December 29, 2025

Chief Counsel's Office
Comment Processing
Office of the Comptroller of the Currency
400 7th Street SW, Suite 3E-218
Washington, DC 20219

Jennifer M. Jones
Deputy Executive Secretary
Attention: Comments-RIN 3064-AG16
Federal Deposit Insurance Corporation
550 17th Street NW
Washington D.C. 20429

Regarding: Unsafe or Unsound Practices, Matters Requiring Attention – OCC Docket ID OCC-2025-0174 and FDIC RIN 3064-AG16

Dear Federal Banking Regulators:

The Community Bankers Association of Illinois ("CBAI"), which proudly represents nearly 250 Illinois community banks, welcomes the opportunity to provide our observations and recommendations regarding the Office of the Comptroller of the Currency ("OCC") and the Federal Deposit Insurance Corporation ("FDIC") (together "Regulators" or "Agencies") proposal to define the term "unsafe or unsound practice" for the purpose of section 8 of the Federal Deposit Insurance Act, and to revise the supervisory framework for the issuance of matters requiring attention [("MRAs")] and other supervisory communications ("Proposal"). CBAI supports this Proposal, which will provide greater clarity and certainty regarding certain enforcement and supervision standards, prioritizes material financial risks over concerns related

to policies, procedures and documentation, and establishing uniform standards for the purpose of communicating supervisory concerns.

The term *unsafe or unsound practice* appears in section 8 of the Federal Deposit Insurance Act, but it has never been defined. Over the years, it has always been subject to the interpretation (reasonable or not) of regulators and examiners, which can and has changed depending on leadership at the agencies and the inclination of examiners. While community bankers would prefer that the regulators and examiners have some amount of reasonable discretion in determining the degree to which a bank should be unofficially or officially criticized, the unfortunate drawback is that discretion may not be exercised "reasonably." In those not altogether rare cases, and for the benefit of the banking industry as a whole, the better alternative is to have a more precise definition that would provide greater clarity, a consistent nationwide standard and that would avoid supervisory criticism not related to material financial risks for all parties to work within.

The Proposal would define the term *unsafe or unsound practice* to mean "a practice, act, or failure to act, alone or together with one or more other practices, acts or failures to act, that (1) is contrary to generally accepted standards of prudent operation; and (2)(i) if continued, is likely to (A) materially harm the financial condition of the institution; or (B) present material risk of loss to the DIF; or (ii) materially harmed the financial condition of the institution."

CBAI supports the tailoring requirement for supervisory and enforcement actions, as well as MRAs, "based on the capital structure, riskiness, complexity of activities, asset size, and any financial risk-related factors that the agencies deem appropriate." CBAI has consistently urged tailoring to a far greater extent that it has been used by regulators in the past. Some agencies have paid mere lip service to this requirement, which has subjected community banks to much of the same harsh treatment that should deservedly be inflicted on the largest and most complex financial institutions and non-banks that present far greater systemic and consumer compliance risk than do community banks.

CBAI agrees that MRAs are designed to promote timely corrective action and strengthen and institution's safety and soundness, but should not be a vehicle for examiners to recommend industry "best practices" or enhancements to already acceptable standards. CBAI also agrees that MRAs should not be kept open for a prolonged period of time after the institution has fully completed the remediation, and should be promptly closed. CBAI urges that during the

resolution process management should be given due credit for diligently attempting to correct a matter even if it is not resolved to complete satisfaction at a subsequent examination and that any reasonable shortfall should not be considered a repeat finding or violation.

The implementation of the Proposal to define *unsafe and unsound practice* will represent a significant and hopefully beneficial change to the supervision and examination regime for community banks. The individual and cumulative impact of these changes will be revealed over time and will be based on the experience of both bankers and regulators and may take one or more examination cycles to fully assess the intended and any unintended consequences. Accordingly, CBAI urges the Regulators to commit to revisiting these changes with a request for information ("RFI") in approximately 36 months of implementation to determine if anything needs to be changed to better suit the process and achieve the desired positive benefits to the industry and Agencies.

CBAI appreciates the opportunity to provide our comments and recommendations about this Proposal. Please contact me with any questions at [redacted] or [redacted].

Sincerely,

/s/

David G. Schroeder
Senior Vice President
Federal Governmental Relations