-2025-0141

RIN 1557-AF33

FEDERAL RESERVE SYSTEM

12 CFR Part 217

[Docket No. R-1876]

RIN 7100-AH08

FEDERAL DEPOSIT INSURANCE CORPORATION

12 CFR Part 324

RIN 3064-AG17

Regulatory Capital Rule: Revisions to the Community Bank Leverage Ratio Framework

AGENCY: Office of the Comptroller of the Currency, Treasury; the Federal Deposit Insurance Corporation; and the Board of Governors of the Federal Reserve System.

ACTION: Notice of proposed rulemaking.

SUMMARY: The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation are inviting public comment on a notice of proposed rulemaking (proposal) that would lower the community bank leverage ratio (CBLR) requirement for certain depository institutions and depository institution holding companies from 9 percent to 8 percent, consistent with the lower bound provided in section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The proposal would also extend the length of time that certain depository institutions or depository

institution holding companies can remain in the CBLR framework while not meeting all of the qualifying criteria for the CBLR framework from two quarters to four quarters, subject to a limit of eight quarters in any five-year period.

DATES: Comments must be received by [INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

ADDRESSES: Comments should be directed to the agencies as follows:

OCC: You may submit comments to the OCC by any of the methods set forth below.

Commenters are encouraged to submit comments through the Federal eRulemaking Portal.

Please use the title “Regulatory Capital Rule: Revisions to the Community Bank Leverage Ratio Framework” to facilitate the organization and distribution of the comments. You may submit comments by any of the following methods:

- *Federal eRulemaking Portal – Regulations.gov:*

Go to <https://regulations.gov/>. Enter “Docket ID OCC-2025-0141” in the Search Box and click “Search.” Public comments can be submitted via the “Comment” box below the displayed document information or by clicking on the document title and then clicking the “Comment” box on the top-left side of the screen. For help with submitting effective comments, please click on “Commenter’s Checklist.” For assistance with the *Regulations.gov* site, please call 1-866-498-2945 (toll free) Monday-Friday, 9 a.m.-5 p.m. EST, or e-mail regulationshelpdesk@gsa.gov.

- *Mail:* Chief Counsel’s Office, Attention: Comment Processing, Office of the Comptroller of the Currency, 400 7th Street, SW, Suite 3E-218, Washington, DC 20219.
- *Hand Delivery/Courier:* 400 7th Street, SW, Suite 3E-218, Washington, DC 20219.

Instructions: You must include “OCC” as the agency name and Docket ID “OCC-2025-0141” in your comment. In general, the OCC will enter all comments received into the docket

and publish the comments on the *Regulations.gov* website without change, including any business or personal information provided such as name and address information, e-mail addresses, or phone numbers. Comments received, including attachments and other supporting materials, are part of the public record and subject to public disclosure. Do not include any information in your comment or supporting materials that you consider confidential or inappropriate for public disclosure.

You may review comments and other related materials that pertain to this action by the following method:

- *Viewing Comments Electronically – Regulations.gov:*

Go to <https://regulations.gov/>. Enter Docket ID “OCC-2025-0141” in the Search Box and click “Search.” Click on the “Dockets” tab and then the document’s title. After clicking the document’s title, click the “Browse All Comments” tab. Comments can be viewed and filtered by clicking on the “Sort By” drop-down on the right side of the screen or the “Refine Comments Results” options on the left side of the screen. Supporting materials can be viewed by clicking on the “Browse Documents” tab. Click on the “Sort By” drop-down on the right side of the screen or the “Refine Results” options on the left side of the screen checking the “Supporting & Related Material” checkbox. For assistance with the *Regulations.gov* site, please call 1-866-498-2945 (toll free) Monday-Friday, 9 a.m.-5 p.m. EST, or e-mail regulationshelpdesk@gsa.gov.

The docket may be viewed after the close of the comment period in the same manner as during the comment period.

Board: You may submit comments, identified by Docket No. R-1876 and RIN 7100-AH08, by any of the following methods:

- *Agency Website:* <https://www.federalreserve.gov/apps/proposals/>. Follow the instructions for submitting comments, including attachments. ***Preferred Method.***
- *Mail:* Benjamin W. McDonough, Deputy Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW, Washington, DC 20551.
- *Hand Delivery/Courier:* Same as mailing address.
- *Other Means:* publiccomments@frb.gov. You must include the docket number in the subject line of the message.

Comments received are subject to public disclosure. In general, comments received will be made available on the Board's website at <https://www.federalreserve.gov/apps/proposals/> without change and will not be modified to remove personal or business information including confidential, contact, or other identifying information. Comments should not include any information such as confidential information that would be not appropriate for public disclosure. Public comments may also be viewed electronically or in person in Room M-4365A, 2001 C St. NW, Washington, DC 20551, between 9 a.m. and 5 p.m. during Federal business weekdays.

FDIC: You may submit comments, identified by RIN 3064-AG17, by any of the following methods:

Agency Website: <https://www.fdic.gov/federal-register-publications>. Follow instructions for submitting comments on the FDIC's website.

Mail: Jennifer M. Jones, Deputy Executive Secretary, Attention: Comments/Legal OES RIN 3064-AG17, Federal Deposit Insurance Corporation, 550 17th Street NW Washington, DC 20429.

Hand Delivered/Courier: Comments may be hand-delivered to the guard station at the rear of the 550 17th Street NW, building (located on F Street NW) on business days between 7 a.m. and 5 p.m. eastern time.

Email: comments@FDIC.gov. Include the RIN 3064-AG17 on the subject line of the message.

Public Inspection: Comments received, including any personal information provided, may be posted without change to <https://www.fdic.gov/federal-register-publications>. Commenters should submit only information that the commenter wishes to make available publicly. The FDIC may review, redact, or refrain from posting all or any portion of any comment that it may deem to be inappropriate for publication, such as irrelevant or obscene material. The FDIC may post only a single representative example of identical or substantially identical comments, and in such cases will generally identify the number of identical or substantially identical comments represented by the posted example. All comments that have been redacted, as well as those that have not been posted, that contain comments on the merits of this notice will be retained in the public comment file and will be considered as required under all applicable laws. All comments may be accessible under the Freedom of Information Act.

FOR FURTHER INFORMATION CONTACT:

OCC: Benjamin Pegg, Technical Expert, Capital Policy, (202) 649–6370; or Carl Kaminski, Assistant Director, Ron Shimabukuro, Senior Counsel or Daniel Perez, Counsel, Bank Advisory Group, Chief Counsel’s Office, (202) 649-5490, Office of the Comptroller of the Currency, 400 7th Street SW., Washington, DC 20219. If you are deaf, hard of hearing, or have a speech disability, please dial 7–1–1 to access telecommunications relay services.

Board: Juan Climent, Deputy Associate Director, (202) 872-7526; Morgan Lewis, Manager, (202) 407-5093; Missaka Nuwan Warusawitharana, Manager, (202) 452-3461; Lars Arnesen, Senior Financial Institution Policy Analyst, (202) 868-0546, Division of Supervision and Regulation; or Jay Schwarz, Deputy Associate General Counsel, (202) 731-8852; Mark Buresh, Senior Special Counsel, (202) 499-0261; Jasmin Keskinen, Counsel, (202) 853-7872, Legal Division, Board of Governors of the Federal Reserve System, 20th and C Streets NW, Washington, DC 20551. For the hearing impaired only, Telecommunication Device for the Deaf (TDD), (202) 263-4869.

FDIC: Benedetto Bosco, Chief, Capital Policy Section; Kyle McCormick, Senior Policy Analyst; Keith Bergstresser, Senior Policy Analyst; Matthew Park, Financial Analyst; Rachel Romm-Nisson, Risk Analytics Specialist; Capital Markets and Accounting Policy Branch, Division of Risk Management Supervision; Catherine Wood, Counsel; Merritt Pardini, Counsel; Kevin Zhao, Senior Attorney; Nicholas Soyer, Attorney; Legal Division, regulatorycapital@fdic.gov, (202) 898-6888; Federal Deposit Insurance Corporation, 550 17th Street NW, Washington, DC 20429.

SUPPLEMENTARY INFORMATION:

I. Background

A. Economic Growth, Regulatory Relief, and Consumer Protection Act

The community bank leverage ratio (CBLR) framework¹ implements section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA), which requires the Office of the Comptroller of the Currency (OCC), the Board of Governors of the

¹ 12 CFR 3.12 (OCC); 12 CFR 217.12 (Board); 12 CFR 324.12 (FDIC).

Federal Reserve System (Board), and the Federal Deposit Insurance Corporation (FDIC) (collectively, the agencies) to establish a community bank leverage ratio (the CBLR requirement) of not less than 8 percent and not more than 10 percent for qualifying community banking organizations.²

Under section 201(c) of EGRRCPA, a qualifying community banking organization that exceeds the CBLR requirement shall be considered to have met: (i) the generally applicable risk-based and leverage capital requirements in the capital rule³; (ii) the capital ratio requirements to be considered well capitalized under the agencies' prompt corrective action (PCA) framework (in the case of insured depository institutions); and (iii) any other applicable capital or leverage requirements. Section 201(b) of EGRRCPA also requires each of the agencies to establish procedures for the treatment of a qualifying community banking organization whose leverage ratio falls below the CBLR requirement as established by each of the agencies.

In 2019, the agencies issued a final rule establishing the CBLR framework, which became effective January 1, 2020 (2019 final rule).⁴ Under the 2019 final rule, each of the agencies established a CBLR requirement of greater than 9 percent. The CBLR was defined by

² Public Law 115–174, 132 Stat. 1296, 1306-07 (2018) (codified at 12 U.S.C. 5371 note). The authorizing statute uses the term “qualifying community bank,” whereas the agencies’ regulations implementing the statute use the term “qualifying community banking organization.” *See, e.g.*, 12 CFR 3.12(a)(2) (OCC); 12 CFR 217.12(a)(2) (Board); 12 CFR 324.12(a)(2) (FDIC). The terms generally have the same meaning. Section 201(a)(3) of EGRRCPA provides that a qualifying community banking organization is a depository institution or depository institution holding company with total consolidated assets of less than \$10 billion that satisfies such other factors, based on the banking organization’s risk profile, that the agencies determine are appropriate. Section 201(a)(3) further provides that this determination shall be based on consideration of off-balance sheet exposures, trading assets and liabilities, total notional derivatives exposures, and such other factors that the agencies determine appropriate.

³ The OCC’s capital rule is at 12 CFR part 3. The Board’s capital rule is at 12 CFR part 217. The FDIC’s capital rule is at 12 CFR part 324.

⁴ 84 FR 61776 (Nov. 13, 2019).

reference to the capital rule's existing leverage ratio, equal to tier 1 capital divided by average total consolidated assets.⁵

Under the 2019 final rule, depository institutions and depository institution holding companies that have less than \$10 billion in total consolidated assets; leverage ratios of greater than 9 percent; off-balance sheet exposures (excluding derivatives other than sold credit derivatives and unconditionally cancelable commitments) of 25 percent or less of total consolidated assets; and trading assets and liabilities of 5 percent or less of total consolidated assets (qualifying community banking organizations) are eligible to opt into the CBLR framework.⁶ A qualifying community banking organization also cannot be an advanced approaches banking organization.⁷

A qualifying community banking organization that elects to use the CBLR framework is considered to satisfy the risk-based capital requirements and any other applicable capital or leverage requirements and, in the case of an insured depository institution, to meet the capital ratio requirements for the well capitalized capital category under the PCA framework.⁸ The agencies adopted the 9 percent requirement on the basis that this threshold, with complementary qualifying criteria, would generally maintain the level of regulatory capital held by qualifying

⁵ See 12 CFR 3.10(b)(4) (OCC); 12 CFR 217.10(b)(4) (Board); 12 CFR 324.10(b)(4) (FDIC).

⁶ See 12 CFR 3.12(a)(2) (OCC); 12 CFR 217.12(a)(2) (Board); 12 CFR 324.12(a)(2) (FDIC).

⁷ See 12 CFR 3.100(b) (OCC); 12 CFR 217.100(b) (Board); 12 CFR 324.100(b) (FDIC).

⁸ 12 CFR 6.4(b)(1)(ii) (OCC); 12 CFR 208.43(b)(1)(ii) (Board); 12 CFR 324.403(b)(1)(ii) (FDIC). *See also* 12 CFR 225.2(r)(4)(i) (Board). In addition to the capital ratio requirements, to be considered well capitalized under the PCA framework, a bank must also demonstrate that it is not subject to any written agreement, order, capital directive, or as applicable, prompt corrective action directive, to meet and maintain a specific capital level for any capital measure. 12 CFR 6.4(b)(1)(i)(E) (OCC); 12 CFR 208.43(b)(1)(i)(E) (Board); 12 CFR 324.403(b)(1)(i)(E) (FDIC). *See also* 12 CFR 225.2(r)(1)(iii) (Board). These requirements continue to apply under the community bank leverage ratio framework.

community banking organizations and support the agencies' goal of reducing regulatory burden while maintaining safety and soundness.⁹

The 2019 final rule also established a two-quarter grace period during which a qualifying community banking organization that fails to meet any of the qualifying criteria, including the 9 percent CBLR requirement, but maintains a leverage ratio of greater than 8 percent, would continue to be considered to satisfy the risk-based capital requirements and any other applicable capital or leverage requirements and, in the case of an insured depository institution, to meet the capital ratio requirements for the well capitalized capital category under the PCA framework. If a community banking organization returns to compliance with all the qualifying criteria before the conclusion of the two-quarter grace period, the banking organization could continue to participate in the CBLR framework. A community banking organization that either failed to meet all of the qualifying criteria by the end of the grace period or that, at any time, failed to maintain a leverage ratio of greater than 8 percent would be required to comply with the risk-based capital requirements and file the associated information in its regulatory reports.

B. Coronavirus Aid, Relief, and Economic Security Act

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law.¹⁰ The CARES Act directed the agencies to make temporary changes to the CBLR framework. Specifically, section 4012 of the CARES Act directed the agencies to help mitigate economic strain placed on qualifying community banking organizations by issuing an interim final rule that would temporarily lower the CBLR requirement to 8 percent and provide a reasonable grace period for qualifying community banking organizations that fell

⁹ See 84 FR 61776, 61778, 61780, 61784 (Nov. 13, 2019).

¹⁰ Coronavirus Aid, Relief, and Economic Security Act, Public Law 116–136, 134 Stat. 281.

below the 8 percent requirement. Under section 4012 of the CARES Act, the changes to the CBLR framework were effective during the period beginning on the date on which the agencies issued the interim final rule implementing the statute and ending on the sooner of the termination date of the national emergency concerning the coronavirus disease (COVID-19) outbreak declared by the President on March 13, 2020, under the National Emergencies Act, or December 31, 2020.

The agencies issued an interim final rule implementing the CARES Act's temporary changes to the CBLR framework on April 23, 2020 (statutory interim final rule).¹¹ To provide for a more gradual return to the initial CBLR calibration, the agencies also issued a separate interim final rule providing a graduated transition from the temporary 8 percent CBLR requirement back to the 9 percent requirement (transition interim final rule).¹² The agencies intended for this graduated approach to provide community banking organizations with sufficient time to meet the 9 percent requirement while they focused on supporting lending to creditworthy households and businesses through the economic strain caused by COVID-19.¹³ The interim final rules did not make any changes to the other qualifying criteria in the CBLR framework.

Consistent with section 201(c) of EGRRCPA, under the transition interim final rule, a community banking organization that temporarily failed to meet any of the qualifying criteria, including the applicable CBLR requirement, generally would have been considered to satisfy the

¹¹ 85 FR 22924 (Apr. 23, 2020). The threshold for the grace period under the statutory interim final rule was set at 7 percent, 1 percent less than the CBLR requirement of 8 percent under the statutory interim final rule.

¹² 85 FR 22930 (Apr. 23, 2020). The transition interim final rule extended the 8 percent CBLR requirement through December 31, 2020. Thus, even if the statutory interim final rule had terminated prior to December 31, 2020, the transition interim final rule provided that the CBLR requirement would continue to be set at 8 percent for the remainder of 2020. The threshold for the grace period under the transition interim final rule was set at 1 percent less than the CBLR requirement as it increased during the transition period.

¹³ *Id.*, at 22932-22933.

risk-based capital requirements and any other applicable capital or leverage requirements and, in the case of an insured depository institution, to meet the capital ratio requirements for the well capitalized capital category under the PCA framework during a two-quarter grace period so long as the community banking organization maintained a leverage ratio of the following: greater than 7 percent in the second quarter through fourth quarter of calendar year 2020, greater than 7.5 percent in calendar year 2021, and greater than 8 percent thereafter.¹⁴ A community banking organization that failed to meet the qualifying criteria by the end of the grace period or that reported a leverage ratio of equal to or less than 7 percent in the second through fourth quarters of calendar year 2020, equal to or less than 7.5 percent in calendar year 2021, or equal to or less than 8 percent thereafter, would have been required to comply immediately with the risk-based capital requirements and file the associated regulatory reports. Both interim final rules were finalized without change.¹⁵

On December 21, 2021, the agencies issued a statement confirming that the CARES Act's temporary changes to the CBLR framework would expire at the end of 2021.¹⁶ The CBLR requirement reverted to 9 percent on January 1, 2022.

¹⁴ While the statutory interim final rule was in effect, a qualifying community banking organization that temporarily failed to meet any of the qualifying criteria, including the applicable community bank leverage ratio requirement, generally would still be deemed well capitalized so long as the banking organization maintained a leverage ratio of 7 percent or greater during a two-quarter grace period. Similarly, while the statutory interim final rule was in effect, a banking organization that failed to meet the qualifying criteria by the end of the grace period or reported a leverage ratio of less than 7 percent was required to comply with the risk-based requirements and file the appropriate regulatory reports.

¹⁵ 85 FR 64003 (Oct. 9, 2020).

¹⁶ "Community Bank Leverage Ratio Framework: Interagency Statement," OCC Bulletin 2021-66 (Dec. 21, 2021); "Interagency Statement on the Community Bank Leverage Ratio Framework," SR Letter 21-21 (Dec. 21, 2021); "Interagency Statement on the Community Bank Leverage Ratio Framework," FIL-81-2021 (Dec. 21, 2021).

II. Experience with the Community Bank Leverage Ratio

As stated in the 2019 final rule, the CBLR framework is intended to provide a simple measure of capital adequacy for qualifying community banking organizations. It reduces burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework, thereby providing meaningful regulatory relief for qualifying community banking organizations, while maintaining capital levels that support safety and soundness.

As of the second quarter of 2025, the agencies estimate that 84 percent of community banking organizations qualify to use the CBLR framework.¹⁷ As of the second quarter of 2025, 40 percent of community banking organizations have adopted the CBLR framework. This adoption rate has remained relatively constant since the rule was implemented in 2020. Notably, data show that smaller banking organizations are more likely to adopt the framework, underscoring the value of the simplification of the regulatory capital requirements for those banking organizations. For example, approximately half of qualifying community banking organizations with less than \$1 billion in assets have opted into the framework, compared to a quarter of qualifying community banking organizations with more than \$1 billion and less than \$10 billion in assets (see section V.A.2. for more information).

¹⁷ Analysis summarized in sections II and III is conducted at the community banking organization level and includes depository institutions and depository institution holding companies with less than \$10 billion in total consolidated assets. Specifically, community banking organization level analysis uses data that combines FR Y-9C data for top-tier holding companies with Call Report data for depository institutions that are standalone or do not have a holding company with less than \$10 billion in total consolidated assets that files an FR Y-9C report. In instances where consolidated regulatory data are not available at the consolidated organization level, data are aggregated at the banking organization level by combining the balance sheets of certain depository institutions that share the same consolidating parent. Section V includes additional analysis at the depository institution and holding company level.

Since the introduction of the CBLR framework, the overwhelming majority of qualifying community banking organizations that participate in the framework have continued to operate in a safe and sound manner through a range of conditions and most maintain capital levels well in excess of the CBLR requirement.¹⁸

Some qualifying community banking organizations that have chosen not to opt into the CBLR framework have indicated that they do not believe it provides effective regulatory burden relief. These organizations have raised concerns about the calibration of the framework and the two-quarter grace period. As described below, both factors could discourage broader adoption of the CBLR framework, as qualifying community banking organizations assess the risk and cost of reverting quickly to the risk-based capital rule as too great to provide genuine regulatory relief.

III. Summary of the Proposal

The agencies' experience in implementing the CBLR, including lower-than-expected participation rates, concerns expressed by community banking organizations, and sound performance of qualifying community banking organizations participating in the CBLR framework, demonstrate opportunities to change the CBLR framework to provide more meaningful regulatory burden relief, while continuing to achieve the agencies' safety and soundness objective. Accordingly, the agencies are proposing to recalibrate the CBLR requirement and to extend the grace period in a manner consistent with the statutory authority provided in section 201 of the EGRRCPA.

A. Lower Calibration of the CBLR Requirement

¹⁸ As of the second quarter of 2025, community banking organizations that participate in the framework maintain median leverage ratios of 11.8 percent, reflecting median levels of capital 2.8 percentage points above the current 9 percent requirement.

The agencies are proposing to lower the CBLR requirement to 8 percent. Such recalibration would allow more community banking organizations to qualify for the CBLR framework, which is significantly less burdensome than the risk-based capital requirements. According to data from the second quarter of 2025, an additional 475 community banking organizations would qualify to participate in the framework under the proposed 8 percent requirement, and the agencies estimate that a total of 95 percent of community banking organizations would qualify to participate in the CBLR framework (see section V.B.1. for additional information).

In addition to expanding eligibility, the proposed CBLR recalibration could encourage community banking organizations that are currently eligible, but which are not participating in the framework, to opt in by providing a larger buffer between the amount of regulatory capital held and the CBLR requirement. A larger buffer would decrease the likelihood that qualifying community banking organizations that participate in the CBLR framework would be required to revert to the risk-based capital requirements due to unexpected fluctuations in regulatory capital ratios. For example, during periods of stress, banking organizations can face increased credit losses, which in turn cause leverage ratios to decline. Reducing the CBLR requirement to 8 percent could encourage greater adoption of the CBLR framework by qualifying community banking organizations, as it would decrease the likelihood that stress losses would cause them to fall below the CBLR requirement.

The proposal would remain broadly consistent with the current well capitalized standard. Specifically, the CBLR framework would remain comparable to and, in most cases, materially

more stringent than, the corresponding requirements under the PCA framework.¹⁹ The proposed 8 percent requirement would be more stringent than the corresponding 8 percent tier 1 risk-based capital requirement to be considered well capitalized under the PCA framework for all newly eligible community banking organizations and for nearly all community banking organizations that are currently eligible but do not participate in the CBLR framework (see section V.B.1 for more information).²⁰ Similarly, an 8 percent CBLR requirement would be substantially higher than the 5 percent tier 1 leverage ratio required to be considered well-capitalized. As of the second quarter of 2025, all community banking organizations that would be newly eligible under the proposed 8 percent CBLR requirement are currently well capitalized under the PCA framework.²¹

As further discussed in the economic analysis in section V.C.2, lowering the calibration to 8 percent would provide additional balance sheet capacity for lending by community banking organizations that are currently participating in the CBLR framework. Community banking organizations serve a vital function in the economy through their relatively outsized lending to agricultural and commercial borrowers.²² In addition, rural communities rely heavily on

¹⁹ This analysis compares the proposed 8 percent CBLR requirement relative to the 8 percent tier 1 risk-based capital requirement to be considered well capitalized under the PCA framework for all community banking organizations that would qualify under the proposal, but which are not currently participating in the CBLR framework, in order to demonstrate the stringency of the CBLR relative to risk-based capital requirements. The PCA framework applies only to insured depository institutions. The definitions of well capitalized for bank holding companies and savings and loan holding companies can be found at 12 CFR 225.2(r) and 12 CFR 238.2(s), respectively.

²⁰ The agencies also compared required capital under the proposal to other risk-based capital requirements including the total capital requirement and found that the 8 percent CBLR requirement would broadly require similar or more capital for the vast majority of depository institutions that would be eligible under the proposal.

²¹ To be considered well capitalized under the agencies' PCA framework, depository institutions must meet or exceed a 6.5 percent common equity tier 1 capital risk-based ratio, 8 percent tier 1 capital risk-based ratio, and 10 percent total capital risk-based ratio.

²² See Hanauer, M., Lytle, B., Summers, C., & Ziadeh, S. (2021). Community banks' ongoing role in the US economy. Federal Reserve Bank of Kansas City, *Economic Review*, 106(2), 37-81.

community banking organizations for lending and financial services.²³ Additional lending by community banking organizations supports the economic activity of the communities and industries that they serve.

B. Extension of the Grace Period

Under the proposal, a qualifying community banking organization that fails to meet the qualifying criteria after opting into the CBLR framework would have four reporting periods to meet the qualifying criteria again under the CBLR framework or satisfy risk-based capital requirements.

Supervisory experience indicates that, since the adoption of the CBLR framework, about half of community banking organizations that fell out of compliance with the CBLR requirement returned to compliance within the two-quarter grace period. The remaining community banking organizations transitioned back to the risk-based capital requirements. Under a four-quarter grace period, more community banking organizations could return to compliance and remain in the CBLR framework. For additional grace period analysis, see section V.C.1.

While a majority of community banking organizations were able to return to compliance within two quarters, doing so may have incurred unnecessary costs or been operationally challenging in certain circumstances. For example, in part because community banking organizations generally have reduced access to capital markets compared to larger banking organizations, they tend to rely more heavily on retained earnings for regulatory capital. As a

²³ *See Id.*

result, community banking organizations may face challenges increasing capital quickly, particularly in environments in which bank profitability is constrained.²⁴

The agencies believe the grace period should ensure that a banking organization that ceases to meet the criteria for a qualifying community banking organization has sufficient time to make appropriate changes to its activities and build up its regulatory capital levels as necessary, or to begin reporting risk-based capital consistent with the risk-based capital rule. When the agencies initially adopted the CBLR framework, they did not require community banking organizations to comply simultaneously with the risk-based capital reporting requirements after opting into the CBLR framework. Since the adoption of the CBLR framework, it has not been the agencies' policy to require qualifying community banking organizations to hold a minimum amount of common equity tier 1 capital or to demonstrate, from a supervisory perspective, that they have a readiness plan to comply with risk-based capital requirements in the event they become ineligible to use the CBLR framework.

A longer grace period would provide community banking organizations that fail to meet the qualifying criteria with additional time to satisfy the definition of a qualifying community banking organization under the CBLR framework, or to achieve compliance with risk-based capital requirements. By reducing the risk of a rapid requirement to implement the risk-based capital framework, the proposed changes could incentivize greater adoption of the less burdensome CBLR framework.

Under the proposal, a community banking organization that has opted into the CBLR framework and no longer meets the qualifying criteria would have a four-quarter grace period to

²⁴ For an analysis of the impact of a low interest rate environment on small banking organizations, *see* Genay, H., & Podjasek, R. (2014). What is the impact of a low interest rate environment on bank profitability. Chicago Fed Letter, 324(1).

remain in the CBLR framework provided it maintains a leverage ratio above 7 percent. This 7 percent minimum would ensure that community banking organizations with capital levels that have declined significantly would be subject to the risk-based capital framework, which more accurately accounts for a banking organization's risk profile.

For example, if a qualifying community banking organization that has opted into the CBLR framework no longer meets one of the qualifying criteria as of February 15 and still does not meet the criteria as of the end of that quarter, the grace period for such a banking organization will begin as of the end of the quarter ending March 31. The banking organization may continue to use the CBLR framework as of June 30, September 30, and December 31 but will need to comply fully with the risk-based capital framework (including the associated reporting requirements) as of March 31 of the following calendar year, unless by that date the banking organization once again meets all qualifying criteria of the CBLR framework, including a leverage ratio above 8 percent.²⁵

Consistent with the current rule, a banking organization that no longer meets the definition of a qualifying community banking organization as a result of a merger or acquisition would not be able to use the grace period as of the quarter in which the merger or acquisition occurs. A banking organization that plans to grow or materially expand its activities due to a merger or acquisition should develop systems to calculate and report risk-based capital commensurate with those plans.

A qualifying community banking organization that has elected to use the CBLR framework and that expects to no longer meet the qualifying criteria as a result of a business

²⁵ Qualifying community banking organizations would continue to opt in to and out of the CBLR framework through their regulatory reports.

combination generally would be expected to provide its pro forma risk-based capital ratios to its appropriate regulator as part of its merger application, if applicable, and fully comply with risk-based capital requirements for the regulatory reporting period during which the transaction is completed.

C. Additional Limitation Relating to Usage of the Grace Period

The CBLR framework is an optional, burden-reducing framework for qualifying community banking organizations. To ensure that the proposed recalibration of the CBLR and the extended grace period continue to support prudent levels of capitalization, the agencies are proposing a limitation regarding the use of the grace period. Specifically, although a qualifying community banking organization may use the grace period for up to four quarters at a time, it would only be allowed to use the grace period if it had not used the grace period for more than eight of the prior twenty quarters. If a banking organization that has used the grace period for eight of the previous 20 quarters subsequently ceases to meet the definition of a qualifying community banking organization, it must immediately comply with the minimum risk-based capital requirements and report the required risk-based capital ratios.

For example, if a community banking organization were to use the grace period for each of the eight quarters in calendar year 2026 and calendar year 2028, without using the grace period in calendar year 2027, it would not be able to use the grace period during calendar years 2029 or 2030. If it ceases meeting the definition of a qualifying community banking organization in the second quarter of 2029, it would be required to comply immediately with the risk-based capital requirements. If, instead, the community banking organization does not use the grace period in calendar year 2029 or 2030, but ceases meeting the definition of a qualifying community banking organization in the second quarter of 2031, it would be able to use the grace

period in that quarter because, in the twenty quarters prior (the second quarter of 2026 through first quarter of 2031), it would have used the grace period for seven quarters (the second, third and fourth quarters of 2026 and all four quarters of 2028). This limitation would help ensure that the proposed longer grace period is not used to allow a community banking organization with a leverage ratio below the required level to remain within the CBLR framework for an extended period and would encourage appropriate long-term capital planning by community banking organizations.

The agencies intend to monitor usage of the grace period to determine whether it is functioning as intended. If unique or unusual circumstances warrant a further extension of the grace period, or if application of different regulatory capital requirements becomes necessary, the agencies continue to reserve the authority to apply different risk-based or leverage capital requirements as appropriate and commensurate with the relevant risks and circumstances of a banking organization.²⁶

D. Removal of Temporary CARES Act Provisions

The agencies are also proposing to remove the provisions under the CBLR framework that provided temporary relief for qualifying community banking organizations during the COVID-19 outbreak, including provisions required by the CARES Act.²⁷ Because this temporary burden relief expired on December 31, 2021, removal of these provisions would have no substantive impact.

²⁶ 12 CFR 3.1(d) (OCC); 12 CFR 217.1(d) (Board); 12 CFR 324.1(d) (FDIC).

²⁷ 12 CFR 3.12(a)(4) (OCC); 12 CFR 3.303 (OCC); 12 CFR 217.12(a)(4) (Board); 12 CFR 217.304 (Board); 12 CFR 324.12(a)(4) (FDIC); 12 CFR 324.303 (FDIC).

IV. Request for Comment

The agencies invite commenters' views on all aspects of the proposal, including the proposed CBLR calibration and grace period.

Question 1: What other factors should the agencies consider in calibrating the CBLR requirement and why?

Question 2: Under what facts and circumstances might the appropriate grace period for returning to compliance with the CBLR qualifying criteria vary? What alternative regulatory requirements should the agencies consider with respect to a community banking organization that no longer meets the definition of a qualifying community banking organization and why?

Question 3: What factors should the agencies consider in determining whether to impose limits on the number of times during a fixed time horizon that a community banking organization can enter the grace period and remain in the CBLR framework? What are the advantages and disadvantages of the proposed limitation to ensure that community banking organizations maintain appropriate levels of capitalization while using the CBLR framework, and what other options should the agencies consider to achieve this goal? For example, what are the advantages and disadvantages of an alternative limitation that would allow for the proposed four quarter grace period, but would temporarily (for example, for 5 years) limit its subsequent use to two quarters if a qualifying community banking organization were to fail to meet the qualifying criteria due to a leverage ratio of eight percent or less?

Question 4: What changes, if any, to the numerator of the CBLR requirement should the agencies consider? What are the advantages and disadvantages of requiring the numerator of the CBLR to be predominantly common equity? What would be the benefits and drawbacks of

using tangible GAAP equity, excluding accumulated other comprehensive income, as the numerator of the CBLR?

V. Economic Analysis

This section outlines the expected economic effects of the proposal, including both its benefits and costs, on community banking organizations. The proposal would modify the CBLR framework for qualifying community banking organizations along two key dimensions. First, it reduces the calibration of the CBLR requirement, from 9 percent to 8 percent. Second, a qualifying community banking organization that fails to meet the qualifying criteria after opting into the CBLR framework would have four quarters, rather than two quarters,²⁸ to meet the qualifying criteria under the CBLR framework or to comply with the risk-based capital requirements. The analysis compares outcomes under the proposal to a baseline scenario in which the current framework remains unchanged; specifically, the baseline assumes a 9 percent CBLR requirement with a two-quarter grace period for electing community banking organizations.

The analysis is based on data from recent Reports of Condition and Income (Call Reports) for depository institutions and Consolidated Financial Statements for Holding Companies (FR Y-9C) data for holding companies. Core statistics are reported at the depository institution, community bank holding company, and community banking organization levels, with the latter using consolidated organization data aggregated at the top-tier consolidated organization level. While some supporting analysis is conducted at either the depository

²⁸ Subject to a maximum of eight quarters within any given five-year (20 quarter) period.

institution level or the community banking organization level, the agencies expect the conclusions to be broadly applicable across these entity types.

A. Baseline

According to Call Reports for the quarter ending June 30, 2025, there are 4,477 depository institutions.²⁹ Of these, 4,240 meet the size and simplicity thresholds for CBLR eligibility: total consolidated assets of less than \$10 billion, off-balance sheet exposures of no more than 25 percent of total consolidated assets, total trading assets and trading liabilities of no more than 5 percent of total consolidated assets, and are not an advanced approaches banking organization.

According to FR Y-9C data for the quarter ending June 30, 2025, there are 238 community bank holding companies subject to the capital rule.³⁰ Of these, 228 meet the size and simplicity thresholds for CBLR eligibility.

Taking a consolidated perspective, these depository institutions and holding companies together compose 4,101 unique community banking organizations as of June 30, 2025. Of these, 4,030 meet the size and simplicity thresholds for CBLR eligibility.

1. Community Banking Organizations and CBLR Framework Participation

Of the 4,240 depository institutions that meet the size and simplicity thresholds for CBLR eligibility, 3,641 report a leverage ratio greater than 9 percent and therefore meet all requirements to qualify for the CBLR framework. Of the 3,641 qualifying depository institutions, 1,694 currently participate in the CBLR framework. That is, 47 percent of eligible

²⁹ Not including nine insured branches of foreign banks or eight noninsured depository institutions that do not report regulatory capital. Of the 4,477 depository institutions, 4,421 have their deposits insured by the FDIC.

³⁰ Depository institution holding companies with less than \$3 billion in total consolidated assets and which meet certain additional criteria qualify for the Board's small bank holding company policy statement and are not subject to the capital rule. See 12 CFR 217.1(c)(1)(ii) and (iii); 12 CFR part 225, appendix C; 12 CFR 238.9.

depository institutions have adopted the CBLR framework, and this participation rate has remained relatively constant since the CBLR framework was implemented in 2020. Another 20 depository institutions, although not presently meeting the CBLR requirement, remain in the framework under the current two quarter grace period.³¹ Table 1 reports counts of these depository institutions, including a breakdown by discrete leverage ratio:

Table 1. Current counts of depository institutions, partitioned by leverage ratios

	Range of Leverage Ratio (percent)*							
	≤ 7	7 – 8	8 – 9	9 – 10	10 – 11	11 – 12	> 12	Total
Excess leverage ratio**	≤ -2	-2 – -1	-1 – 0	0 – 1	1 – 2	2 – 3	> 3	
Depository institutions that meet CBLR size and simplicity requirements***	20	101	478	871	754	546	1,470	4,240
Participating depository institutions****	0	0	20	274	322	261	837	1,714
% Participating depository institutions	0%	0%	4%	31%	43%	48%	57%	40%
Call Report Data, June 30, 2025. * Each range excludes the lower end and includes the upper end. ** “Excess leverage ratio” is equal to leverage ratio minus the CBLR requirement of 9 percent. ***“Participating depository institutions” are those qualifying depository institutions that had elected to use the CBLR framework as of June 30, 2025. **** These counts include only depository institutions that meet the qualifying community banking organization criteria involving advanced approaches, total consolidated assets, off-balance sheet exposures, and trading assets and liabilities.								

As Table 1 shows, the fraction of participating depository institutions increases with the depository institutions’ excess leverage ratio. This tendency suggests that, by decreasing the

³¹ An additional three depository institutions have leverage ratios greater than 9 percent but do not meet one of the qualifying criteria.

CBLR requirement to 8 percent, the proposal could encourage some currently eligible depository institutions to opt into the framework.

Turning to community bank holding companies, 165 report a leverage ratio greater than 9 percent and therefore meet all requirements to be considered qualifying community banking organizations. Of the 165 qualifying community bank holding companies, 26 currently opt into the CBLR framework. That is, 16 percent of community bank holding companies are participating in the CBLR framework.

Taking a consolidated perspective, 3,430 community banking organizations meet all requirements to be considered qualifying community banking organizations. Of the 3,430 qualifying community banking organizations, 1,659 currently opt in to the CBLR framework. That is, 48 percent of qualifying community banking organizations participate in the CBLR framework.

2. CBLR Framework Adoption among Small Community Banking Organizations

The smallest community banking organizations tend to opt into the CBLR framework at the highest rates. Fifty-two percent of qualifying community banking organizations with assets less than \$1 billion are participating in the framework as of June 30, 2025, compared to 26 percent of community banking organizations with assets above \$1 billion. Of community banking organizations with less than \$500 million in assets, 56 percent are currently participating in the framework. Viewed another way, 89 percent of community banking organizations that are currently participating in the CBLR framework have total assets of less than \$1 billion.³²

B. Effects of the Proposal

³²See section VI.A for a further analysis of entities with less than \$850 million in assets for the Regulatory Flexibility Act (RFA).

1. CBLR Framework Eligibility and Adoption under the Proposed Calibration

As shown above in Table 1, 478 depository institutions have leverage ratios between 8 and 9 percent while meeting all other qualifying criteria for the CBLR framework. Under the proposal, these 478 depository institutions would be eligible for the CBLR framework, in addition to the 3,641 depository institutions that currently qualify, which would represent a 13 percent increase in the population of eligible depository institutions. As such, under the proposal, more depository institutions would become eligible for the CBLR framework.

While the proposal would increase the number of qualifying depository institutions, historical experience indicates that not all qualifying depository institutions opt into the CBLR framework. To provide a broad estimate of the number of depository institutions that could opt into the framework under the proposal, the agencies assume that the likelihood of adoption depends primarily on a depository institution's buffer of tier 1 capital in excess of the CBLR requirement. This assumption implies that the relationship between adoption rates and capital buffers will remain consistent with that observed under the baseline. Based on this approach, the agencies estimate that 2,034 depository institutions would adopt the CBLR under the expanded scope, representing an increase of 320 depository institutions relative to the current rule. See Appendix for details. This estimate is imprecise because it is based on a simple model, which does not take into account the potential impact of the grace period extension on CBLR adoption.³³

³³ The estimate of 320 additional participating depository institutions could be undercounted because the benefits of the proposal, as later discussed in this section, would make the CBLR framework more attractive to depository institutions and could result in greater adoption of the CBLR framework among organizations that currently qualify, but have not elected, to use the CBLR. On the other hand, historical patterns show a smaller change in adoption rate when the CBLR requirement was temporarily lowered: when the statutory interim final rule reduced the CBLR

For community bank holding companies, 46 have leverage ratios between 8 and 9 percent while meeting all other criteria for the CBLR framework, which would represent a 28 percent increase in the population of eligible community bank holding companies relative to the 165 that currently qualify.

Considering the depository institutions and holding companies together from a consolidated perspective, 475 community banking organizations have leverage ratios between 8 and 9 percent while meeting all other qualifying criteria, which would represent a 14 percent increase in the population of eligible community banking organizations relative to the 3,430 community banking organizations that currently qualify.³⁴

The agencies assess the stringency of the CBLR framework by comparing the 8 percent risk-based tier 1 capital requirement to be considered well-capitalized under the PCA framework directly with the CBLR requirement for community banking organizations that are not participating in the CBLR framework and would be eligible under the proposal.³⁵ The proposed 8 percent CBLR requirement is less stringent than the tier 1 risk-based capital requirement for two currently eligible banking organizations that are not participating in the framework. No

requirement from 9 percent to 8 percent between the first and second quarters of 2020, 131 additional organizations elected to use the CBLR framework. Later on, there was a decrease of 245 electing organizations between the fourth quarter of 2020 (the last quarter for which the CBLR requirement was 8 percent) and the first quarter of 2022 (the first quarter for which the CBLR requirement reverted to 9 percent). Confounding factors such as the COVID-19 pandemic, the initial rollout of CBLR, and the temporary nature of the decrease make this comparison difficult.

³⁴ For the consolidated organization analysis, CBLR participation and eligibility are assessed at the highest tier entity in a banking organization. In cases where multiple depository institutions belong to the same organization, and one that does not have a top-tier community bank holding company subject to the capital rule, CBLR eligibility for the consolidated organization is defined based on the total assets of these depository institutions. If eligible depository institutions account for at least 50 percent of the consolidated organizations' assets, the community banking organization is considered to be CBLR eligible. The consolidated community banking organization in these instances is considered to be a CBLR organization if at least one of its depository institutions participate in the CBLR framework.

³⁵ The PCA framework applies only to insured depository institutions. The definitions of well capitalized for bank holding companies and savings and loan holding companies can be found at 12 CFR 225.2(r) and 12 CFR 238.2(s), respectively.

newly eligible community banking organizations would face a less stringent tier 1 capital requirement under the proposed CBLR requirement.

C. Expected Benefits of the Proposal

The agencies identify two main benefits for the proposed changes to the CBLR framework. First, by expanding eligibility and extending the grace period, the proposal would enable more community banking organizations to benefit from the regulatory cost savings provided by the CBLR framework. Second, the reduced CBLR requirement would provide community banking organizations that are currently participating in the CBLR framework with the capacity to expand their balance sheets, which could lead to increased lending to the communities served by these banking organizations.

1. Regulatory Cost Savings

All participating community banking organizations under the proposal would benefit by avoiding the costs associated with gathering, recording, and reporting various risk-based capital measures. While the agencies do not have sufficient information to quantify all aspects of these savings,³⁶ participating community banking organizations that operate internal recordkeeping systems to comply with risk-based capital regulations may discontinue or simplify these systems. Other participating community banking organizations that rely on third party vendors to operate the relevant compliance systems could experience reductions in outsourcing costs.³⁷

³⁶ According to agency estimates published in January 2020, per-response Paperwork Reduction Act (PRA) burden hours for preparing Call Reports, which is only one component of risk-based capital compliance costs, would decrease by approximately 3.5 hours between 2019 and 2020, with the change in burden “predominantly due to changes associated with the community bank leverage ratio final rule.” See 85 FR 4780 at 4782. This estimated change in PRA burden also includes various other changes to the Call Reports that were implemented in the first quarter of 2020 and assumed a 60 percent CBLR adoption rate.

³⁷ These cost savings could be partially offset by one-time costs of adoption incurred by electing banking organizations.

Some participating community banking organizations currently maintain parallel record keeping systems to comply with both the CBLR framework and the risk-based capital requirements to minimize the cost of falling out of compliance with the CBLR framework. The proposal would reduce the risk of falling out of compliance by providing additional time to adjust systems in the event that a community banking organization no longer meets the qualifying criteria. As such, the proposal could enable some participating community banking organizations to decide to discontinue these systems and realize meaningful cost savings.

The proposed extension of the CBLR grace period would provide benefits to community banking organizations participating in the framework who enter the grace period due to a drop in their leverage ratios or a failure to meet any of the other qualifying criteria and which are capable of meeting the criteria within a four-quarter period but not a two-quarter period. Between the second quarter of 2022 and fourth quarter of 2024, 210 participating depository institutions have entered grace periods for one or more quarters.³⁸ Within these two years, there were 28 depository institutions that were required to leave the CBLR framework at least once because they did not regain CBLR eligibility within two quarters, and subsequently regained CBLR eligibility within four quarters.³⁹ Thus, if the grace period had been four quarters, these

³⁸ The agencies' analysis of the CBLR grace period uses data starting in 2022, when the CBLR requirement was returned to 9 percent under the transition interim final rule. The agencies' analysis only includes depository institutions that entered the grace period by the fourth quarter of 2024, because that is the last date for which the agencies have two subsequent quarters of Call Report data, which are necessary to determine whether the DIs regained eligibility within the two-quarter grace period. Some depository institutions experienced multiple instances of entering the grace period; the agencies find 261 such instances between the second quarter of 2022 and the fourth quarter of 2024, involving 210 distinct depository institutions. As eligibility for the grace period applies at the individual institution level, the analysis focuses on depository institutions, without taking into account consolidation among institutions with joint ownership.

³⁹ Of the 210 grace period depository institutions: 78 depository institutions had at least one instance in which they entered the grace period and subsequently did not regain CBLR eligibility within the grace period (including the 28 that did not regain eligibility within two quarters but did within four quarters); 13 depository institutions regained

28 depository institutions would have been able to remain in the CBLR framework and avoid any costs incurred by returning to the risk-based capital framework. This suggests that there is a similar population of depository institutions that would benefit from the proposed extension of the grace period.

An increase in CBLR framework adoption is expected to especially benefit the smaller banking organizations that participate by reducing their costs of compliance with the risk-based capital framework. Such fixed costs can have greater salience for smaller banking organizations. This benefit is consistent with the finding in section V.A.2 that a greater fraction of smaller banking organizations participate in the CBLR framework.

2. Increased Balance Sheet Capacity to Support Lending

The agencies examine how the proposed calibration could expand the balance sheet capacity of community banking organizations that currently participate in the CBLR framework using a two-step process. First, the agencies estimate the potential reduction in community banking organizations' tier 1 leverage ratios due to the proposed change in the CBLR requirement from 9 percent to 8 percent. The analysis assumes that community banking organizations participating in the CBLR framework could reduce their tier 1 leverage ratios by the proposed change of 1 percentage point of average consolidated assets, except for those community banking organizations with a leverage ratio less than 10 percent. The latter are

CBLR eligibility in all the instances where they entered the grace period but still chose to leave the CBLR framework in at least one of the instances; and 119 depository institutions regained CBLR eligibility within the two-quarter grace period and continued within the CBLR framework (in all the instances where they entered the grace period). Three depository institutions entered the grace period between the second quarter of 2022 and the fourth quarter of 2024, but ceased reporting Call Reports at some point in this time period and were not included in the previously listed population counts.

assumed to reduce their tier 1 leverage ratio to 9 percent (that is, maintain an excess leverage ratio of 1 percentage point).

In the second step, the analysis computes the growth in each participating community banking organization's total consolidated assets that would reduce its tier 1 leverage ratio to the ratio derived in step one, while holding tier 1 capital fixed. The estimated asset growth rate is then multiplied by the community banking organization's average consolidated assets to obtain its expanded asset base under the proposal, with the provision that community banking organizations do not grow above \$10 billion in total assets.

The agencies estimate that the reduced CBLR requirement under the proposal could provide currently participating community banking organizations with the capacity to expand their balance sheets by \$64 billion in aggregate. This would represent an 8.1 percent expansion of participating community banking organizations' assets or a 1.8 percent expansion relative to the total assets of all community banking organizations. This increase in balance sheet capacity could facilitate additional lending by community banking organizations participating in the CBLR framework and support the economic activity of the communities they serve.⁴⁰ However, community banking organizations may not utilize this capacity in full and the agencies

⁴⁰ For perspective from the academic literature on the relationship between bank capital requirements and lending, see, among others: J. S. Mésonnier, and A. Monk, Heightened bank capital requirements and bank credit in a crisis: the case of the 2011 EBA Capital Exercise in the euro area, *Rue de la Banque*, (08) (2015); M. Behn, R. Haselmann, and P. Wachtel, Procyclical capital regulation and lending, *The Journal of Finance*, 71(2) (2016); C. Mendicino, K. Nikolov, J. Suarez, and D. Supera, Bank capital in the short and in the long run, *Journal of Monetary Economics*, 115 (2020); S. Firestone, A. Lorenc, and B. Ranish, An empirical economic assessment of the costs and benefits of bank capital in the United States, *SSRN 349416* (2019); D. Corbae, and P. D'Erasmus, Capital buffers in a quantitative model of banking industry dynamics, *Econometrica*, 89(6) (2021); V. Elenev, T. Landvoigt, and S. Van Nieuwerburgh, A macroeconomic model with financially constrained producers and intermediaries, *Econometrica*, 89(3) (2021).

acknowledge uncertainty regarding the extent to which such an increase in lending by these banking organizations would occur.⁴¹

Many newly eligible community banking organizations that opt into the CBLR framework could also increase their lending relative to total assets. Historical evidence provides support: between 2020 and 2025, participating depository institutions increased the fraction of loans and leases⁴² in their total assets by about 6.5 percent, on average, in the year after adopting the CBLR framework.⁴³ This average increase only occurs after adoption of the CBLR framework—it is not present in analogous year-over-year differences ending four quarters prior, one quarter prior, or one quarter after the election,⁴⁴ which suggests that the proposed rule could result in an increase in lending by newly eligible community banking organizations that opt into the CBLR framework.

In summary, the expected benefits of the proposal accrue to both community banking organizations participating under the current requirements and to community banking organizations that would adopt the framework under the proposed requirements. Although the agencies cannot precisely quantify these benefits, the fact that fewer than half of qualifying community banking organizations currently opt into the CBLR framework suggests that the potential benefits could be material.

D. Expected Costs of the Proposal

⁴¹ Section V.D discusses the agencies' experience with temporary changes in the CBLR requirement.

⁴² As reported on schedule RC-C of the Call Report.

⁴³ The agencies obtain a 95 percent confidence interval of 5.3 to 7.8 percent across approximately 2,100 electing banking organizations between the first quarter of 2020 and the second quarter of 2025.

⁴⁴ The average year-over-year changes ending four quarters prior, one quarter prior, and one quarter after CBLR election were 1.3 percent, -0.2 percent, and -0.2 percent, respectively. Only the first of these three measures were statistically different from zero.

The proposal would broadly maintain the current standard for designating community banking organizations as well capitalized. It may, however, impose costs on banking organizations and the banking industry in that it could encourage community banking organizations currently participating in the CBLR framework to operate with lower capital ratios or newly eligible community banking organizations that opt into the CBLR framework to take on riskier loans. For example, the increase in balance sheet capacity presented above in section V.C.2 assumes banking organizations currently participating in the CBLR framework would grow their balance sheets while maintaining the amount of capital fixed. While such changes may increase the risk of bank failure, these costs are expected to be modest.

The evidence on potential balance sheet adjustments is mixed. Some studies evaluating the initial creation of the CBLR framework suggest that participating community banking organizations increased their share of relatively higher-yielding assets, including unsecured loans, and experienced modest increases in non-performing loans, charge-offs, or subordinate mortgage exposures.⁴⁵ However, the extent of these changes appears heterogeneous across organizations and the overall effect on risk-taking seems muted. This also suggests that, while the proposal may result in changes to the composition, in addition to the level, of bank lending, the compositional shift would likely be minimal.

In addition, the agencies could not find evidence that previous temporary changes in the CBLR requirement substantially affected the amount of tier 1 capital maintained by depository institutions: between the fourth quarter of 2020, when the CBLR requirement was above 8

⁴⁵ See Liu, Ruinan, 2025, “Leverage Without Risk Weights: A Double-Edged Sword for Community Banks,” Working paper; and Lu, George, 2024, “The Effect of Capital Modification on Community Banking: Evidence from the Community Bank Leverage Ratio Framework,” Working paper.

percent, and the fourth quarter of 2022, when the CBLR requirement was above 9 percent, the aggregate leverage ratio for a balanced panel of 1,172 electing depository institutions decreased by 4 basis points, from 12.37 to 12.33, suggesting that the aggregate tier 1 capital at electing depository institutions did not react in aggregate to the increase in the CBLR requirement.⁴⁶ The agencies acknowledge this observation is over a relatively short period of time and likely inconclusive. Moreover, depository institutions participating in the CBLR framework currently maintain high levels of tier 1 capital, with a median excess capital of 2.9 percent of average total consolidated assets.

The proposed extension of the grace period from two quarters to four quarters could entail additional costs if community banking organizations approaching the CBLR requirement delay timely capital adjustments. A longer grace period may allow some community banking organizations to operate temporarily below the CBLR requirement while remaining in the CBLR framework, potentially increasing supervisory monitoring needs. However, the additional grace period limitation (a qualifying community banking organization would only be allowed to use the grace period for up to four quarters at a time if it had not used the grace period for more than eight of the prior twenty quarters) is expected to mitigate these potential costs. In addition, the proposed extension could produce regulatory cost savings for community banking organizations by limiting unnecessary exits and re-entries into the framework due to short-term fluctuations in their leverage ratios.

⁴⁶ Call Report Data for the quarters ending December 2020 and 2022. During the same period, the leverage ratios for qualifying community banking organizations that did not elect to use the CBLR framework decreased a similar amount: from 11.13 percent of 11.08 percent.

Overall, the agencies anticipate that the benefits of the proposal justify the costs.

Question 5: The agencies invite comments on all aspects of the economic analysis provided in this supplemental information. What, if any, additional significant benefits or costs should the agencies consider and why?

E. Reasonable Alternatives

The agencies considered several alternatives to the proposal that could meet the objectives of this rulemaking. For the reasons described, the agencies view the proposal as the most appropriate and effective means of achieving the policy objectives described in section III.

The agencies considered not promulgating any regulatory action to amend the CBLR framework. However, as previously discussed, the CBLR framework has a low adoption rate. As discussed above, the proposed rule would provide clear cost savings and other benefits, over this no-action alternative.

The agencies also considered lowering the CBLR requirement to above 8 percent but keeping the grace period to two quarters. This alternative would provide some relief to community banking organizations; however, as described above, the proposed extension of the grace period would provide substantial regulatory relief that meets the objectives of the EGRRCPA and the stated objectives of the proposal without entailing significant costs.

The agencies invite comments on possible alternatives to the proposal.

Appendix: CBLR-election Projection

Table 2 calculates the fraction of depository institutions that adopt the CBLR framework by groups of tier 1 capital buffers split in 1 percentage point increments. For example, 31 percent of depository institutions with an excess leverage ratio between 0 and 1 percent of average total consolidated assets adopted the CBLR framework as of June 30, 2025. Assuming

that these observed adoption rates remain unchanged for each group of capital buffer under the proposed calibration, the agencies estimate the number of depository institutions that will join the framework.

The agencies estimate that 2,034 depository institutions could adopt the CBLR framework under the proposed calibration, representing an increase of 320 depository institutions relative to the current rule. Under this projection, 130 of the newly electing depository institutions have a leverage ratio between 8 and 9 percent and would be newly eligible, while 186 depository institutions are currently eligible and would decide to join under the new calibration.⁴⁷

Table 2. Estimated counts of electing depository institutions under the proposal, partitioned by leverage ratios

	Range of Leverage Ratio (percent)*							
	≤ 7	7 – 8	8 – 9	9 – 10	10 – 11	11 – 12	> 12	Total
Excess leverage ratio**	≤ -1	-1 – 0	0 – 1	1 – 2	2 – 3	3 – 4	> 4	
Depository institutions that meet CBLR size and simplicity requirements***	20	101	478	871	754	546	1,470	4,240
% Electing depository institutions (proposed)***	0%	4%	31%	43%	48%	57%	57%	
# Electing depository institutions (proposed)***	0	4	150	372	360	311	837	2,034
# Electing depository institutions (current) ***	0	0	20	274	322	261	837	1,714
Δ Electing depository institutions (proposed – current) ***	0	4	130	98	38	50	0	320
Call Report Data, June 30, 2025. *Each range excludes the lower end and includes the upper end. ** “Excess leverage ratio” is equal to leverage ratio minus the CBLR requirement of 8 percent. “% Electing depository institutions (proposed)” is the estimated percent of those that would choose to elect into the CBLR. “# Electing depository institutions (proposed)” equals the product of the number of all depository institutions that								

⁴⁷ In addition, 4 depository institutions are projected to be in the grace period.

meet CBLR size and simplicity requirements and “% Electing depository institutions (proposed).” “Δ Electing depository institutions (proposed – current)” is the difference between “# Electing depository institutions (proposed)” and the current number of electing depository institutions (“# Electing banks (current)”).
***These counts include only depository institutions that meet the qualifying community banking organization criteria involving advanced approaches, total consolidated assets, off-balance sheet exposures, and total trading assets and liabilities.

VI. Regulatory Analysis

A. Paperwork Reduction Act

This notice of proposed rulemaking has been reviewed for compliance with the Paperwork Reduction Act of 1995 (PRA) (44 U.S.C. 3501 et seq.). In accordance with the PRA, the agencies may not conduct or sponsor, and a respondent is not required to respond to, an information collection unless the information collection displays a currently valid Office of Management and Budget (OMB) control number. The agencies have reviewed the notice of proposed rulemaking and determined that it would not introduce any new collection of information pursuant to the PRA. Therefore, no submission will be made to OMB for review.

The proposal, however, may necessitate clarification of the instructions to the Financial Statements for Holding Companies (FR Y-9; OMB No. 7100-0128). In such event, the Board would address such clarifications separately. This proposal may also necessitate clarification of the instructions to reporting for depository institutions. The agencies, under the auspices of the Federal Financial Institutions Examination Council (FFIEC), may separately address such clarifications to the instructions to the Consolidated Reports of Condition and Income (Call Report) (FFIEC 031, FFIEC 041, and FFIEC 051; OMB Nos. 1557-0081; 3064-0052, and 7100-0036).

B. Regulatory Flexibility Act

OCC

The Regulatory Flexibility Act (RFA), 5 U.S.C. 601 et seq., requires an agency, in connection with a proposed rule, to prepare an Initial Regulatory Flexibility Analysis describing the impact of the rule on small entities (defined by the Small Business Administration (SBA) for purposes of the RFA to include commercial banks and savings institutions with total assets of \$850 million or less and trust companies with total assets of \$47 million or less) or to certify that the proposed rule would not have a significant economic impact on a substantial number of small entities.

To measure whether a rule would impact a “substantial number of small entities” the OCC focused on the potential costs of the rule on OCC-supervised small entities, consistent with guidance on the RFA published by the Office of Advocacy of the Small Business Administration.⁴⁸ As of December 31, 2024, the OCC supervised approximately 609 small entities, of which 579 will be impacted by the proposal.^{49,50} Thus, a substantial number of small entities will be impacted by the proposed rule.

⁴⁸ See, “A Guide for Government Agencies; How to Comply with the Regulatory Flexibility Act,” (pp. 18-20), available at: <https://advocacy.sba.gov/wp-content/uploads/2019/07/How-to-Comply-with-the-RFA-WEB.pdf>.

⁴⁹ The OCC based its estimate of the number of small entities on the Small Business Administration’s size thresholds for commercial banks and savings institutions (NAICS Code: 522110), and trust companies (NAICS Code: 523991), which are \$850 million and \$47 million, respectively. Consistent with the General Principles of Affiliation 13 CFR 121.103(a), the OCC counted the assets of affiliated financial institutions when determining whether to classify an OCC-supervised institution as a small entity. The OCC used December 31, 2024, to determine size because a “financial institution’s assets are determined by averaging the assets reported on its four quarterly financial statements for the preceding year.” See, footnote 8 of the U.S. Small Business Administration’s *Table of Size Requirements*.

⁵⁰ The OCC included all OCC-supervised small entities that qualify for the CBLR framework in the proposal. Not all qualifying national banks and federal savings associations will choose to adopt the CBLR framework, but all qualifying national banks and federal savings associations will have the option.

The OCC also considered whether the proposed rule would result in a significant economic impact on affected small entities. The total impact associated with the proposal is the estimated annual tax benefit or cost. In general, the OCC classifies the economic impact of expected cost (to comply with a rule) on an individual bank as significant if the total estimated monetized costs in one year are greater than (1) 5 percent of the bank's total annual salaries and benefits⁵¹ or (2) 2.5 percent of the bank's total annual non-interest expense.⁵² Based on the above criteria, the estimated cost of the rule could impose a significant economic impact at 2 of the 579 small entities if they elected to opt into the CBLR framework. The OCC uses 5 percent to determine a substantial number, and less than 1 percent ($2/609=.33\%$) of small entities could be significantly impacted by the rule. Furthermore, the CBLR framework is voluntary, and small national banks and federal savings associations can choose to remain in the current risk-based capital framework. Thus, the OCC concludes that the proposal would not have a significant economic impact on a substantial number of OCC-supervised small entities.

Board

The Board is providing an initial regulatory flexibility analysis with respect to this proposed rule. The Regulatory Flexibility Act⁵³ (RFA) requires an agency to consider whether the rules it proposes will have a significant economic impact on a substantial number of small entities.⁵⁴ In connection with a proposed rule, the RFA requires an agency to prepare and invite

⁵¹ Call report schedule RI, Item 7.a., Salaries and employee benefits.

⁵² Call report schedule RI, Item 7.e., Total noninterest expense.

⁵³ 5 U.S.C. 601 *et seq.*

⁵⁴ Under regulations issued by the U.S. Small Business Administration (SBA), a small entity includes a depository institution, bank holding company, or savings and loan holding company with total assets of \$850 million or less. See 13 CFR 121.201. Consistent with the SBA's General Principles of Affiliation, the Board includes the assets of

public comment on an initial regulatory flexibility analysis describing the impact of the rule on small entities, unless the agency certifies that the proposed rule, if promulgated, would not have a significant economic impact on a substantial number of small entities. An initial regulatory flexibility analysis must contain: (1) a description of the reasons why action by the agency is being considered; (2) a succinct statement of the objectives of, and legal basis for, the proposed rule; (3) a description of, and, where feasible, an estimate of the number of small entities to which the proposed rule will apply; (4) a description of the projected reporting, recordkeeping, and other compliance requirements of the proposed rule, including an estimate of the classes of small entities that will be subject to the requirement and the type of professional skills necessary for preparation of the report or record; (5) an identification, to the extent practicable, of all relevant Federal rules which may duplicate, overlap with, or conflict with the proposed rule; and (6) a description of any significant alternatives to the proposed rule which accomplish its stated objectives and minimize any significant economic impact of the proposed rule on small entities.⁵⁵

The Board has considered the potential impact of the proposed rule on small entities in accordance with the RFA. Based on its analysis and for the reasons stated below, the Board believes that this proposed rule will not have a significant economic impact on a substantial number of small entities. Nevertheless, the Board is publishing and inviting comment on this initial regulatory flexibility analysis.

all domestic and foreign affiliates toward the applicable size threshold when determining whether to classify a particular entity as a small entity. *See* 13 CFR 121.103. As of the second quarter of 2025, there were approximately 2,796 small bank holding companies and approximately 157 small savings and loan holding companies, and approximately 443 small state member banks.

⁵⁵ 5 U.S.C. 603(b)-(c).

As discussed in detail above, the proposed rule would amend the community bank leverage ratio framework. The community bank leverage ratio framework is available on an elective basis to qualifying community banking organizations, which consist of insured depository institutions, bank holding companies, and savings and loan holding companies with total consolidated assets of less than \$10 billion that also satisfy certain qualifying criteria. The proposed rule would lower the community bank leverage ratio requirement for these organizations from greater than 9 percent to greater than 8 percent, consistent with the lower bound provided in section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The proposal would also extend the length of time that a qualifying community banking organization can remain in the community bank leverage ratio framework while being below the community bank leverage ratio requirement from two quarters to four quarters subject to a limit of eight quarters in any five-year period. The proposed changes would increase the number of qualifying community banking organizations eligible to elect, and to continue, to use the framework.

The Board has broad authority under the International Lending Supervision Act of 1983 (ILSA)⁵⁶ and the Prompt Corrective Action (PCA) provisions of the Federal Deposit Insurance Act⁵⁷ to establish regulatory capital requirements for the institutions it regulates. For example, ILSA directs each Federal banking agency to cause banking institutions to achieve and maintain adequate capital by establishing minimum capital requirements as well as by other means that the agency deems appropriate.⁵⁸ The PCA provisions of the Federal Deposit Insurance Act direct

⁵⁶ 12 U.S.C. 3901-3911.

⁵⁷ 12 U.S.C. 1831o.

⁵⁸ 12 U.S.C. 3907(a)(1).

each Federal banking agency to specify, for each relevant capital measure, the level at which an IDI subsidiary is well capitalized, adequately capitalized, undercapitalized, and significantly undercapitalized.⁵⁹ In addition, the Board has broad authority to establish regulatory capital standards for bank holding companies, savings and loan holding companies, and U.S. intermediate holding companies of foreign banking organizations under the Bank Holding Company Act, the Home Owners' Loan Act, and the Dodd-Frank Act.⁶⁰

The proposed rule amends an optional framework that qualifying community banking organizations could choose to apply instead of the Board's current capital rule. A qualifying community banking organization would be able to remain subject to the capital rule if it chose to do so. The proposed rule would increase the number of qualifying community banking organizations eligible to elect to use the framework. The proposed rule, therefore, would not impose mandatory requirements on any small entities. Eligible small entities that are subject to the Board's capital rule could make such an election, which would require immediate changes to reporting, recordkeeping, and compliance systems.

Further, as discussed previously in the Paperwork Reduction Act section, the proposal would not make changes to the projected reporting, recordkeeping, and other compliance requirements of the community bank leverage ratio framework. Although the proposed changes in eligibility requirements of the proposal could impact the reporting, recordkeeping, and other compliance requirements for small entities that elect to use the community bank leverage ratio framework, the impact would be a reduction in reporting and recordkeeping for these entities. Therefore, the Board does not expect that the compliance, recordkeeping, and reporting updates

⁵⁹ 12 U.S.C. 1831o(c)(2).

⁶⁰ See 12 U.S.C. 1467a, 1844, 5365, 5371.

from this proposal would impose a significant cost on small Board-regulated institutions. The Board is aware of no other federal rules that duplicate, overlap, or conflict with the proposal. Although the Board considered several alternatives, as discussed in more detail in section V.E. of this **SUPPLEMENTARY INFORMATION**, the proposal would provide greater cost savings and regulatory relief than these alternatives. Accordingly, the Board believes that there are no significant alternatives to the proposal that would accomplish the stated objectives and minimize the economic impact of the proposal on small entities.

Therefore, the Board believes that the proposed rule will not have a significant economic impact on substantial number of small entities supervised by the Board.

The Board welcomes comment on all aspects of its analysis. In particular, the Board requests that commenters describe the nature of any impact on small entities and provide empirical data to illustrate and support the extent of the impact.

FDIC

The Regulatory Flexibility Act (RFA) generally requires an agency, in connection with a proposed rule, to prepare and make available for public comment an initial regulatory flexibility analysis that describes the impact of the proposed rule on small entities.⁶¹ However, an initial regulatory flexibility analysis is not required if the agency certifies that the proposed rule will not, if promulgated, have a significant economic impact on a substantial number of small entities. The Small Business Administration (SBA) has defined “small entities” to include

⁶¹ 5 U.S.C. 601 *et seq.*

banking organizations with total assets of less than or equal to \$850 million.⁶² Generally, the FDIC considers a significant economic impact to be a quantified effect in excess of 5 percent of total annual salaries and benefits or 2.5 percent of total noninterest expenses. The FDIC believes that effects in excess of one or more of these thresholds typically represent significant economic impacts for FDIC-supervised institutions. For the reasons described below, the FDIC certifies that the proposed rule will not have a significant economic impact on a substantial number of small entities.

The proposed rule, if promulgated, would amend the CBLR framework. To determine whether the proposal would have a significant economic impact, the FDIC compares expected outcomes under the proposal to a baseline scenario in which the current regulations remain unchanged; specifically, the CBLR requirement of 9 percent with a two-quarter grace period.

As described in section V, Economic Analysis, of this document, the proposed rule could potentially affect all community banking organizations, including many FDIC-supervised insured depository institutions (IDIs). According to recent Call Reports, the FDIC supervises 2,085 IDIs that are considered small entities for the purposes of the RFA (small entity IDIs).⁶³ Of these IDIs, 2,057 meet the size and simplicity requirements of the CBLR framework by having total consolidated assets of less than \$10 billion, off-balance sheet exposures of no more than 25 percent of total consolidated assets, and total trading assets and trading liabilities of no

⁶² The SBA defines a small banking organization as having \$850 million or less in assets, where an organization's "assets are determined by averaging the assets reported on its four quarterly financial statements for the preceding year." *See* 13 CFR 121.201 (as amended by 87 FR 69118, effective December 19, 2022). In its determination, the "SBA counts the receipts, employees, or other measure of size of the concern whose size is at issue and all of its domestic and foreign affiliates." *See* 13 CFR 121.103. Following these regulations, the FDIC uses an insured depository institution's affiliated and acquired assets, averaged over the preceding four quarters, to determine whether the insured depository institution is "small" for the purposes of RFA.

⁶³ Excluding branches of foreign banks. FDIC Call Reports, June 30, 2025.

more than 5 percent of total consolidated assets. Within that cohort, 1,755 small entity IDIs also report leverage ratios greater than 9 percent, making them eligible to participate in the CBLR framework. Further, 990 of these eligible small entity IDIs currently elect into the framework.⁶⁴ Finally, 14 are in the CBLR grace period—13 because their leverage ratios are below 9 percent and one because it did not meet the off-balance sheet criterion. Table 3 reports counts of these FDIC-supervised small entity IDIs, including a breakdown by discrete leverage ratio:

Table 3. Current counts of small entity IDIs, partitioned by leverage ratios

	Range of Leverage Ratio (percent)*							
	≤ 7	7 – 8	8 – 9	9 – 10	10 – 11	11 – 12	> 12	Total
Excess leverage ratio**	≤ -2	-2 – -1	-1 – 0	0 – 1	1 – 2	2 – 3	> 3	
IDIs that meet CBLR size and simplicity requirements***	13	52	237	367	353	259	776	2,057
Participating IDIs **			13	161	190	145	494	1,003
% Participating IDIs			5%	44%	54%	56%	64%	49%
Call Report Data, June 30, 2025. * Each range excludes the lower end and includes the upper end. ** “Excess leverage ratio” is equal to leverage ratio minus the CBLR requirement of above 9 percent. “Participating IDIs” are those qualifying small entity IDIs that elect to use the CBLR framework as of June 30, 2025. *** These counts include only FDIC-supervised insured depository institutions (IDIs) that are considered small entities by the Regulatory Flexibility Act and that meet the qualifying community banking organization criteria involving advanced approaches, total consolidated assets, off-balance sheet exposures, and trading assets and liabilities. These counts do not include one IDI that does not currently meet off-balance sheet criterion but are in the CBLR grace period.								

The proposal would modify the CBLR framework for qualifying community banking organizations in two ways. First, it would reduce the CBLR requirement from 9 percent to 8 percent. This reduction would result in a 237 (14 percent) increase in the population of IDIs

⁶⁴ Ibid.

eligible for the CBLR framework, as compared to the baseline population of 1,755. However, as discussed in section V and presented in Table 3, many banks that qualify for the CBLR choose not to elect. Using the same methodology as in section V, the FDIC estimates that approximately 159 additional small entity IDIs would elect into the CBLR framework under the proposal. These electing IDIs would benefit by avoiding the costs associated with gathering, recording, and reporting various risk-based capital measures. Those that operate internal recordkeeping systems to comply with risk-based capital regulations may discontinue or simplify these systems. Others that rely on third party vendors to operate the relevant compliance systems could experience reductions in outsourcing costs. The FDIC does not have the data necessary to quantify these benefits. However, for purposes of this RFA analysis, the FDIC notes that the 159 additional electing IDIs make up less than 8 percent of the total number of small entity IDIs supervised by the FDIC.

The proposed reduction in the CBLR requirement would lower capital requirements for all small entity IDIs that participate in the CBLR framework. Some IDIs may benefit by expanding their balance sheets. However, as discussed in section V, the agencies acknowledge uncertainty regarding the extent to which this expansion may occur; empirical results do not provide any strong evidence that participating banks would adjust their balance sheet composition or tier 1 capital holdings, relative to the baseline. Specifically, leverage ratios for participating CBLR banks did not increase between 2020 and 2022, when the requirement increased from 8 to 9 percent.⁶⁵ As such, for purposes of this RFA analysis, the FDIC expects

⁶⁵ Call Report Data for the quarters ending December 30, 2020 and 2022.

most small entity IDIs would not significantly adjust their leverage ratios in response to the proposal.

The second proposed modification to the CBLR framework is the extension of the grace period from two quarters to four quarters. As noted in section V., of the 210 depository institutions that entered the grace period in recent years, 28 (13 percent) would have benefited from a four-quarter grace period. Given that there are 14 FDIC-supervised small entity IDIs that are currently under the grace period, the FDIC estimates that 2 (13 percent) of these IDIs would benefit under the proposal relative to the baseline. These banks would avoid any costs incurred by returning to the generally applicable capital rules. The FDIC does not have the data necessary to quantify these benefits; for purposes of this RFA analysis, the FDIC notes that the 2 IDIs make up less than half of a percent of the total number of small entity IDIs supervised by the FDIC.

The proposed rule may result in indirect costs on small entity IDIs that voluntarily participate in the CBLR framework. Depending on the behaviors of electing banks, such costs may include the increased risk of bank failures; however, Section V notes that empirical evidence for such costs are mixed, muted, and/or modest. For purposes of this RFA analysis, the FDIC notes that the proposed rule would not impose direct mandatory costs on any small entity IDIs.

In summary, the FDIC estimates that an additional 159 IDIs would accrue benefits from CBLR election and 2 IDIs would accrue benefits from the grace period extension under the proposed rule. While the FDIC does not have data to quantify the benefits to these IDIs, these 161 IDIs make up less than eight percent of all FDIC-supervised small entity IDIs. The FDIC does not consider eight percent to be a substantial number of small entities. In other words, even

if all 161 IDIs accrued significant benefits, the proposed rule would not significantly affect a substantial number of small entities. Other aspects of the proposed rule, while potentially affecting all small entity IDIs that participate in the CBLR framework, are indirect effects and/or are not expected to be significant based on empirical evidence.

Given the analysis above, the FDIC certifies that the proposed rule would not have a significant economic impact on a substantial number of small entities.

The FDIC invites comments on all aspects of the supporting information provided in this RFA section. The FDIC is particularly interested in comments on any significant effects on small entities that the agency has not identified.

C. Plain Language

Section 722 of the Gramm-Leach Bliley Act⁶⁶ requires the Federal banking agencies⁶⁷ to use plain language in all proposed and final rules published after January 1, 2000. The agencies have sought to present the proposed rule in a simple and straightforward manner and invite comments on the use of plain language and whether any part of the proposed rule could be more clearly stated. For example:

- Have the agencies presented the material in an organized manner that meets your needs? If not, how could this material be better organized?
- Are the requirements in the notice of proposed rulemaking clearly stated? If not, how could the proposal be more clearly stated?
- Does the proposal contain language that is not clear? If so, which language requires clarification?

⁶⁶ Public Law 106–102, sec. 722, 113 Stat. 1338, 1471 (1999).

⁶⁷ The Federal banking agencies are the OCC, Board, and FDIC.

- Would a different format (grouping and order of sections, use of headings, paragraphing) make the proposed rule easier to understand? If so, what changes to the format would make the proposal easier to understand?
- What else could the agencies do to make the proposal easier to understand?

D. OCC Unfunded Mandates Reform Act of 1995

The OCC analyzed the proposed rule under the factors set forth in the Unfunded Mandates Reform Act of 1995 (UMRA) (2 U.S.C. 1532). Under this analysis, the OCC considered whether the proposed rule includes a Federal mandate that may result in the expenditure by State, local, and Tribal governments, in the aggregate, or by the private sector, of \$100 million or more in any one year (adjusted for inflation). Because the proposed rule would not specifically require banks to modify their policies and procedures, the OCC has determined that there are no expenditures for the purposes of UMRA. Therefore, the OCC concludes that the proposed rule would not result in an expenditure of \$100 million or more annually by state, local, and tribal governments, or by the private sector.

E. Riegle Community Development and Regulatory Improvement Act of 1994

Pursuant to section 302(a) of the Riegle Community Development and Regulatory Improvement Act (RCDRIA),⁶⁸ in determining the effective date and administrative compliance requirements for new regulations that impose additional reporting, disclosure, or other requirements on insured depository institutions, each Federal banking agency must consider, consistent with principles of safety and soundness and the public interest, any administrative burdens that such regulations would place on depository institutions, including small depository

⁶⁸ 12 U.S.C. 4802(a).

institutions, and customers of depository institutions, as well as the benefits of such regulations. In addition, section 302(b) of RCDRIA requires new regulations and amendments to regulations that impose additional reporting, disclosures, or other new requirements on insured depository institutions generally to take effect on the first day of a calendar quarter that begins on or after the date on which the regulations are published in final form, with certain exceptions.⁶⁹

The agencies note that comment on these matters has been requested in other sections of this Supplementary Information section, and that the requirements of RCDRIA will be considered as part of the overall rulemaking process. In addition, the agencies also invite any other comments that further will inform their consideration of RCDRIA.

F. Executive Orders 12866, 13563 and 14192

Executive Order 12866 (Regulatory Planning and Review)⁷⁰ and Executive Order 13563 (Improving Regulation and Regulatory Review)⁷¹ direct agencies to assess the costs and benefits of available regulatory alternatives and, if regulation is necessary, to select regulatory approaches that maximize net benefits. This proposed rule was drafted and reviewed in accordance with Executive Order 12866 and Executive Order 13563. Within OMB, the Office of Information and Regulatory Affairs (OIRA) has determined that this rulemaking is a “significant regulatory action” under section 3(f) Executive Order 12866. The proposal, if finalized as proposed, is not expected to be an Executive Order 14192 regulatory action.

⁶⁹ 12 U.S.C. 4802(b).

⁷⁰ E.O. 12866, 58 FR 51735.

⁷¹ E.O. 13563, 76 FR 3821.

G. Providing Accountability Through Transparency Act of 2023

The Providing Accountability Through Transparency Act of 2023 requires that a notice of proposed rulemaking include the internet address of a summary of not more than 100 words in length of a proposed rule, in plain language, that shall be posted on the internet website under section 206(d) of the E-Government Act of 2002.⁷²

The agencies are proposing to lower the community bank leverage ratio requirement from above 9 percent to above 8 percent. The proposal would also extend the length of the “grace period” afforded to qualifying community banking organizations that fall out of compliance with the community bank leverage ratio from two quarters to four quarters, with a reservation of authority to provide further extensions if deemed appropriate. The proposal would also include a limitation that would allow a qualifying community banking organization a grace period of up to four quarters at a time if it had not used the grace period for more than eight of the prior twenty quarters.

The proposal and the required summary can be found at <https://www.regulations.gov> by searching for Docket ID OCC-2025-0141, <https://occ.gov/topics/laws-and-regulations/occ-regulations/proposed-issuances/index-proposed-issuances.html>, and at <https://www.federalreserve.gov/supervisionreg/reglisting.htm> and <https://www.fdic.gov/federal-register-publications>.

⁷² 44 U.S.C. 3501 note.

List of Subjects

12 CFR Part 3

Administrative practice and procedure, Banks, Banking, Federal Reserve System, Federal savings associations, Investments, National banks, Reporting and recordkeeping requirements.

12 CFR Part 217

Administrative practice and procedures, Banks, banking, Capital, Federal Reserve System, Holding companies, Reporting and recordkeeping requirements, Risk, Securities.

12 CFR Part 324

Administrative practice and procedure, Banks, banking, Capital, Capital adequacy, Confidential business information, Investments, Reporting and recordkeeping requirements, Savings associations, State non-member banks.

DEPARTMENT OF THE TREASURY

Office of the Comptroller of the Currency

12 CFR Chapter I

Authority and Issuance

For the reasons set forth in the preamble, the Office of the Comptroller of the Currency proposes to amend part 3 of chapter I of Title 12 of the Code of Federal Regulations as follows:

PART 3—CAPITAL ADEQUACY STANDARDS

1. The authority citation for part 3 is revised to read as follows:

Authority: 12 U.S.C. 93a, 161, 1462, 1462a, 1463, 1464, 1818, 1828(n), 1828 note, 1831n note, 1835, 3907, 3909, 5371, 5371 note, 5412(b)(2)(B), and Pub. L. 116-136, 134 Stat. 281.

2. In §3.12:

- a. Amend paragraphs (a)(1) and (a)(2)(i) by removing the text “9 percent” wherever it appears and adding in its place the text “8 percent”;
- b. Remove paragraph (a)(4);
- c. Revise paragraph (c)(1);
- d. Amend paragraph (c)(2) by removing the word “second” and adding in its place the word “fourth”;
- e. Amend paragraph (c)(6) by removing the text “8 percent” wherever it appears and adding in its place the text “7 percent”; and
- f. Add paragraph (c)(7).

The revision and addition read as follows:

§ 3.12 Community bank leverage ratio framework.

* * * * *

(1) Except as provided in paragraphs (c)(5) through (7) of this section, if a national bank or Federal savings association ceases to meet the definition of a qualifying community banking organization, the national bank or Federal savings association has a grace period (grace period) of four reporting periods under its Call Report either to satisfy the requirements to be a qualifying community banking organization or to comply with § 3.10(a)(1) and report the required capital measures under § 3.10(a)(1) on its Call Report.

* * * * *

(7) Notwithstanding paragraphs (c)(1) through (4) of this section, a national bank or Federal savings association that has spent eight or more of the previous twenty quarters within the grace period, may not use the grace period in the current quarter. If

the national bank or Federal savings association does not meet the definition of a qualifying community banking organization in the current quarter, the national bank or Federal savings association must immediately comply with the minimum capital requirements under § 3.10(a)(1) and must report the required capital measures under § 3.10(a)(1).

§ 3.303—[REMOVED AND RESERVED]

3. Remove and reserve § 3.303.

FEDERAL RESERVE SYSTEM

12 CFR Chapter II

Authority and Issuance

For the reasons set forth in the preamble, the Board proposes to amend part 217 of chapter II of Title 12 of the Code of Federal Regulations as follows:

PART 217—CAPITAL ADEQUACY OF BANK HOLDING COMPANIES, SAVINGS AND LOAN HOLDING COMPANIES, AND STATE MEMBER BANKS (REGULATION Q)

4. The authority citation for part 217 continues to read as follows:

Authority: 12 U.S.C. 248(a), 321-338a, 481-486, 1462a, 1467a, 1818, 1828, 1831n, 1831o, 1831p-1, 1831w, 1835, 1844(b), 1851, 3904, 3906-3909, 4808, 5365, 5368, 5371, 5371 note, and sec. 4012, Pub. L. 116-136, 134 Stat. 281.

5. In §217.12:

a. Amend paragraphs (a)(1) and (a)(2)(i) by removing the text “9 percent” wherever it appears and adding in its place the text “8 percent”;

- b. Remove paragraph (a)(4);
- c. Revise paragraph (c)(1);
- d. Amend paragraph (c)(2) by removing the word “second” and adding in its place the word “fourth”;
- e. Amend paragraph (c)(6) by removing the text “8 percent” wherever it appears and adding in its place the text “7 percent”; and
- f. Add paragraph (c)(7).

The revision and addition read as follows:

§ 217.12 Community bank leverage ratio framework.

* * * * *

(1) Except as provided in paragraphs (c)(5) through (7) of this section, if a Board-regulated institution ceases to meet the definition of a qualifying community banking organization, the Board-regulated institution has a grace period (grace period) of four reporting periods under its Call Report or Form FR Y-9C, as applicable, either to satisfy the requirements to be a qualifying community banking organization or to comply with § 217.10(a)(1) and report the required capital measures under § 217.10(a)(1) on its Call Report or its Form FR Y-9C, as applicable.

* * * * *

(7) Notwithstanding paragraphs (c)(1) through (4) of this section, a Board-regulated institution that has spent eight or more of the previous twenty quarters within the grace period, may not use the grace period in the current quarter. If the Board-regulated institution does not meet the definition of a qualifying community banking organization in the current quarter, the Board-regulated institution must immediately

comply with the minimum capital requirements under § 217.10(a)(1) and must report the required capital measures under § 217.10(a)(1).

* * * * *

§ 217.304 [Removed and Reserved]

6. Remove and reserve § 217.304.

* * * * *

FEDERAL DEPOSIT INSURANCE CORPORATION

12 CFR CHAPTER III

Authority and Issuance

For the reasons stated in the joint preamble, the Board of Directors of the Federal Deposit Insurance Corporation proposes to amend 12 CFR part 324 as follows:

PART 324 – CAPITAL ADEQUACY OF FDIC-SUPERVISED INSTITUTIONS

7. The authority citation for part 324 continues to read as follows:

Authority: 12 U.S.C. 1815(a), 1815(b), 1816, 1818(a), 1818(b), 1818(c), 1818(t), 1819(Tenth), 1828(c), 1828(d), 1828(i), 1828(n), 1828(o), 1831o, 1835, 3907, 3909, 4808; 5371; 5412; Pub. L. 102–233, 105 Stat. 1761, 1789, 1790 (12 U.S.C. 1831n note); Pub. L. 102–242, 105 Stat. 2236, 2355, as amended by Pub. L. 103–325, 108 Stat. 2160, 2233 (12 U.S.C. 1828 note); Pub. L. 102–242, 105 Stat. 2236, 2386, as amended by Pub. L. 102–550, 106 Stat. 3672, 4089 (12 U.S.C. 1828 note); Pub. L. 111–203, 124 Stat. 1376, 1887 (15 U.S.C. 78o–7 note), Pub. L. 115–174; section 4014 § 201, Pub. L. 116–136, 134 Stat. 281 (15 U.S.C. 9052).

8. In § 324.12:

- a. Amend paragraphs (a)(1) and (a)(2)(i) by removing the text “9 percent” wherever it appears and adding in its place the text “8 percent”;
- b. Remove paragraph (a)(4);
- c. Revise paragraph (c)(1);
- d. Amend paragraph (c)(2) by removing the word “second” and adding in its place the word “fourth”;
- e. Amend paragraph (c)(6) by removing the text “8 percent” wherever it appears and adding in its place the text “7 percent”;
- f. Add a new paragraph (c)(7).

The revision and addition read as follows:

§ 324.12 Community bank leverage ratio framework.

* * * * *

(1) Except as provided in paragraphs (c)(5) through (7) of this section, if an FDIC-supervised institution ceases to meet the definition of a qualifying community banking organization, the FDIC-supervised institution has a grace period (grace period) of four reporting periods under its Call Report either to satisfy the requirements to be a qualifying community banking organization or to comply with § 324.10(a)(1) and report the required capital measures under § 324.10(a)(1) on its Call Report.

* * * * *

(7) Notwithstanding paragraphs (c)(1) through (4) of this section, an FDIC-supervised institution that has spent eight or more of the previous twenty quarters within the grace period, may not use the grace period in the current quarter. If the FDIC-

supervised institution does not meet the definition of a qualifying community banking organization in the current quarter, the FDIC-supervised institution must immediately comply with the minimum capital requirements under § 324.10(a)(1) and must report the required capital measures under § 324.10(a)(1).

§ 324.303 [Removed and Reserved]

9. Remove and reserve § 324.303.

The Honorable Jonathan V. Gould,
Comptroller of the Currency.

By order of the Board of Governors of the Federal Reserve System.

Benjamin W. McDonough,
Deputy Secretary of the Board.

Federal Deposit Insurance Corporation.
By order of the Board of Directors,
Dated at Washington, DC, on November 25, 2025.
Jennifer M. Jones,
Deputy Executive Secretary.