[redacted]

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Re: Comment on Docket ID OCC-2025-0141, Regulatory Capital Rule: Revisions to the Community Bank Leverage Ratio Framework

Dear Sir or Madam,

The American Bankers Association (ABA)[1] thanks the federal banking agencies (collectively, the agencies) for the opportunity to comment on the proposed rule to revise the Community Bank Leverage Ratio framework (the Proposal). We greatly appreciate the agencies' thoughtful efforts to recalibrate the Community Bank Leverage Ratio (CBLR) in a way that strengthens its role as a meaningful option for community banks, while maintaining safety and soundness.

We strongly support the agencies' proposal to amend the CBLR framework by lowering the requirement from 9% to 8% and extending the grace period from two quarters to four quarters. These changes are consistent with section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act and reflect the agencies' experience with the framework since its implementation. The proposal responds to concerns raised by community banking organizations regarding the current calibration and grace period, which have limited the framework's effectiveness in reducing regulatory burden.

The original goal of the CBLR was straightforward: provide qualifying banks an optional, transparent leverage threshold to demonstrate capital adequacy without engaging in the time and expense of complex Basel III risk-based calculations. Yet adoption has remained low. Only about 40% of eligible banks opted in by early 2025, and just 26% of institutions with assets greater

[1] The American Bankers Association is the voice of the nation's $25.0 trillion banking industry, which is composed of small, regional, and large banks that together employ approximately 2.1 million people, safeguard $19.7 trillion in deposits, and extend $13.1 trillion in loans.

than $1 billion participated. Vice Chair Bowman aptly observed that the CBLR "underachieved in providing regulatory relief" and that lowering the threshold to 8% would unlock needed regulatory flexibility.

Lowering the CBLR requirement to 8% will expand eligibility to approximately 95% of community banking organizations. This adjustment will encourage greater participation and provide a more practical buffer for institutions that opt into the CBLR. The agencies' analysis indicates that the recalibration could increase balance sheet capacity for participating institutions by approximately $64 billion, supporting additional lending to households, small businesses, and agricultural borrowers. These outcomes advance the statutory objective of simplifying capital requirements for qualifying community banking organizations while maintaining prudential standards.

Extending the grace period to four quarters will reduce the likelihood that temporary fluctuations in capital will require institutions to revert to the risk-based capital framework. It will also provide institutions with additional time to return to compliance with the qualifying criteria or transition to the risk-based capital framework. Community banking organizations generally rely on retained earnings to build capital and have limited access to external capital markets, making rapid adjustments operationally challenging. A longer grace period will reduce unnecessary costs and disruptions associated with short-term fluctuations in leverage ratios and will promote stability during periods of stress.

We believe these changes should not only be finalized as proposed but also made permanent. Permanence is essential to give community banking organizations the certainty needed for long-term capital planning and strategic balance sheet decisions. Banks structure asset composition, lending strategies, and capital buffers over multi-year horizons, and uncertainty about future recalibrations would undermine adoption and limit the framework's effectiveness. Making the 8% threshold and extended grace period permanent would ensure the CBLR remains a stable and reliable option that supports prudent growth and sustained regulatory relief while maintaining safety and soundness.

The proposed changes maintain a leverage standard that is consistent with the well-capitalized definition under the prompt corrective action framework and remain materially more stringent than the corresponding tier 1 leverage ratio requirement. We commend the agencies for proposing revisions that balance regulatory relief with safety and soundness and encourage finalization of the rule.[2]

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[2] Additionally, for those banks that elect not to use the CBLR, we encourage the agencies to continue exploring leverage ratio reforms, such changes to the tier 1 leverage ratio, in future rulemakings. In particular, we reiterate ABA's longstanding position that certain low-risk and riskless assets—such as deposits held at Federal Reserve Banks (reserves), cash, and U.S. Treasury securities—should be excluded from leverage ratio calculations.

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

ABA encourages the agencies to review the qualifying criteria for opting into the CBLR framework, including the $10 billion asset threshold and limitations on off-balance sheet exposures. ABA also recommends that the agencies recognize sustained CBLR compliance within CAMELS capital ratings to promote greater predictability in supervisory assessments. Finally, the agencies should ensure that the CBLR framework remains optional at all times and that examiners do not hold non-CBLR banks to the CBLR standard or CBLR banks to risk-based standards.

<u>*Indexing the $10B asset threshold*</u>

ABA understands that Section 201 requires the agencies to develop a CBLR for institutions with $10 billion or less in consolidated assets. However, Section 201 places no limit on the ability of the agencies to apply a CBLR to institutions with assets greater than $10 billion. Regulatory thresholds that remain fixed in nominal terms inevitably erode in relevance as the economy grows, creating unintended consequences such as burdening institutions never meant to be captured, discouraging organic growth, and diluting supervisory resources.

To avoid this regulatory drift, ABA recommends that the agencies adjust the $10 billion threshold for past inaction and index it to nominal GDP. Indexing is a low-cost, high-impact reform that improves transparency, reduces arbitrary burden, and ensures that regulatory distinctions continue to reflect size, complexity, and risk. Linking the threshold to nominal GDP will create a durable framework that adapts to economic realities and prevents the threshold from becoming an artificial barrier to growth.

<u>*Unused commitments*</u>

To qualify for the CBLR framework, a bank's off-balance sheet exposures must not exceed 25% of its total assets. As of 2025 Q3, 17% of CBLR banks were at or above the halfway point. We encourage the agencies to review the treatment of off-balance sheet exposures within the CBLR framework—particularly as it relates to conditionally cancellable unused commitments.

Conditionally cancelable unused commitments comprise the majority of off-balance sheet exposures for CBLR banks—an average of 89% in 2025 Q3, according to ABA analysis. These commitments are common for banks with concentrations in commercial and agricultural lending and are subject to contractual provisions that mitigate risk by allowing cancellation under defined conditions, such as borrower default or deterioration in creditworthiness.

The commitments are also subject to seasonal variation. For example, agricultural lenders experience swings in unfunded commitments as producers pay down lines after harvest and increase utilization during planting season. Penalizing these exposures in the off-balance sheet threshold unnecessarily limits access to the CBLR framework for banks whose business models depend on these commitments to meet customer needs.

In addition, members report that it is not always clear what language is required to demonstrate an unused commitment is unconditionally cancelable, which can result in reported off-balance sheet exposure amounts that exceed those the requirement is intending to capture. Clear guidance would promote consistency and improve measurement across institutions and reduce supervisory uncertainty.

To address these concerns, we recommend that the agencies:

1. **Increase the off-balance sheet exposure threshold from 25% to at least 30%** to provide flexibility for banks whose business models rely on conditionally cancellable unused commitments;

2. **Conduct a broader review of how conditionally cancellable unused commitments are treated within the CBLR criteria** to ensure the framework reflects their risk characteristics and usage patterns; and

3. **Clarify the legal language required for unconditionally cancellable unused commitments** to reduce supervisory uncertainty and prevent inflated exposure calculations.

Recognize sustained CBLR compliance in CAMELS capital ratings

Members recommend that the agencies strengthen the connection between sustained compliance with the CBLR and the capital component of the CAMELS rating. A bank that has maintained uninterrupted CBLR compliance for at least 24 months and met the associated supervisory expectations has established a track record that should be viewed as a strong indicator of capital adequacy. Absent other adverse findings, long-term adherence to the CBLR framework should provide support towards a satisfactory or better capital rating. This approach would promote consistency, provide regulatory predictability, and appropriately recognize institutions that have demonstrated capital strength over time.

The CBLR must remain optional at all times

The CBLR framework was designed as an optional alternative to the generally applicable capital requirements, and we believe it is important that this optionality be preserved in practice. While the framework has provided meaningful relief for many institutions, some banks that have elected not to use the CBLR have expressed concerns that examiners may view the CBLR ratio as an additional benchmark for evaluating capital adequacy, even when a bank remains fully compliant with the risk-based capital rules. We encourage the agencies to reinforce through examiner guidance and training that the CBLR is an elective option, not a supervisory expectation, to ensure banks are not disadvantaged for choosing to remain under the risk-based capital framework.

Thank you for your attention to this matter. Should you have any questions, please do not hesitate to contact the undersigned at [redacted]

Sincerely,

[redacted]

Tyler Mondres

Senior Director