

SMALL BUSINESS & ENTREPRENEURSHIP COUNCIL, KAREN KERRIGAN

Proposal and Comment Information

Title: Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations with Significant Trading Activity, and Optional Adoption for Other Banking Organizations, R-1887

Comment ID: FR-2026-0007-01-C23

Submitter Information

Organization Name: Small Business & Entrepreneurship Council

Organization Type: Organization

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Comments attached.



June 15, 2026

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, D.C. 20551

Comments Submitted via Federal Reserve Proposals Portal — FR-2026-0007-01

Re: Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations with Significant Trading Activity, and Optional Adoption for Other Banking Organizations [R-1887]

Dear Members of the Board:

The Small Business & Entrepreneurship Council (SBE Council) respectfully submits the following comments in response to the above-referenced proposed rulemaking. SBE Council is a nonpartisan advocacy organization representing small business owners and entrepreneurs across the United States. Our mission is to promote policies that strengthen the environment for small business formation, growth, access to capital and markets. We submit these comments because the proposed rule, while primarily directed at large banking organizations, has direct and meaningful implications for the small businesses that depend on those institutions for credit.

SBE Council welcomes the reproposal as a substantive improvement over the 2023 version. The agencies have provided significantly more analytical support for their decisions on this round, enabling meaningful engagement from a broader range of stakeholders, including organizations like SBE Council that represent end users of the credit these rules ultimately shape. A more transparent and analytically grounded rulemaking process serves the public interest, and we commend the agencies for the rigor reflected in this proposal.

On the merits, several elements of the proposal are worth highlighting from a small business perspective.

The standardized approach, as revised, moderately reduces capital requirements associated with business lending. That reduction matters: when banks hold less capital against a given loan, they have more capacity to extend credit. For small and growing businesses that depend on bank financing, expanding that capacity has direct competitive and economic consequences. SBE Council also supports the proposal's move toward differentiating capital requirements based on borrowers' underlying credit quality, rather than applying blanket risk weights that treat all

business lending as equivalent. One-size-fits-all treatment has historically disadvantaged creditworthy small businesses by grouping them with higher-risk exposures.

The revised loan-to-value-based mortgage risk weight framework similarly benefits small business owners, many of whom use home equity as a primary source of startup and working capital. By restoring a greater competitive balance between banks and government-sponsored enterprises, the proposal gives banks more flexibility to hold mortgage loans rather than route them to Fannie Mae and Freddie Mac. Greater bank participation in the mortgage market means more lenders, more competition, and better terms for borrowers, including entrepreneurs whose businesses are often financed with equity from their homes.

More broadly, the proposal's calibration reflects restraint. Even after the proposed reductions, capital levels at covered institutions will remain near post-crisis highs. The Federal Reserve's own estimates indicate an aggregate decrease of approximately 4.8 percent from a level already considered well above the adequacy threshold as recently as 2019. This is a recalibration, not a rollback, and the distinction matters. A framework calibrated to actual risk rather than layered with redundant buffers is better positioned to support consistent credit availability across economic cycles.

The proposal's stress test reforms also deserve recognition in this context. Excessive volatility in capital requirements creates uncertainty that banks manage by pulling back on credit, particularly to smaller and less-established borrowers. Reforms that produce more stable and predictable capital levels benefit the small businesses most vulnerable to sudden tightening of bank lending standards.

SBE Council also supports the agencies' decision to explicitly account for structural features of the U.S. banking system, including operational risk, fee-income treatment, and netting, rather than applying international standards not designed with the American market in mind. Tailoring the framework to domestic conditions is not a departure from sound regulation; it is sound regulation.

While SBE Council supports the overall direction of this proposal, we urge the agencies to carefully consider one element before finalizing the rule: the revised definition of "commitment."

The proposal redefines this term in a manner the agencies characterize as a clarification. We are concerned it may function as something more significant. The definition of what constitutes a commitment determines how much capital banks must hold against undrawn credit lines, including revolving lines of credit, which are among the most important financial tools available to small businesses. Many small business owners rely on revolving credit not as a supplement to their working capital, but as their primary mechanism for managing cash flow, covering payroll, and bridging gaps between receivables and expenses.

If the revised definition results in higher capital charges against undrawn commitments, banks will face a straightforward choice: hold more capital, reduce their exposure to revolving lines, or

reprice the product in ways that make it less accessible. Any of these outcomes would fall hardest on small businesses, which lack the leverage and alternatives available to larger borrowers.

We are not asserting that this outcome is certain. We are asserting that the agencies have not provided sufficient economic analysis to rule it out. A definitional change with potential consequences of this magnitude, even one framed as a clarification, warrants a clear and transparent analysis of its credit market effects before it takes effect. We urge the agencies to provide that analysis in the final rule and, if the evidence supports concern, to modify the definition accordingly or phase its implementation in a manner that allows for monitoring and adjustment.

SBE Council supports the agencies' effort to modernize the capital framework in a manner that is better calibrated to actual risk, more transparent in its analytical foundations, and more attentive to the structural realities of the U.S. banking system. The proposal, on balance, moves in the right direction for small business credit availability. We ask only that the agencies take seriously the concerns we have raised regarding the definition of commitment and ensure that a rule designed in part to promote lending does not inadvertently constrain the form of credit that small businesses rely on most.

Thank you for the opportunity to comment.

Respectfully submitted,

Karen Kerrigan
President & CEO

Protecting Small Business, Promoting Entrepreneurship

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