Record of Meeting

Federal Advisory Council and Board of Governors

Thursday, May 7, 2026

Item #1: Economic Activity

How would Council members characterize consumer spending and their outlook for the next 3-6 months? What is the outlook for business investment over the same time horizon, and through the end of 2026? What are your expectations for investment in AI for businesses and for your own firms? What are your expectations for U.S. economic activity, investment, and construction in the second half of 2026?

Council members observed that consumer spending remains generally resilient despite growing uncertainty. However, consumers are becoming more cautious, with households increasingly selective and price-sensitive, as housing, energy, and everyday costs remain elevated. Council members noted that the prevailing sentiment is cautiously optimistic, as consumer spending continues, but the outlook remains sensitive to whether geopolitical tensions persist or escalate. Council members also cited a widening gap in spending between affluent households and middle- to low-income households. This bifurcation is expected to become more pronounced over the next three to six months as lower-income households face direct impacts from rising energy costs.

Council members anticipated that aggregate business investment growth will remain stable or increase through the end of 2026, as evidenced by growing credit demand and sustained overall deposit balances. However, growth is becoming less broad-based and more concentrated on essential sectors and certain geographical areas. Data centers and commercial construction continue to drive business investment growth, along with healthcare, artificial intelligence (AI), manufacturing, energy, and logging. Yet geopolitical, interest rate, and tariff uncertainty appear to have slowed discretionary expansion. Consistent with the prior quarter, businesses are planning for a slower but stable operating environment, prioritizing capital spending on productivity and resilience rather than capacity growth. Council members noted that smaller businesses, which are more sensitive to market and rate uncertainty, are deferring growth-oriented spending and focusing on necessary current investments. Agricultural producers are managing tighter margins as elevated input costs offset commodity price performance, increasing their reliance on working capital and balance sheet discipline. Beyond business investment, there is a clear rebound in private market investment activity. Venture capital investment is nearing all-time highs, though it continues to be dominated by large transactions targeting AI investment. Buyout deal activity remains below peak years but higher than the lows seen in 2024.

Furthermore, Council members reported that investment in AI for business will continue through 2026 as returns become clearer, workforce familiarity improves, and enabling infrastructure expands. AI capital expenditures are expected to remain high and durable over the next 18–24 months, with geographic variability due to utility and permitting constraints. Clients indicate that AI spending on tools and platforms is expected to increase materially as they evaluate AI-related investments, complete technology upgrades, and mitigate AI-related disruption to their services. The primary focus is cost reduction and enhanced customer experience. Firms believe that those failing to leverage AI will begin to fall behind competitively. Businesses report that AI spending comes from both new investment and the reallocation of complementary IT spending. AI remains the single largest driver of private market investment. However, that spending is increasingly concentrated among fewer scaled platforms, driving larger transaction-level draws on capital call lines and higher aggregate borrowing levels.

Finally, Council members noted that customers expect U.S. economic growth to remain stable in the second half of 2026. Few anticipate either a sharp contraction or strong acceleration, suggesting expectations of moderation rather than a turning point. Growth is expected to be slower but still positive as consumer demand cools, labor markets soften, and the economy remains sensitive to energy prices and geopolitical conditions. Commercial construction is expected to remain robust in infrastructure, energy/transmission, data centers, and large industrial projects.

Item #2: Labor Markets

On labor, how do you see job availability? Are businesses hiring and for what types of jobs – white/ blue collar and in what industries? How would you characterize the current labor market? What are you seeing regarding worker retention and job changers? What are your views on the availability of workers across skills, education and industries? Are there specific areas that you see stress or slack in the labor market – in certain geographies or industries? Are you seeing AI influence how businesses are considering workforce development or hiring choices in the next 6-12 months? What are your expectations for changes to employment and compensation through the end of this year?

The labor market in 2026 is stable but cooling, with hiring more cautious, churn historically low, and conditions varying sharply by skill level, industry, and region. Employers are still hiring, but mainly to backfill essential roles rather than expand headcount, and they are increasingly focused on productivity, process efficiency, and selective investment in critical talent. Overall unemployment remains relatively low, and most regions appear balanced to slightly tight. Yet beneath this headline, a clear divide exists between stressed segments (skilled trades, healthcare, and advanced technical roles) and softer segments (many white-collar and routine office jobs).

Council members observed that job availability has normalized from the post-pandemic hiring surge, with "low hire, low fire" dynamics becoming the norm. Demand is strongest in healthcare, skilled construction and trades, logistics, advanced manufacturing, aviation maintenance, certain IT specialties (cybersecurity, data, and AI implementation), and revenue-generating roles such as sales. Many blue-collar workers and experienced technicians can still find work relatively easily. In some regions—northern New England, the Deep South, and parts of the Midwest and Plains—employers reported that "if we had more workers, we would have higher sales," especially in construction and infrastructure sectors. By contrast, hiring for many white-collar, administrative, and back-office roles has softened, with more applicants per opening and longer time to secure employment, particularly for recent graduates in business and technology fields. Several large firms have reduced or reshaped entry-level programs as AI and automation absorb routine tasks that historically supported junior roles. This has elevated underemployment and intensified competition among recent college graduates, especially in software engineering and adjacent technology fields.

Across regions, worker availability is highly uneven. Skilled trades, healthcare professionals, engineers, and other advanced technical workers remain in short supply—a problem exacerbated by aging workforces, limited training pipelines, and tighter immigration. Rural areas and smaller markets face the greatest structural gaps, while larger metropolitan areas generally see deeper applicant pools and can fill roles more reliably. In-migration is helping relieve pressure in select states, but construction, healthcare, energy, logistics, and agriculture continue to report persistent hiring difficulty. Housing affordability, especially in higher-cost regions, is constraining geographic mobility, further reinforcing local tightness in already constrained markets. At the same time, there is clear slack in administrative support, some retail and light

manufacturing roles, and parts of transportation and rail where consolidation and cost cutting have reduced labor demand.

Retention has generally improved as workers place a premium on stability amid slower wage growth, inflation concerns, and uncertainty about the impact of AI on future opportunities. Voluntary turnover and job-changing activity are at the low end of recent ranges, as employees are more hesitant to leave secure positions. The wage premium for switching jobs has also narrowed. Where retention remains challenging, it is concentrated in frontline roles (retail and hospitality) and high-skill positions (experienced tradespeople, specialized healthcare staff, and certain technical professionals) where competition for talent remains intense. Employers are responding with targeted strategies: emphasizing pay, benefits, flexibility, and stability in tight markets; investing more in training and upskilling; and, in some cases, choosing not to backfill departures and instead operating with leaner teams.

AI is increasingly shaping workforce planning, but its effects are more about slowing hiring than triggering broad layoffs so far. Firms are using AI and automation to streamline back-office work, enhance accuracy, and improve customer experience, particularly in administrative, analytical, and entry-level knowledge tasks. This use is prompting companies to defer new hiring in highly automatable roles, redesign workflows, and invest in retraining existing staff rather than pursuing large-scale staff reductions. For new graduates—especially in technology and business—AI has made securing their first job more difficult by shrinking traditional entry-level postings and raising the skill and experience bar for junior roles.

Looking through year-end 2026, Council members noted that most expectations point to flat to modest employment growth, continued selective hiring, and moderating wage growth. Compensation pressure is expected to remain most elevated in healthcare, skilled trades, and other scarce technical roles.

Item #3: Inflation

Are businesses reporting experiencing significant pressures on input and labor costs, or concerns about how pressures may evolve across sectors in the near term, due to recent geopolitical events or possible effects on energy prices? Are Council members observing or expecting changes in business' pricing behavior? Has your outlook for inflation changed, for near-term and longer-term horizons?

Council members reported that businesses continue to face moderate to significant pressures on input prices, with energy, fuel, transportation, insurance, utilities, tariffs, and select commodities cited most frequently. Energy-intensive and transportation-dependent sectors—including manufacturing, agriculture, construction, logistics, healthcare, and commercial real estate (CRE)—are viewed as most exposed in the near term. Labor cost pressures persist but are increasingly uneven across sectors, easing in some industries while remaining acute in healthcare, senior living, construction, and skilled trades due to demographic trends and workforce availability constraints.

Recent geopolitical developments have heightened uncertainty surrounding energy markets. While many businesses reported that the full effects of higher oil and fuel prices have not yet appeared in financial results, most expect margin pressure to increase in coming quarters as higher energy costs work through supply chains. Second-round effects are increasingly observed in freight rates, utilities, fertilizer and commodity prices, construction materials, and supplier pricing. Council members noted that housing, utilities, insurance, and healthcare costs remain the most visible inflationary pressures for households and a key channel through which inflation is experienced locally.

Businesses generally reported fewer broad-based price increases and greater reliance on incremental adjustments, energy and fuel surcharges, escalation clauses, reduced discounting, and selective pass-throughs tied to identifiable cost increases. Competitive pressures and heightened price sensitivity among consumers—manifested through trade-downs, delayed purchases, smaller basket sizes, and increased price shopping—are limiting pricing power in discretionary categories such as retail, restaurants, and certain consumer services. As a result, margin compression remains common, with many firms absorbing costs rather than fully passing them through. That said, sustained increases in fuel, insurance, and transportation costs are increasingly being passed through directly, accelerating how inflation moves through supply chains.

Near-term inflation expectations have shifted higher, driven primarily by energy price volatility, transportation costs, tariffs, and geopolitical risk. Several Council members reported revising their near-term outlook upward and no longer expect headline inflation to slow meaningfully in the coming quarters, even as some moderation in core inflation is anticipated in areas where labor markets are softening and shelter inflation remains subdued. Headline inflation is expected to remain elevated into late 2026, with upside risks concentrated in energy and commodities, while any declines in core inflation are likely to occur more gradually.

Longer-term inflation expectations remain more anchored, though sensitivity to structural and geopolitical factors is increasing. Council members cited ongoing housing underinvestment, rising insurance costs, energy infrastructure constraints, growing electricity demand driven by data centers and AI adoption, trade realignments, and prolonged geopolitical instability as factors that could keep inflation above pre-pandemic norms for an extended period. While productivity gains from technology and automation may provide some offset, many businesses are planning under the assumption that inflation will remain higher for longer than previously expected, with meaningful variation across sectors depending on energy exposure, pricing power, and local housing conditions. Overall, risks to the inflation outlook are viewed as modestly skewed to the upside relative to earlier in the year.

Item #4: Bank Loans and Deposits

Please characterize the current strength of overall loan demand. Are you seeing demand pressures regarding strength or weakness? Are there areas of strength or weakness in credit quality? Have you seen changes in the rate or composition of deposit inflows or outflows? Are you seeing evidence of economic uncertainty or financial market volatility influencing business or consumer activity?

Overall loan demand is stable to improving, although uneven by product, borrower size, and sector. Commercial and industrial (C&I) lending is leading demand growth in nearly all Districts. Demand appears positive but cautious. Credit quality remains stable with little evidence of systemic issues. Credit quality concerns seem to be idiosyncratic and sector-specific. Deposit competition is intensifying as institutions seek to fund increasing loan demand, with shifts in deposit composition reflecting yield preferences. The overall economic situation has the potential to impact activity, but the overarching theme is resilience paired with caution.

Almost all Districts reported moderate to strong loan demand, as bank customers proceed despite uncertainty. Most banks in the recent quarterly reporting cycle project low- to mid-single digit loan growth going forward. Larger C&I commercial credits are leading the way, with well-capitalized borrowers driving the activity. Pipelines remain active across the board, although some Council members noted conversion is slower due to structure, pricing, and underwriting hurdles. Smaller businesses appear more difficult to underwrite due to rising labor, energy, and insurance costs that are putting pressure on margins. CRE

demand is selective, with strength in industrial, data centers, infrastructure, senior living, and healthcare. Office, multifamily, and agriculture-related CRE is much more selective. Actual growth in CRE loan balances could be offset by payoffs of older vintage projects. Most Council members cited intense competition for higher-quality C&I and CRE credit, putting pressure on pricing. Private credit sources for both commercial and consumer credit have become selectively constrained and more expensive, somewhat easing competitive pressures for the banking industry.

Consumer loan demand remains modest as longer-term interest rates have increased. Mortgage demand is muted, while credit card balances and revolving credit continue to grow. Auto lending also is subdued due to higher rates and affordability pressures. Higher-income borrowers remain resilient, while low- to moderate-income borrowers are experiencing financial stress.

Loan pipelines face increasing uncertainty if input costs remain elevated or broader economic conditions soften. Many borrowers are proceeding cautiously and prioritizing near-term needs over longer-term or expansionary projects. Heightened geopolitical tensions, elevated energy prices, and prolonged high interest rates have the potential to compress loan demand and normalize the credit outlook.

Council members noted that overall credit quality remains stable. Stress is concentrated in specific sectors—office CRE, agriculture, small and midsized businesses, and low-income consumers—rather than being systemic. Credit stress appears idiosyncratic and sector-specific rather than broad-based.

Deposit competition remains elevated, driven by heightened rate sensitivity among commercial clients, public depositors, and large balance customers. Product mix remains relatively stable as institutions focus promotional efforts on money market accounts and CDs for deposit growth. Council members noted a highly competitive deposit environment with other banks, non-bank money market funds, and brokerages. For banks in general, deposit composition now matters as much as volume, with institutions prioritizing core, relationship-based funding over transactional balances.

Economic uncertainty and financial market volatility appear to be influencing behavior without freezing activity. Key drivers of uncertainty are geopolitical risk (Middle East tensions, energy prices, and tariffs); elevated and volatile interest rates; and cost inflation across labor, fuel, and insurance. Consumers remain resilient overall, though affordability pressures are mounting for lower-income households. The overall tone regarding uncertainty is adaptive rather than retrenching.

Item #5: Federal Reserve Policy

What are the Council's views on the stance of monetary policy, including portfolio activities?

Council members believe the current monetary policy stance is appropriate given the balance of risks in the economy. Council members support holding the federal funds rate at 3.50–3.75 percent and maintaining a data-dependent, wait-and-watch approach, as inflation remains above the 2 percent target—particularly in core services—while the labor market has softened only modestly. Elevated geopolitical uncertainty, including the Iran conflict and its impact on energy prices, poses upside risks to inflation and potential downside risks to growth, reinforcing the need for a measured and flexible policy posture. Taken together, ongoing inflation pressures, early signs of labor market cooling, and "stagflationary" supply shock risks

support keeping policy restrictive for now, with adjustments contingent on slowing inflation rather than urgency in either direction.

Regarding portfolio activities, Council members view balance sheet policy as supportive of the broader monetary stance. With quantitative tightening having ended in December 2025 and the balance sheet steady around $6.7 trillion, Council members support measured normalization that preserves market functioning while maintaining ample reserves. The shift in reinvestments toward Treasuries and away from mortgage-backed securities, combined with reserve management purchases to address funding pressures, has alleviated liquidity strains. Council members favor a gradual wind-down of these purchases and ongoing monitoring of portfolio balances to ensure sufficient reserves. They emphasized that relative balance sheet stability in the near term is appropriate given current geopolitical and financial uncertainty; however, longer-term balance sheet reduction remains desirable as conditions permit.

Item #6: Mortgage Servicing and Lending

Recently, Vice Chair for Supervision Bowman proposed regulatory changes which would reduce regulatory disincentives for banks to engage in mortgage lending and servicing. What has driven the migration of these activities to non-bank firms? What will be the impact of the proposal and Executive Order on mortgage activity? What other ideas do Council members have that would increase these activities in banks to encourage competition?

In 2010, in the wake of the financial crisis, nine out of the top ten originators and servicers were banks. Today only two banks make the originator list and three remain among the servicers. This shift partly reflects decades of consumers moving toward shopping for the lowest rates from any lender offering quick underwriting in a digital-only environment. However, regulatory and legal burdens on banks have aggravated the trend, making mortgages operationally and financially less attractive to banks.

Several regulatory requirements have made the mortgage business less attractive for banks compared to non-banks:

- Post-crisis regulatory changes on mortgage lending, such as Ability-To-Repay (ATR)/Qualified Mortgage (QM), TILA-RESPA Integrated Disclosure (TRID), Home Mortgage Disclosure Act reporting, and appraisal independence requirements significantly increased compliance costs and legal risks for all lenders. However, banks face particularly acute challenges due to supervision by both the Consumer Financial Protection Bureau and prudential regulators. Moreover, Community Reinvestment Act (CRA) obligations on banks impose further costs and complexity on mortgage lending.

- Unfavorable capital treatment has discouraged bank participation. Mortgage servicing assets (MSRs) and the limited risk sensitivity in mortgage risk weights (e.g., not differentiating based on loan-to-value [LTV] ratios or other risk mitigants) further encouraged banks to exit or reduce mortgage activity.

- MSR hedging challenges have reduced profitability. MSRs are rate-sensitive assets, but hedging strategies are costly and constrained by bank accounting and capital rules. As a result, mortgage servicing has become less attractive for institutions prioritizing earnings stability and capital

predictability. More broadly, MBS holdings have lost appeal due to both capital costs and compressed option-adjusted spreads.

- Rising operational costs have eroded margins. Loss mitigation, escrow administration, insurance tracking, and borrower outreach requirements—often inconsistent across GSEs and Ginnie Mae—have forced banks to increase staffing, technology, and infrastructure investments. Many banks have scaled back participation, creating opportunities for non-banks to fill the void.

Recognizing those barriers to bank participation in mortgage lending, the recently issued Executive Order on Promoting Access to Mortgage Credit (EO 14393) directs federal agencies to consider reforms in several areas, including appraisal and digital mortgage processes, capital and liquidity standards, and compliance challenges with ATR/QM and TRID rules. Council members unanimously support the Executive Order's objectives, particularly its focus on removing onerous requirements that disproportionately affect banks

relative to non-banks. These reforms would level the competitive playing field while also enabling banks to strengthen relationships with existing customers through expanded mortgage offerings.

The banking agencies have proposed changes to the capital rules that would reduce regulatory disincentives to bank participation in mortgage lending and servicing, including the following:

- eliminating the MSR deduction threshold (the so-called "sin box") that currently penalizes banks for holding mortgage servicing assets above certain levels, and
- introducing risk-sensitive mortgage capital requirements that factor in individual loan characteristics, including LTV ratios, replacing the current one-size-fits-all framework.

These proposed reforms represent constructive steps toward encouraging broader bank participation in the mortgage market. However, several areas warrant careful consideration:

- MSR capital requirements: Reducing the risk weight for MSRs below 250 percent requires cautious study given the asset class's inherent volatility.
- MBS capital treatment: The apparently preferential capital treatment for private-label securitizations compared to agency MBS merits closer examination to ensure appropriate risk calibration.
- Home equity lending: The proposed definition of home equity exposures seems overly broad and may inadvertently discourage banks from engaging in this business line.

Capital reform alone may be insufficient to revive bank participation in mortgage origination and servicing. Council members recommended that the agencies also consider the following:

- aligning regulatory standards across bank and non-bank lenders, including capital and liquidity requirements, to reduce incentives for regulatory arbitrage;
- harmonizing supervision to ensure more consistent and comparable oversight of bank and non-bank lenders;
- reforming liquidity regulations to promote greater bank participation in mortgage lending, including (1) recognizing both discount window and Federal Home Loan Bank (FHLB) capacity as potential liquidity sources in the liquidity coverage ratio (LCR) and internal liquidity stress testing; and (2) upgrading U.S. agency MBS to Level 1 high-quality liquid assets (HQLA), removing contribution caps, or revising haircuts;
- differentiating capital treatment for MSRs based on effective hedging (i.e., distinguishing hedged from unhedged MSRs);
- revising CRA requirements to exclude home equity loans from the lending test and provide CRA credit for mortgage lending activities conducted anywhere in the United States; and
- expanding QM safe harbors for portfolio loans to meaningfully reduce legal risks.

Taken together, these reforms would deepen bank participation in mortgage origination and servicing, benefit borrowers, and strengthen the overall resilience of the mortgage market.

Item #7: Leveraged Lending

How has the current leveraged lending guidance constrained your institution's lending capacity and activities? Since the OCC and FDIC withdrew the guidance while the Federal Reserve has not, what changes have you observed in business conditions? Does this regulatory divergence create operational difficulties for your institutions or market inefficiencies? What trends are emerging in the leveraged lending market, and what constraints on lending activity remain?

Council members broadly agreed that the 2013 Interagency Leveraged Lending Guidance proved overly prescriptive and operationally burdensome, constraining banks' ability to participate in otherwise sound transactions without delivering commensurate risk-mitigation benefits. Rigid leverage thresholds, standardized repayment expectations, and expansive definitions of leveraged lending limited flexibility to account for transaction-specific mitigants, sponsor quality, and differentiated risk profiles. As a result, many banks—particularly those serving middle-market and cash-flow borrowers—experienced increased compliance costs, slower execution, and reduced competitiveness. By contrast, most community and relationship-focused banks reported that leveraged lending is not a core activity and the guidance was not a binding constraint, though it still added supervisory and administrative complexity. A central theme emerged: the guidance contributed more to risk migration than risk reduction, accelerating the shift of leveraged lending activity to private credit and non-bank lenders operating outside the regulated banking system. Council members noted that regulated banks were often unable to compete on commercially viable terms, even where credit fundamentals remained sound. This migration raised concerns about transparency, supervisory coverage, and where leveraged risk ultimately resides.

Since the OCC and FDIC rescinded the guidance in December 2025, Council members have observed limited near-term changes in lending behavior or business conditions. Supervisors continue to emphasize prudent underwriting, monitoring, and portfolio management, and most banks have not materially altered their risk appetite, policies, or frameworks. Where changes have occurred, they have been modest and selective: marginal increases in participation in moderately leveraged cash-flow transactions and improved speed to market for some institutions. Overall, it remains too early to assess the full impact of the rescission, and leveraged lending continues to receive heightened supervisory attention, including through the Shared National Credit process.

Council members agreed that the regulatory divergence created by the Federal Reserve's retention of the guidance has introduced confusion, inefficiency, and competitive distortions. This misalignment complicates participations, shared credits, reporting, and supervisory expectations—particularly for institutions operating across multiple regulatory regimes. While smaller institutions have not experienced acute operational disruption, many Districts expressed concern that prolonged divergence could lead to inconsistent treatment of comparable risks and further incentivize migration toward the least constrained channels. There is broad support for a consistent, interagency, principles-based supervisory approach that preserves sound risk management without rigid thresholds.

With respect to market trends, leveraged lending activity remains orderly but selective. Some refinancing back to banks has occurred as borrowers seek lower costs and simpler structures, though competitive dynamics have not materially shifted. Market conditions reflect ongoing caution driven by macroeconomic, geopolitical, and sector-specific risks—including energy price volatility, supply-chain disruptions, and concerns in certain cyclical and technology-oriented segments. Higher interest rates, wider spreads, and upcoming refinancing needs for lower-rated borrowers serve as natural constraints. Across institutions, the primary constraints on leveraged lending today are credit quality, transaction structure, sponsor strength, and portfolio concentration management—not the formal status of supervisory guidance. In sum, Council members support maintaining rigorous underwriting and portfolio risk management for leveraged lending,

while emphasizing that greater regulatory clarity, consistency, and flexibility would enhance transparency, efficiency, and the ability of banks to compete responsibly without encouraging excess risk-taking.

Item #8: Regulation O– Insider Lending

The Board's Regulation O provides limits on loans by banks to insiders. The regulation has not been updated comprehensively in many decades and the dollar-based limits have remained static. What challenges do these static limits present? Have those standards constrained the ability of banks to find qualified directors and senior executive officers, particularly in more rural communities? Are there other unintended consequences that have flowed from Regulation O? Beyond the dollar thresholds, what other aspects of Regulation O create compliance challenges?

Regulation O plays a longstanding and important role in promoting safety and soundness by addressing insider transactions and conflicts of interest. Council members support these core objectives. However, some aspects of the regulation—particularly its fixed, dollar-based thresholds—have become increasingly misaligned with the scale and complexity of today's banking environment. These limits have remained unchanged for many years and have not kept pace with inflation, growth in bank capital, or the overall expansion of commercial activity. For example, the $500,000 board pre-approval threshold and the $100,000 executive officer threshold would be meaningfully higher today if adjusted for inflation, with the board pre-approval level equating to approximately $1.6 million in today's dollars.

In addition, beyond the dollar thresholds themselves, certain procedural elements of Regulation O create operational complexity. For example, the requirement for annual board reapproval of unchanged and performing insider lines of credit adds administrative burden, even though the regulation already requires such loans to be made on market terms and not present more than normal repayment risk. Similar challenges arise with routine, low risk transactional activity, including temporary or inadvertent overdrafts. Modernizing Regulation O's overdraft restrictions to allow reasonable flexibility where insiders have clear repayment capacity—including simplified treatment for inadvertent overdrafts fully offset by deposit balances—would better align supervisory focus with material risk. Current thresholds often capture low-risk activity without enhancing safety and soundness.

Some Council members believe the current structure of Regulation O also creates practical challenges for director recruitment, particularly in rural and smaller communities. In many of these markets, the most qualified director candidates are often among the most economically active.

Lastly, Regulation O has produced unintended behavioral consequences. To avoid the administrative complexity and heightened scrutiny associated with insider lending, some directors and senior executives conduct their personal or business banking at other financial institutions. This outcome runs counter to sound governance principles. It diminishes insiders' firsthand experience with their own bank's products, services, and processes and reduces directors' ability to serve as informed advocates for customers and communities. The result is less practical insight at the board level, rather than enhanced protection.

Council members support modernization and believe that adjustments—such as increasing de minimis thresholds and adjusting key dollar limits for inflation or bank capital—would better align the regulation with current economic conditions. These changes would help ensure supervisory attention remains focused on transactions that present meaningful risk while maintaining robust safeguards against insider abuse and conflicts of interest.