

**DEPARTMENT OF THE 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 Board of Governors of the Federal Reserve System; and the Federal Deposit Insurance Corporation.

**ACTION:** Final rule.

**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 adopting a final rule that lowers the community bank leverage ratio (CBLR) requirement 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 final rule also extends the length of time that certain depository institutions and depository institution holding companies can remain in the CBLR framework while not meeting all of the qualifying criteria for the CBLR framework from two

consecutive quarters to four consecutive quarters, subject to a limit of eight quarters in the previous five-year period.

**DATES:** The final rule is effective July 1, 2026.

**FOR FURTHER INFORMATION CONTACT:**

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**FDIC:** Benedetto Bosco, Chief, Capital Policy Section; Michael Maloney, Senior Policy Analyst; Kyle McCormick, Senior Policy Analyst; Keith Bergstresser, Senior Policy Analyst; Matthew Park, Financial Analyst; Capital Markets and Accounting Policy Branch, Division of Risk Management Supervision; Catherine Wood, Counsel; Merritt Pardini, Counsel; Nicholas

Soyer, Attorney; Legal Division, *regulatorycapital@fdic.gov*, (202) 898–6888; Federal Deposit Insurance Corporation, 550 17<sup>th</sup> Street NW, Washington, DC 20429.

## **SUPPLEMENTARY INFORMATION:**

### **I. Background**

On December 1, 2025, the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Board), and the Federal Deposit Insurance Corporation (FDIC) (collectively, the agencies) published in the *Federal Register* a notice of proposed rulemaking (the proposal) to amend the community bank leverage ratio (CBLR) framework.<sup>1</sup> The proposal would have lowered the CBLR requirement from 9 percent to 8 percent and would have extended the length of time that certain depository institutions and depository institution holding companies can remain in the CBLR framework while not meeting one or more of the qualifying criteria from two consecutive quarters to four consecutive quarters, subject to a limit of eight quarters in the previous five-year period. Following review of the comments received on the proposal, the agencies are finalizing the proposal without revision. Elements of the final rule also address comments received from the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) review.<sup>2</sup>

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

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<sup>1</sup> 90 FR 55048 (Dec. 1, 2025).

<sup>2</sup> The agencies, together with the Federal Financial Institutions Examination Council, commenced a review of their prescribed regulations under the Economic Growth and Regulatory Paperwork Reduction Act of 1996 in 2024 to identify outdated or otherwise unnecessary regulatory requirements imposed on insured depository institutions. The agencies have reviewed and considered these comments. 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).

The CBLR framework<sup>3</sup> implements section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA), 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.<sup>4</sup>

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;<sup>5</sup> (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 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 the agencies.

In 2019, the agencies issued a final rule establishing the CBLR framework, which became effective January 1, 2020 (2019 final rule).<sup>6</sup> Under the 2019 final rule, the agencies established a CBLR requirement of greater than 9 percent. The CBLR requirement was defined

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<sup>3</sup> 12 CFR 3.12 (OCC); 12 CFR 217.12 (Board); 12 CFR 324.12 (FDIC).

<sup>4</sup> 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.

<sup>5</sup> 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.

<sup>6</sup> 84 FR 61776 (Nov. 13, 2019).

by reference to the capital rule's existing leverage ratio, equal to tier 1 capital divided by average total consolidated assets.<sup>7</sup>

Under the 2019 final rule, depository institutions and depository institution holding companies are eligible to opt into the CBLR framework if they are a “qualifying community banking organization.” The final rule defined this term to include institutions that have less than \$10 billion in total consolidated assets; a leverage ratio 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.<sup>8</sup> A qualifying community banking organization also cannot be an advanced approaches banking organization.<sup>9</sup>

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.<sup>10</sup> At the time, 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

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<sup>7</sup> See 12 CFR 3.10(b)(4) (OCC); 12 CFR 217.10(b)(4) (Board); 12 CFR 324.10(b)(4) (FDIC).

<sup>8</sup> See 12 CFR 3.12(a)(2) (OCC); 12 CFR 217.12(a)(2) (Board); 12 CFR 324.12(a)(2) (FDIC).

<sup>9</sup> See 12 CFR 3.100(b) (OCC); 12 CFR 217.100(b) (Board); 12 CFR 324.100(b) (FDIC).

<sup>10</sup> 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, an insured depository institution 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 CBLR framework.

by qualifying community banking organizations and support the agencies' goal of reducing regulatory burden while maintaining safety and soundness.<sup>11</sup>

The 2019 final rule also established a two-quarter grace period during which a qualifying community banking organization that fails to meet all of the qualifying criteria 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. Under the 2019 final rule, if a community banking organization returns to compliance with all qualifying criteria following 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 following the grace period or that, at any time, failed to maintain a leverage ratio of greater than 8 percent would have been required to comply with the risk-based capital requirements and file the associated information in its regulatory reports for the quarter in which it ceased to be a qualifying community banking organization.

*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.<sup>12</sup> 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 issue an interim final rule that would temporarily lower the CBLR requirement to 8 percent and

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<sup>11</sup> See 84 FR 61776, 61778, 61780, 61784 (Nov. 13, 2019).

<sup>12</sup> Coronavirus Aid, Relief, and Economic Security Act, Public Law 116–136, 134 Stat. 281 (2020).

provide a reasonable grace period for qualifying community banking organizations that fell below the 8 percent requirement.

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).<sup>13</sup> 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).<sup>14</sup> These interim final rules did not make any changes to the other qualifying criteria in the CBLR framework.<sup>15</sup>

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 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: greater than 7 percent in the second quarter through fourth quarter of calendar year 2020, greater than 7.5 percent in calendar

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<sup>13</sup> 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.

<sup>14</sup> 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.

<sup>15</sup> In 2020, the agencies also issued an interim final rule that permitted banking organizations with under \$10 billion in total consolidated assets as of December 31, 2019, to use asset data as of December 31, 2019, to determine certain regulatory asset thresholds, including eligibility for the CBLR framework during calendar years 2020 and 2021. 85 FR 77345 (Dec. 2, 2020).

year 2021, and greater than 8 percent thereafter. Both interim final rules were finalized without change.<sup>16</sup>

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.<sup>17</sup> The CBLR requirement reverted to 9 percent on January 1, 2022.

## **II. Experience with the Community Bank Leverage Ratio**

The CBLR framework is intended to provide qualifying community banking organizations the option to use a simpler, less burdensome measure of capital adequacy. The CBLR framework reduces regulatory 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 such 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 qualified to use the CBLR framework,<sup>18</sup> but only 48 percent of qualifying community banking organizations had adopted it. This adoption rate has remained relatively constant since the rule was implemented in 2020. Notably, data show that smaller banking

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<sup>16</sup> 85 FR 64003 (Oct. 9, 2020).

<sup>17</sup> "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).

<sup>18</sup> 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.

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).

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.<sup>19</sup>

### **III. Summary of Comments Received and Overview of the Final Rule**

To address concerns that the CBLR framework did not provide effective regulatory burden relief and discouraged broader adoption, the agencies proposed to lower the CBLR requirement from 9 percent to 8 percent and to extend the grace period from two quarters to four quarters, subject to a limit on use of the grace period over time.

#### *A. Summary of Comments*

The agencies received approximately 30 comments on the proposal from a range of parties, including a policy advocacy group, banking organizations, banking and financial trade associations, other financial market participants, a law firm, and individuals. Most of these comments were supportive of the proposal, including the proposed calibration of the CBLR

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<sup>19</sup> As of the second quarter of 2025, community banking organizations that participate in the framework maintain median leverage ratios of 11.9 percent, reflecting median levels of capital 2.9 percentage points above the current 9 percent requirement.

requirement and the proposed grace period for CBLR banking organizations to return to compliance with the CBLR framework. One commenter asserted that the proposal improves market efficiency, while another recommended that the proposal be finalized and made permanent. Some comments, including from trade associations and individuals, recommended the agencies take further action to reduce regulatory burden on community banking organizations, including with respect to regulatory reporting. These comments are discussed in additional detail in section IV.F. The agencies also received comments regarding specific aspects of the proposal discussed further below.

#### *B. Overview of the Final Rule*

To provide more meaningful regulatory burden relief to community banking organizations while continuing to achieve the CBLR framework's safety and soundness objectives, the agencies are finalizing the proposal without modification. The final rule lowers the CBLR requirement from 9 percent to 8 percent, as proposed. The final rule also includes the proposed extension of the grace period from two quarters to four quarters, subject to a limit of eight quarters in the previous five-year period. The final rule is effective on July 1, 2026. This **SUPPLEMENTARY INFORMATION** presents the economic analysis of the final rule's changes and discusses administrative law matters.

### **IV. Final Rule**

#### *A. Lower Calibration of the CBLR Requirement*

The agencies proposed to lower the calibration of the CBLR requirement from 9 percent to 8 percent. Most commenters specifically supported the proposal to lower the calibration of the CBLR requirement from 9 percent to 8 percent. These commenters agreed that a lower calibration would increase eligibility for, and adoption of, the CBLR framework. Many

commenters expressly agreed that the proposed 8 percent calibration would remain comparable to the requirements for the well capitalized category under the agencies' PCA framework. Commenters also noted that the proposed calibration appropriately balanced regulatory burden relief with safety and soundness. Several commenters stated that the reduced calibration would support additional lending by banking organizations that participate in the CBLR framework. One commenter stated that the proposal would result in larger management buffers that would allow some community banking organizations to redirect "excess" capital toward lending and enhancements in business operations and risk management processes. This commenter recommended that the reduced calibration should only be provided to community banking organizations that use the excess capital for such activities. One commenter suggested that the proposed 8 percent calibration would result in a higher effective capital requirement than its face amount would suggest due to deductions from regulatory capital set by the agencies' current capital rule. No commenters opposed the proposed reduced calibration.

The agencies are adopting the 8 percent CBLR requirement as proposed. As discussed in the proposal, the recalibration expands eligibility as more community banking organizations will qualify for the CBLR framework, which is significantly less burdensome than the risk-based capital framework. This revision is also consistent with comments received under EGRPRA, as commenters requested that the CBLR be recalibrated to a more appropriate level, such as 8 percent, to ensure broader access to the framework and to support credit availability in local markets. According to data from the second quarter of 2025, an additional 477 community banking organizations qualify to opt into the framework with the 8 percent CBLR requirement, and the agencies estimate that a total of 95 percent of community banking organizations (that is,

banking organizations with less than \$10 billion in total consolidated assets) qualify to participate in the CBLR framework (see section V.B.1 for additional information).

The CBLR recalibration would generally increase management buffers for community banking organizations participating in the CBLR framework and could encourage community banking organizations that are currently eligible, but that are not participating in the framework, to opt in. A larger surplus of regulatory capital above the CBLR requirement decreases the likelihood that qualifying 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.

The final rule remains broadly consistent with the current well capitalized category under the PCA framework. Specifically, the CBLR framework remains comparable to and, in most cases, materially more stringent than the requirements under the PCA framework.<sup>20</sup> The 8 percent CBLR requirement is more stringent than the 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.<sup>21</sup> Similarly, an 8 percent

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<sup>20</sup> This analysis compares the 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 requirement relative to risk-based capital requirements. The PCA framework applies only to insured depository institutions. 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, as well as a 5 percent tier 1 leverage ratio. 12 CFR part 6 (OCC); 12 CFR part 208, subpart D (Board); 12 CFR part 324, subpart H (FDIC). 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.

<sup>21</sup> The agencies also compared required capital under the final rule to other risk-based capital requirements, including the total capital requirement, and found that the 8 percent CBLR requirement broadly requires similar or more capital for the vast majority of depository institutions that will be eligible under the final rule. See section V.B.1 for more information.

CBLR requirement is substantially higher than the 5 percent tier 1 leverage ratio required to be considered well capitalized under the PCA framework. As of the second quarter of 2025, all community banking organizations that would be newly eligible under the 8 percent CBLR requirement were well capitalized under the PCA framework.

The final rule does not include a requirement that the reduced calibration be provided to only community banking organizations that redirect “excess” capital toward lending and enhancements to business operations and risk management processes. As further discussed in the economic analysis in section V.C.2, lowering the calibration to 8 percent provides additional balance sheet capacity for lending and other activities 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.<sup>22</sup> In addition, rural communities rely heavily on community banking organizations for lending and financial services.<sup>23</sup> Additional lending by community banking organizations supports the economic activity of the communities and industries that they serve. However, the agencies do not determine how banking organizations allocate capital, so long as they meet applicable minimum capital requirements and any other applicable legal requirements, and operate in a safe and sound manner.

#### *B. Extension of the Grace Period*

The agencies proposed to extend the grace period from two quarters to four quarters, thus allowing certain qualifying community banking organizations that fail to fully meet the

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<sup>22</sup> 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.

<sup>23</sup> See *id.*

qualifying criteria after opting into the CBLR framework to have four reporting periods to either return to fully meeting the qualifying criteria under the CBLR framework or transition to the risk-based capital framework. Commenters were largely supportive of the proposal to extend the grace period to provide additional time for temporarily non-compliant banking organizations to return to compliance with the CBLR framework. Some commenters noted that a four-quarter grace period would be better aligned with community banking organizations' reliance on retained earnings to build regulatory capital, which makes rapid adjustments difficult. Some commenters noted that the proposed grace period would provide more time for community banking organizations to address potential volatility in capital ratios. Two commenters noted that the extended grace period, combined with the reduced calibration, would reduce operational burden and allow qualifying community banking organizations participating in the CBLR framework to sunset parallel systems maintained in the event the banking organization reverted to the risk-based capital framework. One commenter specifically stated that the proposed rule's 7 percent minimum CBLR to use the grace period provides an appropriate safeguard. One commenter recommended that the agencies require a community banking organization to present a "CBLR restoration plan" to its board of directors within the first quarter of entering the grace period to ensure that it uses the grace period to execute a capital strategy. No commenters opposed the proposed extension of the grace period.

The agencies are finalizing this aspect of the proposal without modification. As discussed in the proposal, community banking organizations tend to rely more heavily on retained earnings for regulatory capital in part because smaller banking organizations may have reduced access to capital markets compared to larger banking organizations. As a result, community banking organizations may face challenges increasing capital quickly, particularly in

environments in which bank profitability is constrained.<sup>24</sup> For additional analysis of the change to the grace period, see section V.C.1.

The four-quarter grace period should allow a banking organization that ceases to meet the CBLR criteria 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 framework. By reducing the risk of a banking organization being required to rapidly implement the risk-based capital framework, the finalized changes could incentivize greater adoption of the CBLR framework.

Under the final rule, a community banking organization that has opted into the CBLR framework and no longer meets one or more of the qualifying criteria would have a four-quarter grace period to remain in the CBLR framework provided it maintains a leverage ratio above 7 percent. A community banking organization whose CBLR falls to or below 7 percent would be required to fully comply with risk-based capital framework requirements for the quarter in which it reports a leverage ratio of 7 percent or less. This 7 percent minimum ensures that community banking organizations with capital levels that have declined significantly would be subject to the more risk sensitive risk-based capital framework.

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 (grace period quarter 1), as

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<sup>24</sup> 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).

long as the banking organization maintains a leverage ratio above 7 percent. The banking organization may continue to use the CBLR framework in the June 30 quarter (grace period quarter 2), September 30 quarter (grace period quarter 3) and December 31 quarter (grace period quarter 4) but would 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.<sup>25</sup>

The agencies do not consider it appropriate to require, as one commenter suggested, that a community banking organization submit a capital restoration plan to its board of directors within the first quarter of entering the grace period. The CBLR framework is an optional framework, and community banking organizations may use the grace period to transition back to the risk-based capital framework. Similarly, a community banking organization may enter the grace period as a result of breaching other qualifying thresholds, including the threshold for off-balance sheet exposures, trading activity, or total assets.

Consistent with the 2019 final 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.

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<sup>25</sup> Qualifying community banking organizations would continue to opt in to and out of the CBLR framework through their regulatory reports. As further discussed in section IV.C., there are additional limitations on the grace period.

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 combination generally would be expected to provide its pro forma risk-based capital ratios to its primary federal supervisor 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*

Under the proposal, the agencies would have limited use of the grace period such that a community banking organization that had used the grace period for eight quarters in the previous five-year (twenty-quarter) period ending before the current quarter, would not have been permitted to use the grace period in the current quarter. A few commenters expressed support for the proposed limitation on usage of the grace period, noting that it would provide an appropriate safeguard. No commenters opposed the proposed limitation on usage of the grace period. One commenter requested that the agencies provide illustrative examples showing how the limitation would be applied.

To ensure that the recalibration of the CBLR and the extended grace period continue to support prudent levels of capitalization, the agencies are finalizing the limitation regarding the use of the grace period as proposed. Specifically, although a qualifying community banking organization may use the grace period for up to four consecutive quarters, it 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 twenty quarters ending before the current quarter. 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.<sup>26</sup>

For example, provided a community banking organization maintains a leverage ratio above 7 percent, if the community banking organization were to use the grace period for each quarter in calendar years 2027 and 2029 (eight total quarters in the grace period), without using the grace period in calendar year 2028, it would not be able to use the grace period during calendar years 2030 or 2031 or the first quarter of 2032. If it ceases to meet the CBLR criteria at the end of any quarter during calendar years 2030 or 2031 or the first quarter of 2032, it would be required to comply immediately with the risk-based capital requirements. The community banking organization would, however, be able to use the grace period in the second quarter of 2032 because, in the twenty quarters prior (the second quarter of 2027 through the first quarter of 2032), it would have used the grace period for less than eight quarters (the second, third and fourth quarters of 2027 and all four quarters of 2029).

Use of the grace period is based on the previous twenty quarters irrespective of whether the community banking organization has elected to participate in the CBLR framework for each of those quarters. For example, if a qualifying community banking organization were to opt into the CBLR framework and use the grace period for each of the four quarters in calendar year

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<sup>26</sup> The grace period limitation would consider usage of the grace period of the CBLR prior to effective date of this final rule, meaning that usage of the grace period before this final rule would be included in a community banking organization's five-year lookback period. Usage of the grace period should take into account the CBLR requirement effective at the end of each quarter, including for quarters when the CLBR requirement was temporarily reduced below 9 percent. See section II.B.

2026, revert to the risk-based capital framework in 2027, and then opt back into the CBLR framework in 2028, the community banking organization would include the four quarters of 2026 in which it used the grace period when calculating its grace period limit in 2028.

In the case of a merger or acquisition, the resulting banking organization would calculate the limitation based on the historical usage of the grace period by the surviving entity. For example, if a community banking organization were to use the grace period in the third and fourth quarters of both 2027 and 2030, and were to acquire another community banking organization in the second quarter of 2031 where the acquired entity had used the grace period in the third and fourth quarters of 2029, the surviving community banking organization would be considered to have used the grace period for four of the prior twenty quarters (the third and fourth quarters of 2027 and 2030). The acquired community banking organization's two quarters of grace period usage in 2029 are disregarded for purposes of the CBLR framework's limitation on the usage of the grace period.

As noted in the proposal, 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.<sup>27</sup>

#### *D. Removal of Temporary CARES Act Provisions*

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<sup>27</sup> 12 CFR 3.1(d) (OCC); 12 CFR 217.1(d) (Board); 12 CFR 324.1(d) (FDIC).

The agencies also proposed 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.<sup>28</sup> The agencies received no comments on this aspect of the proposal and are finalizing these amendments as proposed. Because this temporary relief expired on December 31, 2021, removal of these provisions will have no substantive impact.

*E. Other Comments*

The agencies also received additional comments that were not related to specific aspects of the proposed changes. The agencies have considered these comments, but the final rule does not make changes to the proposal to address these comments. The agencies will continue to monitor the effectiveness of their rule and may make or propose changes in the future as appropriate.

*1. Revising the Asset Threshold*

Several commenters recommended that the total asset threshold for eligibility for the CBLR framework be increased beyond the \$10 billion total asset threshold provided by section 201 of EGRRCPA. Some commenters recommended that the threshold be raised to \$20 billion, \$25 billion, or \$30 billion and be indexed by inflation or nominal gross domestic product going forward. One commenter recommended that interest rate swaps sold to customers and interest rate hedges for a banking organization's interest-rate management not be included in the calculation of total consolidated assets.

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<sup>28</sup> 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).

Section 201(a)(3) of EGRRCPA provides that a qualifying community banking organization with total consolidated assets of less than \$10 billion, that satisfies other factors, would be eligible to participate in the CBLR framework. The agencies are retaining this qualification criterion, consistent with EGRRCPA. The agencies will continue to monitor the effectiveness of their rule and may make or propose changes, including changes to asset thresholds, in the future as appropriate and as permitted by statute.

The final rule's changes to the calibration of the CBLR requirement achieve the agencies' goal of reducing regulatory burden on banking organizations while continuing to broadly maintain alignment between the treatment of exposures across the CBLR framework and the Tier 1 leverage ratio applicable to banking organizations that do not participate in the CBLR framework. Therefore, qualifying community banking organizations will continue to calculate total consolidated assets in accordance with the reporting instructions to the Call Report, or to Form FR Y-9C, as applicable.

## *2. Treatment of Mortgage Servicing Assets*

Several commenters requested that the final rule eliminate the current 25 percent threshold deduction on mortgage servicing assets (MSAs) under the capital rule. These commenters asserted that the treatment for such assets is not commensurate with their risk and that the threshold deduction may prevent community banking organizations that would otherwise qualify from participating in the CBLR framework. Some commenters also asserted that the current regulatory treatment of MSAs has moved mortgage servicing outside of the banking system, and several commenters asserted that MSAs are effectively supervised through the examination process. Some commenters argued that the 25 percent threshold deduction on MSAs prevents adoption of the CBLR framework by community banking organizations that are

well capitalized or have low risk profiles, which is inconsistent with the purpose of the CBLR framework. Other commenters argued that the threshold deduction on MSAs is overly complicated, should be inapplicable to small banking organizations, and is therefore inconsistent with the EGRRCPA. Additionally, one commenter recommended that the agencies adjust the regulatory treatment of MSAs for all banking organizations, in addition to adjusting for community banking organizations.

MSAs can be a useful tool for banking organizations to manage interest rate risk. The value of MSAs generally increases when interest rates rise, which extends the expected duration of related servicing fees. As a result, they may provide a hedge against losses on other assets that decline in value in the same interest rate environment. Moreover, MSAs are important for banking organizations to maintain their relationship with borrowers by retaining customer-facing relationships even after transferring the underlying loans, allowing cross-selling of products. Banking organizations can also improve efficiency of servicing activities by increasing scale. The current threshold deduction approach for MSAs can discourage banking organizations from creating economies of scale in mortgage servicing, which can hinder their ability to manage mortgage related interest rate risks.

While the agencies are not eliminating or raising the existing threshold for MSA deductions as part of this final rule, the agencies are currently proposing to remove the MSA threshold deduction for all banking organizations, including those subject to the CBLR framework, under separate notices of proposed rulemaking.<sup>29</sup> The agencies welcome comments

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<sup>29</sup> “Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations,” 91 FR 14952 (Mar. 27, 2026); “Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets,” 91 FR 15332 (Mar. 27, 2026).

on the MSA threshold deduction in response to those proposals and expect to consider changes to the threshold across the capital framework, including the CBLR framework.

### *3. Treatment of Off-balance Sheet Exposures*

One commenter recommended that the threshold in the CBLR framework for off-balance sheet exposures be increased from the current threshold of 25 percent to at least 30 percent to account for seasonality and provide more flexibility to community banking organizations whose business activities result in significant off-balance sheet exposures. This commenter argued that some CBLR banking organizations were at, or above, the halfway point for this threshold. The commenter also highlighted that conditionally cancelable unused commitments comprise the majority of off-balance sheet exposures for CBLR banking organizations. Additionally, the commenter noted that commitments can be subject to seasonal variation, particularly for banking organizations that engage in commercial and agricultural lending.

To qualify for the CBLR framework, community banking organizations may not have off-balance sheet exposures of more than 25 percent of total consolidated assets. In response to comments, the agencies conducted additional analysis of banking organizations' off-balance sheet exposures. While the bulk of these exposures are composed of conditionally cancellable commitments, the vast majority of community banking organizations have total off-balance sheet exposures below the 25 percent threshold.<sup>30</sup> Moreover, the data suggest that instances in which community banking organizations exceed the 25 percent threshold attributable to seasonal variation tend to be temporary and resolve within a one-year period.

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<sup>30</sup> The agencies analyzed Call Report data between the first quarter of 2020 and the second quarter of 2025 for depository institutions that satisfy all qualifying criteria other than the off-balance sheet criterion and found that only 1.2 percent had off-balance sheet exposures between 25 and 30 percent.

The four-quarter grace period under the final rule helps to mitigate the impact of temporary fluctuations in off-balance-sheet exposures, including those arising from seasonal movements in unused commitments. The extended grace period ensures 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 has the flexibility to manage seasonal variations in off-balance sheet exposures, in order to reestablish compliance with the CBLR framework. As a result, the final rule retains the 25 percent threshold for off-balance sheet exposures.

#### *4. Interaction with Supervisory Practices*

One commenter recommended that the connection between sustained compliance with the CBLR framework and the capital component of the CAMELS rating be strengthened. Another commenter requested that the final rule prohibit examiners from requiring qualifying community banking organizations that opt into the CBLR framework to calculate risk-based capital ratios, and another commenter asked the agencies to confirm that community banking organizations participating in the CBLR framework are not expected to maintain parallel risk-based capital systems. One commenter supported the early release of draft updates to relevant reporting instructions to provide banking organizations sufficient time to prepare, reduce implementation risk, and minimize operational disruption.

Any review of the CAMELS rating system would be conducted through the Federal Financial Institutions Examination Council (FFIEC). A qualifying community banking organization that participates in the CBLR framework is not required to calculate risk-based capital ratios or satisfy risk-based capital requirements. It has not been the agencies' policy to require qualifying community banking organizations that opt in to the CBLR framework to

demonstrate to their primary federal supervisor that they have a readiness plan to comply with risk-based capital requirements in the event they become ineligible to participate in the CBLR framework. As noted in section VI.A, the agencies expect to make clarifying revisions to the instructions for the Call Reports and the FR Y-9C to reflect the final rule. These clarifications are not expected to affect the items that community banking organizations participating in the CBLR framework are required to report.

#### *5. Competitiveness and Application of CBLR Framework to Legal Entities*

One commenter stated that despite the proposed changes to the CBLR framework, community banking organizations would continue to face higher capital requirements than large banking organizations, and another commenter noted that other rulemakings could increase competitive advantages for larger banking organizations. One commenter recommended that the agencies eliminate the need to choose between the CBLR framework and the Small Bank Holding Company and Savings and Loan Holding Company Policy Statement (Small BHC and SLHC Policy Statement).<sup>31</sup> Another commenter requested that the agencies clarify that the CBLR framework applies separately to community bank depository institutions and community bank holding companies. One commenter recommended that the CBLR framework continue to be optional for community banking organizations. Another commenter suggested that the agencies allow banking organizations with multiple depository institutions, some of which have chosen to participate in the CBLR framework and some of which have not, to use a single consolidated risk-based calculation at the parent level.

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<sup>31</sup> 12 CFR 225, App'x C.

The agencies have proposed modifications to the risk-based capital framework and will consider public comment on the risk-based capital framework in connection with these risk-based capital proposals.<sup>32</sup> The CBLR framework is intended to be used by community banking organizations that meet certain qualifying criteria. The final rule does not prevent bank holding companies or savings and loan holding companies, regardless of their subsidiary depository institutions' adoption or non-adoption of the CBLR framework, from operating under the Small BHC and SLHC Policy Statement if they meet its requirements. The CBLR framework continues to be optional for qualifying community banking organizations, and the final rule does not prevent a qualifying community banking organization from adopting the CBLR, regardless of the adoption or non-adoption by an affiliate depository institution or depository institution holding company. Banking organizations within a consolidated group may make different elections with respect to the CBLR framework.

## **V. Economic Analysis**

This section outlines the expected economic effects of the final rule, including both its benefits and costs, on community banking organizations. The final rule modifies 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 one or more of the qualifying criteria after opting into the CBLR framework will have four quarters, rather than two quarters,<sup>33</sup> to meet the qualifying criteria under the CBLR framework or to comply with the risk-based capital requirements. The analysis compares outcomes under the final rule to a baseline scenario

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<sup>32</sup> See 91 FR 14952 (Mar. 27, 2026); 91 FR 15332 (Mar. 27, 2026).

<sup>33</sup> Subject to a maximum of eight quarters within any given five-year (twenty-quarter) period.

in which the current framework would not have changed; 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 Reports of Condition and Income (Call Reports) for depository institutions and Consolidated Financial Statements for Holding Companies (FR Y-9C) for the quarter ending June 30, 2025.<sup>34</sup> 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 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 operating in the United States.<sup>35</sup> Of these, 4,241 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.

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<sup>34</sup> The reported estimates in this final rule differ slightly from those published in the proposal due to routine data revisions; however, these changes are small in magnitude and do not affect any conclusions or policy determinations in this rule.

<sup>35</sup> Not including nine insured branches of foreign banks or seven noninsured depository institutions that do not report regulatory capital. Of the 4,477 depository institutions, 4,421 have their deposits insured by the FDIC.

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.<sup>36</sup> Of these, 227 meet the size and simplicity thresholds for CBLR eligibility.

Taking a consolidated perspective, these depository institutions and holding companies together compose 4,100 unique community banking organizations as of June 30, 2025.<sup>37</sup> Of these, 4,030 meet the size and simplicity thresholds for CBLR eligibility.

### *1. Community Banking Organizations and CBLR Framework Participation*

Of the 4,241 depository institutions that meet the size and simplicity thresholds for CBLR eligibility, 3,638 report a leverage ratio greater than 9 percent and therefore meet all requirements to qualify for the CBLR framework. Of those 3,638 qualifying depository institutions, 1,693 currently participate in the CBLR framework. That is, 47 percent of eligible depository institutions have adopted the CBLR framework. This participation rate has remained relatively constant since the CBLR framework was implemented in 2020. Another 23 depository institutions, although not presently meeting the CBLR requirement, remain in the framework

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<sup>36</sup> Bank holding companies with less than \$3 billion in consolidated assets are generally not required to file the FR Y-9C. However, depository institution holding companies with less than \$3 billion in total consolidated assets and which meet certain additional criteria may qualify for the Board's Small BHC and SLHC Policy Statement and not be subject to the capital rule. *See* 12 CFR 217.1(c)(1)(i)(B) and (C); 12 CFR part 225, App'x C; 12 CFR 238.8.

<sup>37</sup> 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 for purposes of this analysis. 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.

under the current two quarter grace period.<sup>38</sup> Table 1 reports counts of these depository institutions, including a breakdown by discrete leverage ratio:

**Table 1. Current counts of depository institutions by leverage ratio**

	Range of Leverage Ratio (percent)*							Total
	≤ 7	7 – 8	8 – 9	9 – 10	10 – 11	11 – 12	> 12	
Excess leverage ratio**	≤ -2	-2 – -1	-1 – 0	0 – 1	1 – 2	2 – 3	> 3	
Depository institutions that meet CBLR size and simplicity requirements***	22	101	480	869	755	547	1,467	4,241
Participating depository institutions****	0	0	21	272	322	263	838	1,716
% 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.								
*** 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.								
****“Participating depository institutions” are those qualifying depository institutions that had elected to use the CBLR framework as of June 30, 2025.								

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 CBLR requirement to 8 percent, the final rule 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 meet all requirements to be considered qualifying community banking organizations.

<sup>38</sup> An additional two depository institutions have leverage ratios greater than 9 percent but do not meet one of the qualifying criteria.

Of the 165 qualifying community bank holding companies, 25 currently opt into the CBLR framework.<sup>39</sup> That is, 16 percent of qualifying community bank holding companies are participating in the CBLR framework.

Taking a consolidated perspective, 3,426 community banking organizations have a leverage ratio greater than 9 percent and meet all requirements to be considered qualifying community banking organizations. Of those 3,426 qualifying community banking organizations, 1,658 currently opt in to the CBLR framework.<sup>40</sup> 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 higher rates. Fifty-three percent of qualifying community banking organizations with assets less than \$1 billion are participating in the framework as of June 30, 2025, compared to 28 percent of qualifying community banking organizations with assets above \$1 billion. Of qualifying community banking organizations with less than \$500 million in assets, 57 percent are currently participating in the framework. Viewed another way, 91 percent of community banking organizations that are currently participating in the CBLR framework have total assets of less than \$1 billion.<sup>41</sup>

### *B. Effects of the Final Rule*

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<sup>39</sup> One additional community bank holding company participates in the CBLR framework but does not currently meet all of the qualifying criteria.

<sup>40</sup> Twenty-one additional community banking organizations participate in the CBLR framework but do not currently meet all of the qualifying criteria.

<sup>41</sup> See 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 Calibration of the Final Rule*

As shown in Table 1 above, 480 depository institutions have leverage ratios between 8 and 9 percent while meeting all other qualifying criteria for the CBLR framework. Under the final rule, these 480 depository institutions would become eligible for the CBLR framework, in addition to the 3,638 depository institutions that already qualify as of June 30, 2025, which would represent a 13 percent increase in the population of eligible depository institutions. As such, under the final rule, more depository institutions would become eligible for the CBLR framework.

While the final rule is expected to increase the number of qualifying depository institutions, historical experience indicates that a portion of qualifying depository institutions prefer to not opt into the CBLR framework. Several commenters agreed with the agencies that the revisions to the CBLR framework in the proposal are likely to encourage greater participation. To provide a broad estimate of the number of depository institutions that could opt into the framework under the final rule, 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 excess leverage ratios will remain consistent with that observed under the baseline. Based on this approach, the agencies estimate that 2,039 depository institutions would adopt the CBLR under the expanded scope, representing an increase of 323 depository institutions relative to the current rule.<sup>42</sup> This estimate is imprecise because it is based on a simple model, which does not take into

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<sup>42</sup> See Appendix for details on the CBLR-election projection methodology.

account the potential impact of the grace period extension on CBLR adoption.<sup>43</sup> The model also does not account for the potential impact of regulatory capital proposals currently released for comment on qualifying depository institutions' decisions to adopt or not adopt CBLR.<sup>44</sup>

Institutions generally face a tradeoff between lower required capital under the risk-based framework and simpler reporting requirements under the CBLR framework. Any reductions in capital requirements under the risk-based framework could lead to fewer qualifying depository institutions choosing to adopt the CBLR framework than estimated by the model.<sup>45</sup>

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, 477 community banking organizations have leverage ratios between 8 and 9 percent while meeting all other qualifying criteria, which would represent a 14 percent

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<sup>43</sup> The estimate of 323 additional participating depository institutions could be undercounted because the benefits of the final rule, 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, recent experience showed a relatively small change in adoption rates when the statutory interim final rule reduced the CBLR requirement temporarily from 9 percent to 8 percent between the first and second quarters of 2020. Although at that time 141 additional depository institutions elected to use the CBLR framework, there was a decrease of 194 electing depository institutions 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 the CBLR framework, and the temporary nature of the decrease make this comparison difficult.

<sup>44</sup> In March 2026, the agencies proposed modifications to regulatory capital and the standardized approach for risk-weighted assets. *See* 91 FR 15332 (Mar. 27, 2026). In March 2026, the agencies also published a separate proposal, under which Category I and II banking organizations would be subject to a single set of risk-based capital ratio requirements based on the "expanded risk-based approach." Other banking organizations could also choose to adopt the expanded risk-based approach. *See* 91 FR 14952 (Mar. 27, 2026).

<sup>45</sup> *See* Section VI.G in the standardized approach proposal.

increase in the population of eligible community banking organizations relative to the 3,426 community banking organizations that currently qualify.

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 are expected to be eligible under the final rule.<sup>46</sup> The 8 percent CBLR requirement is less stringent than the tier 1 risk-based capital requirement for five of the 1,768 currently eligible banking organizations that are not participating in the framework.<sup>47</sup> No newly eligible community banking organizations are expected to face a less stringent tier 1 capital requirement under the 8 percent CBLR requirement.

### *C. Expected Benefits of the Final Rule*

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

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<sup>46</sup> 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.

<sup>47</sup> The ratio is deemed most stringent if it has the higher requirement in dollar terms.

Several commenters agreed that the proposed changes to the CBLR framework are likely to provide material benefits to community banking organizations. For additional details on benefits described by commenters see Section V.F.

### *1. Regulatory Cost Savings*

All participating community banking organizations under the final rule are expected to benefit from the CBLR framework 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,<sup>48</sup> 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.<sup>49</sup>

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 final rule is expected to reduce the risk of having to revert to the risk-based capital framework and to provide additional time to adjust systems in the event that a community banking organization no longer meets the qualifying criteria. As such, the final rule could enable some

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<sup>48</sup> 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, 4782 (Jan. 27, 2020). 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.

<sup>49</sup> These cost savings could be partially offset by one-time costs of adoption incurred by electing banking organizations.

participating community banking organizations to discontinue these systems and realize meaningful cost savings. Although institutions that discontinue a parallel system could incur costs to reestablish it if they later exit the CBLR framework, institutions would be expected to make such decisions only where the anticipated net benefits of discontinuation exceed these potential future costs.

The final rule's extension of the CBLR grace period is expected to 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 who 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.<sup>50</sup> 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.<sup>51</sup> Thus, if the grace period had been four

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<sup>50</sup> 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, the last date in the sample used by the agencies for which two subsequent quarters of Call Report data are available, which are necessary to determine whether the depository institutions regained eligibility within the two-quarter grace period. The agencies end their data in the second quarter of 2025 to align with the sample analyzed in the proposal. 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.

<sup>51</sup> 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 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

quarters, these 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 some depository institutions could benefit from the extension of the grace period.

Many commenters noted that the extended grace period would allow more temporarily non-compliant CBLR banking organizations to return to full compliance without experiencing operational challenges or incurring unnecessary costs.

An increase in CBLR framework adoption is expected to especially benefit 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 calibration under the final rule expands 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 final rule's 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 final rule's 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

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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 final rule, 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 final rule 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.<sup>52</sup> However, community banking organizations may not utilize this capacity in full. There is uncertainty

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<sup>52</sup> 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).

regarding the extent to which such an increase in lending by these banking organizations will occur.<sup>53</sup>

Many newly eligible community banking organizations that opt into the CBLR framework could also increase their lending relative to total assets. Historical data indicate that among depository institutions that adopted the CBLR framework between 2020Q1 and 2025Q2, the share of loans and leases<sup>54</sup> in total average assets increased by about 6.6 percentage points during the year following adoption.<sup>55</sup> 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,<sup>56</sup>—which suggests that the final 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 final rule accrue to both community banking organizations participating under the current requirements and to community banking organizations that will adopt the framework under the requirements of the final rule. 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 substantial.

#### *D. Expected Costs of the Final Rule*

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<sup>53</sup> Section V.D discusses the agencies' experience with temporary changes in the CBLR requirement.

<sup>54</sup> As reported on schedule RC-C of the Call Report.

<sup>55</sup> The agencies obtain a 95 percent confidence interval of 5.4 to 7.7 percent across approximately 2,155 electing depository institutions between the first quarter of 2020 and the second quarter of 2025.

<sup>56</sup> The average year-over-year changes ending four quarters prior, one quarter prior, and one quarter after CBLR election were 1.3 percentage points, -0.2 percentage points, and -0.2 percentage points, respectively. Only the first of these three measures were statistically different from zero.

The final rule remains broadly consistent with the current well capitalized category under the PCA framework. 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 in section V.C.2 assumes banking organizations currently participating in the CBLR framework will grow their balance sheets while maintaining the same amount of capital.

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.<sup>57</sup> 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 final rule may result in changes to the composition, in addition to the level, of bank lending, the compositional shift will 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

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<sup>57</sup> See Liu, Ruinan, 2025, “Leverage Without Risk Weights: A Double-Edged Sword for Community Banks,” Working paper, <https://ssrn.com/abstract=5202564> (accessed March 9, 2026); and Lu, George, 2024, “The Effect of Capital Modification on Community Banking: Evidence from the Community Bank Leverage Ratio Framework,” Working paper, <https://www.proquest.com/docview/3112826570?pq-origsite=gscholar&fromopenview=true&sourcetype=Dissertations%20%20Theses> (accessed March 9, 2026).

percent, and the fourth quarter of 2022, when the CBLR requirement was above 9 percent, the aggregate leverage ratio for a balanced panel of 1,337 participating depository institutions increased by 8 basis points, from 13.39 to 13.47, suggesting that the aggregate tier 1 capital at electing depository institutions did not react in aggregate to the increase in the CBLR requirement.<sup>58</sup> These results should be interpreted with caution, however. In addition to being based on a relatively short observation window amid unusual economic conditions, the temporary nature of the previous change in requirements limits comparability to the final rule as banking organizations are likely to react more strongly to changes that are not subject to expiration. Moreover, depository institutions participating in the CBLR framework currently maintain high levels of tier 1 capital, with a median excess leverage ratio of 2.9 percent of average total consolidated assets.

Some commenters argued that the revisions to the CBLR framework would not materially increase risk to the financial system or the communities served by participating organizations. Other commenters emphasized the low-risk profile common to CBLR-eligible banking organizations, which helps to alleviate potential safety and soundness concerns about the reduced CBLR requirement.

The final rule's 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

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<sup>58</sup> Call Report Data for the quarters ending December 2020 and 2022. During the same period, the leverage ratios for a balanced panel of 1,288 qualifying community banking organizations that did not elect to use the CBLR framework increased more: from 14.47 percent of 14.74 percent.

framework, potentially increasing supervisory monitoring needs. One commenter expressed concern that a four-quarter grace period could lead to number of organizations below the 8 percent threshold. However, as noted in the proposal, the final rule's grace period limitation—which allows a qualifying community banking organization to use the grace period for up to four consecutive quarters at a time only if it has not used the grace period for eight or more of the prior twenty quarters—is expected to mitigate these potential costs. In addition, the 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.

Overall, the agencies anticipate that the benefits of the final rule justify the costs.

#### *E. Reasonable Alternatives*

The agencies considered several alternatives to the final rule that could meet the objectives of this rulemaking. For the reasons described, the agencies view the final rule 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 agencies desire to increase the adoption rate for the CBLR framework. As discussed above, the final rule is expected to 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 have provided some relief to community banking organizations; however, as described above, the extension of the grace period under the final rule is expected to provide substantial regulatory relief that meets the

objectives of the EGRRCPA and the stated objectives of the final rule without entailing significant costs. The agencies did not receive any comments regarding this alternative.

*F. Response to Additional Comments*

Several commenters noted that the anticipated reduction in regulatory burden is likely to provide material benefits to community banking organizations, such as enhanced capital planning and greater capacity to fund operational improvements. One commenter noted that retained earnings could be redirected by CBLR banking organizations to improve their business operations and risk management, for example, via technology upgrades.<sup>59</sup> The same commenter suggested that the changes described in the proposal may also provide CBLR banking organizations with greater capacity to rebuild capital in periods of stress, despite the likelihood of decreased retained earnings. Another commenter noted, similarly, that the reduced CBLR requirement could strengthen electing banking organizations' ability to weather the volatility of local business cycles. Additional benefits for CBLR banking organizations mentioned by commenters include greater flexibility to invest in innovation necessary to remain competitive and the potential enablement of accretive mergers and acquisitions useful for achieving economies of scale.

Many of the benefits raised by commenters are possible under the final CBLR rule. In addition to benefits that follow directly from regulatory cost savings, CBLR banking organizations may use some of the expanded balance sheet capacity quantified in Section V.C.2 to invest in assets that support operational enhancements or innovation.

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<sup>59</sup> Specifically, the commenter noted several challenges that community banking organizations face that could be improved through targeted investments including: a shrinking share of banking system deposits, difficulty keeping up with technological advancements, and difficulty meeting minimum standards for mitigating cybersecurity risks and financial crime.

*Appendix: CBLR-election Projection*

Table 2 calculates the fraction of depository institutions that adopt the CBLR framework by groups of excess tier 1 leverage ratios 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 excess leverage ratio category under the 8 percent calibration, the agencies can estimate the number of depository institutions that will join the framework.

The agencies estimate that 2,039 depository institutions could adopt the CBLR framework under the 8 percent calibration, representing an increase of 323 depository institutions relative to the current rule. Under this projection, 129 of the newly electing depository institutions have a leverage ratio between 8 and 9 percent and would be newly eligible, while 189 depository institutions are currently eligible and would decide to join under the new calibration.<sup>60</sup>

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

	Range of Leverage Ratio (percent)*							Total
	≤ 7	7 – 8	8 – 9	9 – 10	10 – 11	11 – 12	> 12	
Excess leverage ratio**	≤ -1	-1 – 0	0 – 1	1 – 2	2 – 3	3 – 4	> 4	
Depository institutions that meet CBLR size and simplicity requirements***	22	101	480	869	755	547	1,467	4,241
% Electing depository institutions (final rule)***	0%	4%	31%	43%	48%	57%	57%	48%

<sup>60</sup> In addition, 4 depository institutions are projected to be in the grace period. The individual projections are rounded to the nearest whole number; therefore, the reported total may not equal the arithmetic sum of the rounded components.

# Electing depository institutions (final rule)***	0	4	150	371	363	312	838	2,039
# Electing depository institutions (current)***	0	0	21	272	322	263	838	1,716
Δ Electing depository institutions (final rule – current)***	0	4	129	99	41	49	0	323
<p>Call Report Data, June 30, 2025.</p> <p>*Each range excludes the lower end and includes the upper end.</p> <p>** “Excess leverage ratio” is equal to leverage ratio minus the CBLR requirement of 8 percent. “% Electing depository institutions (final rule)” is the estimated percent of those that would choose to elect into the CBLR. “# Electing depository institutions (final rule)” equals the product of the number of all depository institutions that meet CBLR size and simplicity requirements and “% Electing depository institutions (final rule).” “Δ Electing depository institutions (final rule – current)” is the difference between “# Electing depository institutions (final rule)” and the current number of electing depository institutions (“# Electing banks (current)”).</p> <p>***These counts include depository institutions that meet the qualifying community banking organization criteria with respect to advanced approaches, total consolidated assets, off-balance sheet exposures, and total trading assets and liabilities. The counts may not add up to the total due to rounding.</p>								

**VI. Regulatory Analysis**

**A. Paperwork Reduction Act**

This final rule 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 final rule 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.

As discussed in the proposal, the final rule, however, necessitates clarification of the instructions to the Financial Statements for Holding Companies (FR Y-9; OMB No. 7100-0128). The Board plans to address such clarifications separately. This final rule will also necessitate clarification of the instructions to reporting for depository institutions. The agencies, under the auspices of the Federal Financial Institutions Examination Council (FFIEC), plan to 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 final rule, to prepare a Final 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 final rule will not have a significant economic impact on a substantial number of small entities.

To measure whether a rule will 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.<sup>61</sup> As of December 31, 2024, the OCC supervised approximately 609 small

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<sup>61</sup> 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>.

entities, of which 577 will be impacted by the proposal.<sup>62, 63</sup> Thus, a substantial number of small entities will be impacted by the final rule.

The OCC also considered whether the final rule will result in a significant economic impact on affected small entities. The total impact associated with the final rule 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 benefits<sup>64</sup> or (2) 2.5 percent of the bank's total annual non-interest expense.<sup>65</sup> Based on the above criteria, the estimated cost of the rule could impose a significant economic impact at 8 of the 577 small entities if they elected to opt into the CBLR framework. The OCC uses 5 percent to determine a substantial number, and only around 1 percent ( $8/609=1.3\%$ ) 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 certifies that the final rule will not have a significant economic impact on a substantial number of OCC-supervised small entities.

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<sup>62</sup> 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.

<sup>63</sup> 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.

<sup>64</sup> Call report schedule RI, Item 7.a., Salaries and employee benefits.

<sup>65</sup> Call report schedule RI, Item 7.e., Total noninterest expense.

## **Board**

The RFA generally requires that, in connection with a final rulemaking, an agency prepare and make available a final regulatory flexibility analysis describing the impact of the final rule on small entities.<sup>66</sup> However, a final regulatory flexibility analysis is not required if the agency certifies that the final rule will not have a significant economic impact on a substantial number of small entities.

Under regulations issued by the 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.<sup>67</sup> Consistent with the SBA's General Principles of Affiliation, the Board includes the assets of all domestic and foreign affiliates toward the applicable size threshold when determining whether to classify a particular entity as a small entity.<sup>68</sup> For the reasons described below and under section 605(b) of the RFA, the Board certifies that the final rule will not have a significant economic impact on a substantial number of small entities for purposes of the RFA.<sup>69</sup>

In connection with the proposed rule, the Board stated that it believed that the proposal would not have a significant economic impact on a substantial number of small entities. Nevertheless, the Board published and invited comment on an initial regulatory flexibility analysis of the proposal. No comments were received on the initial regulatory flexibility analysis.

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<sup>66</sup> 5 U.S.C. 601 *et seq.*

<sup>67</sup> *See* 13 CFR 121.201.

<sup>68</sup> *See* 13 CFR 121.103.

<sup>69</sup> 5 U.S.C. 605(b).

The Board is finalizing the amendments to the community bank leverage ratio framework. The final rule will 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 EGRRCPA. The final rule will also extend the length of time that a qualifying community banking organization can remain in the CBLR framework while being below the CBLR requirement from two quarters to four quarters subject to a limit of eight or more quarters within the previous five-year period. The finalized changes will increase the number of qualifying community banking organizations eligible to elect, and to continue, to use the framework.

The Board has considered whether to conduct a final regulatory flexibility analysis in connection with the final rule. However, the final rule amends an optional framework that qualifying community banking organizations could choose to apply instead of the Board's current capital rule and would increase the number of qualifying community banking organizations eligible to elect to use the framework. The final rule, therefore, would not impose mandatory requirements on any small entities and would not make changes to the projected reporting, recordkeeping, and other compliance requirements of the community bank leverage ratio framework. Additionally, the Board expects a reduction in reporting, recordkeeping, and other compliance requirements for small entities that elect to use the community bank leverage ratio framework. In light of the foregoing, the Board certifies that the final rule does not have a significant economic impact on a substantial number of small entities for purposes of the RFA.

### ***FDIC***

The Regulatory Flexibility Act (RFA) generally requires an agency, in connection with a final rule, to prepare a final regulatory flexibility analysis that describes the impact of the final

rule on small entities.<sup>70</sup> However, a final regulatory flexibility analysis is not required if the agency certifies that the final rule will not have a significant economic impact on a substantial number of small entities. The SBA defines “small entities” to include banking organizations with total assets of less than or equal to \$850 million.<sup>71</sup> 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. In connection with the proposed rule, the FDIC invited comments on all aspects of the supporting information provided in the RFA section and received none. For the reasons described below, the FDIC certifies that the final rule will not have a significant economic impact on a substantial number of small entities.

The final rule amends the CBLR framework. To determine whether the final rule will have a significant economic impact, the FDIC compares expected outcomes under the final rule 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 final rule potentially affects all community banking organizations, including many FDIC-supervised insured depository institutions (IDIs). According to Call Reports for the quarter ending June 30, 2025,

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<sup>70</sup> 5 U.S.C. 601 *et seq.*

<sup>71</sup> 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 Dec. 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.

the FDIC supervises 2,085 IDIs that are considered small entities for the purposes of the RFA (small entity IDIs).<sup>72</sup> Of these IDIs, 2,058 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 more than 5 percent of total consolidated assets. Within that cohort, 1,753 small entity IDIs also report leverage ratios greater than 9 percent, making them eligible to participate in the CBLR framework. Further, 989 of these eligible small entity IDIs currently elect into the framework.<sup>73</sup> Finally, 16 are in the CBLR grace period—all of them failed to meet the 9-percent leverage ratio requirement. 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)*							Total
	≤ 7	7 – 8	8 – 9	9 – 10	10 – 11	11 – 12	> 12	
Excess leverage ratio**	≤ -2	-2 – -1	-1 – 0	0 – 1	1 – 2	2 – 3	> 3	
IDIs that meet CBLR size and simplicity requirements***	15	50	240	363	355	260	775	2,058
Participating IDIs **	0	0	16	157	191	146	495	1,005
% Participating IDIs	0%	0%	7%	43%	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.								

<sup>72</sup> Excluding branches of foreign banks. FDIC Call Reports, June 30, 2025. The reported estimates in this final rule differ slightly from those published in the proposal due to routine data revisions: however, these changes are small in magnitude and do not affect any conclusions or policy determinations in this rule.

<sup>73</sup> FDIC Call Reports, 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 is in the CBLR grace period.

The final rule modifies the CBLR framework for qualifying community banking organizations in two ways. First, it reduces the CBLR requirement from 9 percent to 8 percent. This reduction increases the population of IDIs eligible for the CBLR framework by 240 (14 percent), as compared to the baseline population of 1,753. 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, and assuming adoption rates remain consistent with observed relationship between adoption and excess leverage ratios, the FDIC estimates that approximately 158 additional small entity IDIs would be expected to elect into the CBLR framework under the final rule. These electing IDIs will 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.

The reduction in the CBLR requirement under the final rule lowers 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 will 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.<sup>74</sup> As such, for purposes of this RFA analysis, the FDIC expects most small entity IDIs will not significantly adjust their leverage ratios in response to the final rule.

The second modification to the CBLR framework under the final rule 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) will benefit from a four-quarter grace period. As of the second quarter of 2025, there are 16 FDIC-supervised small entity IDIs in the grace period because they do not meet the existing 9 percent CBLR requirement but exceed the 8 percent CBLR requirement. The FDIC estimates that all of these IDIs will experience benefits under the final rule relative to the baseline, as they would avoid any costs associated with reverting to the generally applicable capital rules. While the FDIC does not have the data necessary to quantify these benefits, for purposes of this RFA analysis, the FDIC notes that the 16 IDIs make up less than a percent of the total number of small entity IDIs supervised by the FDIC.

The final 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 modest. For purposes of this RFA analysis, the FDIC notes that the final rule does not impose direct mandatory costs on any small entity IDIs.

In summary, the FDIC estimates that an additional 158 IDIs will accrue benefits from CBLR election and 16 IDIs will accrue benefits from the grace period extension under the final

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<sup>74</sup> Call Report Data for the quarters ending December 30, 2020 and 2022.

rule. While the FDIC does not have data to quantify the benefits to these IDIs, these 174 IDIs make up less than nine percent of all FDIC-supervised small entity IDIs. The FDIC does not consider nine percent to be a substantial number of small entities. In other words, even if all 174 IDIs accrue significant benefits, the final rule will not significantly affect a substantial number of small entities. Other aspects of the final 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 final rule will not have a significant economic impact on a substantial number of small entities.

### **C. Plain Language**

Section 722 of the Gramm-Leach Bliley Act<sup>75</sup> requires the Federal banking agencies<sup>76</sup> to use plain language in all proposed and final rules published after January 1, 2000. The agencies invited comment on the use of plain language and have sought to present the final rule in a simple and straightforward manner.

### **D. OCC Unfunded Mandates Reform Act of 1995**

The OCC analyzed the final 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 final 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, currently \$193 million). Because the final rule would not specifically require banks to modify their policies and procedures, the OCC has determined that

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<sup>75</sup> Public Law 106–102, sec. 722, 113 Stat. 1338, 1471 (1999); 12 U.S.C. 4809.

<sup>76</sup> The Federal banking agencies are the OCC, Board, and FDIC.

there are no expenditures for the purposes of UMRA. Therefore, the OCC concludes that the final 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),<sup>77</sup> 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 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, including for good cause.<sup>78</sup>

The agencies solicited comment on the requirements of RCDRIA, including on any administrative burdens that the proposal would place on depository institutions, including small depository institutions, and their customers, and the benefits of the proposal that should be considered in determining the effective date and administrative compliance requirements for the final rule.

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<sup>77</sup> 12 U.S.C. 4802(a).

<sup>78</sup> 12 U.S.C. 4802(b).

In accordance with section 302 of RCDRIA, the agencies considered any administrative burdens, as well as benefits, that the final rule would place on depository institutions and their customers in determining the effective date and administrative compliance required of the final rule. Consistent with the requirements of section 302 of RCDRIA, the final rule is effective on July 1, 2026.

#### **F. Executive Orders 12866, 13563 and 14192**

Executive Order 12866 (Regulatory Planning and Review)<sup>79</sup> and Executive Order 13563 (Improving Regulation and Regulatory Review)<sup>80</sup> 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 rule was drafted and reviewed in accordance with Executive Order 12866. Within OMB, the Office of Information and Regulatory Affairs (OIRA) has determined that this rulemaking is an economically significant regulatory action under section 3(f)(1) of Executive Order 12866. Accordingly, the rule was submitted to OIRA for review. As noted in other sections of the SUPPLEMENTARY INFORMATION of this document, the agencies have assessed the costs and benefits of this rulemaking and have made a reasoned determination that the benefits of this rulemaking justify its costs. This final rule is considered to be an Executive Order 14192 deregulatory action.

#### **G. Congressional Review Act**

For purposes of Subtitle E of the Small Business Regulatory Enforcement Fairness Act of 1996 (also known as the Congressional Review Act), OMB makes a determination as to whether

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<sup>79</sup> E.O. 12866, 58 FR 51735 (Oct. 4, 1993).

<sup>80</sup> E.O. 13563, 76 FR 3821 (Jan. 21, 2011).

a final rule constitutes a “major” rule.<sup>81</sup> If a rule is deemed a “major rule” by OMB, the Congressional Review Act generally provides that the rule may not take effect until at least 60 days following its publication.<sup>82</sup>

The Congressional Review Act defines a “major rule” as any rule that the Administrator of the Office of Information and Regulatory Affairs of the OMB finds has resulted in or is likely to result in—(A) an annual effect on the economy of \$100,000,000 or more; (B) a major increase in costs or prices for consumers; individual industries; Federal, State, or local government agencies; or geographic regions; or (C) significant adverse effects on competition, employment, investment, productivity, innovation, or on the ability of United States-based enterprises to compete with foreign-based enterprises in domestic and export markets.<sup>83</sup> OMB has determined that the final rule is a major rule for purposes of the Congressional Review Act. As required, the agencies will submit the final rule and other appropriate reports to Congress and the Government Accountability Office for review.

## **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**

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<sup>81</sup> 5 U.S.C. 801 *et seq.*

<sup>82</sup> 5 U.S.C. 801(a)(3); 5 U.S.C. 804(2).

<sup>83</sup> 5 U.S.C. 804(2).

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 amends 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.**

\* \* \* \* \*

(c) \* \* \*

(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 period of four reporting periods under its Call Report (grace period) 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 amends 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.**

\* \* \* \* \*

(c) \* \* \*

(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 period of four reporting periods under its Call Report or Form FR Y-9C, as applicable, (grace period) 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 amends 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”; and
- f. Add a new paragraph (c)(7).

The revision and addition read as follows:

**§ 324.12 Community bank leverage ratio framework.**

\* \* \* \* \*

(c) \* \* \*

(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 period of four reporting periods under its Call Report (grace period) 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.

**Jonathan V. Gould,**  
*Comptroller of the Currency.*

By order of the Board of Governors of the Federal Reserve System.  
**Benjamin W. McDonough,**  
*Secretary of the Board.*

Federal Deposit Insurance Corporation.  
By order of the Board of Directors,  
Dated at Washington, DC, on April [], 2026.  
**Jennifer M. Jones,**  
*Deputy Executive Secretary.*