

MEMORANDUM

TO: FDIC Board of Directors

FROM: Ryan Billingsley
Director, Division of Risk Management Supervision

DATE: April 16, 2026

SUBJECT: Regulatory Capital Rule: Revisions to the Community Bank Leverage Ratio (CBLR) Framework

SUMMARY

Staff presents for approval by the Federal Deposit Insurance Corporation (FDIC) Board of Directors (FDIC Board) and authorization to publish in the *Federal Register* the attached interagency final rule (final rule) by the FDIC, the Office of the Comptroller of the Currency, and the Board of Governors of the Federal Reserve System (collectively, the agencies). The final rule would finalize the proposal issued by the agencies on December 1, 2025, as proposed, to amend the community bank leverage ratio (CBLR) framework by (1) lowering the CBLR requirement for certain depository institutions and depository institution holding companies (community banking organizations) from 9 percent to 8 percent; and (2) extending the grace period for institutions to remain in the CBLR framework while not meeting one or more of the qualifying criteria from two quarters to four quarters, subject to a limit of eight quarters in the previous five-year (twenty-quarter) period. The final rule would increase the number of community banking organizations eligible to opt in to the CBLR framework and reduce their regulatory burden by exempting them from risk-based capital requirements. For existing community banking organizations using the CBLR framework, the final rule would also create capacity for increased

Concur:

Matthew P. Reed
General Counsel

lending activity, and potentially reduce burden by lowering the need for any parallel systems maintained for purposes of an immediate reversion to the risk-based capital requirements.

RECOMMENDATION

Staff presents to the FDIC Board for approval the attached final rule and requests authorization to publish it in the *Federal Register*.

DISCUSSION

I. Background

The CBLR framework implements section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA),¹ which requires the agencies to establish a CBLR requirement of not less than 8 percent and not more than 10 percent for qualifying community banking organizations.² In 2019, the agencies established a CBLR requirement of greater than 9 percent.³

Section 201(b) of EGRRCPA also requires 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. The agencies previously established a two-quarter grace period during which a community banking organization that fails to meet the

¹ 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 rule; (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 (together, the capital requirements).

² Under the FDIC's capital rule, a qualifying community banking organization is an FDIC-supervised institution that has 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. A qualifying community banking organization also cannot be an advanced approaches banking organization. *See* 12 CFR 324.12(a)(2).

³ The CBLR was defined by reference to the capital rule's existing leverage ratio, equal to tier 1 capital divided by average total consolidated assets. 12 CFR 324.10(b)(4).

qualifying criteria, but maintains a leverage ratio of greater than 8 percent, would continue to satisfy the capital requirements while it seeks to return to compliance with all qualifying criteria by the end of the grace period.⁴ A community banking organization that fails to return to compliance with all qualifying criteria within that time period would immediately become subject to both the risk-based capital requirements and tier 1 leverage ratio.⁵

II. Proposed Rule and Summary of Public Comments

On December 1, 2025, the agencies published in the *Federal Register* a notice of proposed rulemaking (NPR) to amend the CBLR framework. The NPR was intended to enhance adoption of the CBLR framework by increasing the number of banking organizations that qualify to use the CBLR framework and encouraging community banking organizations to opt in to the framework by extending the grace period, thereby allowing for additional time to return to full compliance.⁶

The agencies received 29 comments on the proposal from a range of parties. Most commenters were broadly supportive of the proposal. Several commenters stated that the reduced calibration of the CBLR requirement would support additional lending by the banking organizations that participate in the CBLR framework. Some commenters also noted that the proposed grace period would provide more time for community banking organizations to address potential volatility in capital ratios and reduce operational burden by allowing them to sunset parallel systems maintained in case of reversion to the risk-based capital framework. One commenter noted that the 7 percent floor and grace period limit of eight quarters within the prior twenty quarters are appropriate safeguards. Several commenters requested that the final rule

⁴ 84 FR 61776 (Nov. 13, 2019).

⁵ See 12 CFR 324.12(c); 12 CFR 324.10(a)(1).

⁶ The grace period is subject to a limit of eight quarters in the previous five-year period.

eliminate the current 25 percent threshold deduction on mortgage servicing assets (MSAs) under the capital rule.

Following review and consideration of the comments received on the NPR, the final rule presented to the FDIC Board is unchanged from the proposal.

III. The Final Rule

A. Calibration of the CBLR Requirement

The final rule would recalibrate the CBLR requirement to greater than 8 percent, as proposed.⁷ Lowering the CBLR requirement from 9 percent to 8 percent allows more community banking organizations to qualify for the CBLR framework and provides additional balance sheet capacity for lending activity. In addition to expanding eligibility, the CBLR recalibration could encourage community banking organizations that are currently eligible, but which are not participating in the framework, to opt in.⁸ Under an 8 percent CBLR requirement, the CBLR framework remains comparable to and, in most cases, materially more stringent than the corresponding requirements under the prompt corrective action framework.

B. Extension of the Grace Period & Limitation Relating to Grace Period Usage

As proposed in the NPR, the final rule would extend the grace period from two quarters to four quarters, provided the community banking organization maintains a leverage ratio above 7 percent within the grace period. The four-quarter grace period would better ensure that a banking organization that ceases to meet the criteria for a qualifying community banking

⁷ This revision would also be consistent with comments received under the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) review, as commenters requested that the CBLR be recalibrated to a more appropriate level, such as 8 percent. Public Law 104-208, Div. A, Title II, section 2222, 110 Stat. 3009-414, (1996) (codified at 12 U.S.C. 3311). *See also* Regulatory Publication and Review Under the Economic Growth and Regulatory Paperwork Reduction Act of 1996, 90 FR 35241 (Jul. 25, 2025).

⁸ A larger surplus of regulatory capital above the CBLR requirement decreases the likelihood that community banking organizations that participate in the CBLR framework would be required to revert to the risk-based capital framework due to unexpected fluctuations in their leverage ratios.

organization has sufficient time to make appropriate changes to its activities or build up its regulatory capital levels as necessary to remain a qualifying community banking organization for purposes of the CBLR framework. By reducing the risk of having to immediately implement the risk-based capital framework, should the banking organization not return to full compliance within the grace period, the final rule would support greater adoption of the CBLR framework and potentially reduce burden for existing CBLR banking organizations, as they might sunset any parallel systems maintained for purposes of an immediate reversion to the risk-based capital framework and tier 1 leverage ratio.

To help ensure the proposed recalibration of the CBLR and the extended grace period continue to support prudent levels of capitalization, the final rule retains the proposed limitation on an institution's ability to use the grace period. Specifically, a qualifying community banking organization would only be allowed to use the grace period for the current quarter if it had not used the grace period for eight or more of the previous twenty quarters. If a banking organization that has used the grace period for eight of the previous twenty 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 purposes of the limitation, a banking organization is considered to have used the grace period for one quarter each time it does not meet the definition of a qualifying community banking organization at the end of a quarter.

C. Removal of Temporary CARES Act Provisions

The final rule would include a technical change to remove expired provisions under the CBLR framework that provided temporary relief for qualifying community banking

organizations during the COVID-19 outbreak.⁹

D. MSA threshold deduction

While the final rule does not eliminate or raise the existing threshold for MSA deductions, the agencies are currently seeking comment on removing the MSA threshold deduction for all banking organizations, including those subject to the CBLR framework. The agencies welcome comments on the MSA threshold deduction and expect to consider changes to the threshold deduction across the capital framework, including the CBLR.

E. Effective Date

The final rule would be effective on July 1, 2026.

CONCLUSION

Staff presents to the FDIC Board the attached final rule for approval and requests authorization of its publication in the *Federal Register*.

STAFF CONTACTS

Legal Division

Catherine Wood, Counsel
Nicholas Soyer, Attorney

Division of Risk Management Supervision

Benedetto Bosco, Chief Capital Policy
Michael Maloney, Capital Markets Policy Analyst

⁹ 12 CFR 324.12(a)(4); 12 CFR 324.303.