

KENNEBEC SAVINGS BANK, ANDREW E. SILSBY

Proposal and Comment Information

Title: Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks; Bank Holding Companies (Reg O and Y), R-1896

Comment ID: FR-2026-0028-01-C27

Submitter Information

Organization Name: Kennebec Savings Bank

Organization Type: Company

Name: Andrew E. Silsby

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Please accept the attached comment letter regarding Docket No. R-1896, Proposed Amendments to Regulation O.

I am submitting the attached letter on behalf of Kennebec Savings Bank in support of the Board's proposed modernization of Regulation O. The attached letter provides comments regarding proposed threshold increases, indexing methodology, treatment of independent board chairpersons, inadvertent overdraft thresholds, and clarification of the residence refinancing exception.

Thank you for the opportunity to comment.

Andrew E. Silsby
President & Chief Executive Officer
Kennebec Savings Bank



Kennebec Savings Bank

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October 5, 2026

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

Re: Docket No. R-1896, Proposed Amendments to Regulation O

To the Members of the Board:

I am writing in support of the Board's proposed amendments to Regulation O. As President and Chief Executive Officer of Kennebec Savings Bank, a Maine-based community bank, I appreciate the Board's effort to modernize a regulation whose key thresholds and provisions have become increasingly disconnected from today's banking environment.

The underlying purpose of Regulation O remains as important today as it was when it was adopted. Community banks fully support appropriate safeguards designed to prevent preferential treatment, conflicts of interest, and self-dealing by insiders. However, many of the regulation's numerical thresholds were established over four decades ago and have not kept pace with inflation, economic growth, changes in bank capital levels, or modern consumer credit needs. The result is that some provisions have become far more restrictive than originally intended without necessarily improving safety and soundness. The Board correctly recognizes that many of these thresholds have become obsolete and that modernization is warranted.

I strongly support the proposal to increase the executive officer "other purpose" lending threshold from \$100,000 to \$400,000 and to index that amount on a recurring basis. When Regulation O was originally implemented, many community banks operated with significantly lower capital levels. As a result, the percentage-of-capital limitation frequently served as the effective restriction. Over time, as bank capital levels increased and inflation accumulated, the fixed \$100,000 cap

increasingly became the operative restriction for many institutions. The proposed adjustment appropriately restores the original balance intended by the regulation without sacrificing the regulation's core protections.

I also support indexing the various dollar-based thresholds going forward. While I agree that periodic adjustments are necessary, I believe the Consumer Price Index (CPI) is a more appropriate indexing methodology than nominal GDP. Regulation O's thresholds directly affect the borrowing capacity of individuals, including bank employees, executive officers, and directors. CPI more accurately reflects changes in consumer purchasing power, household borrowing needs, housing costs, vehicle prices, and other expenses that drive consumer lending decisions. As a result, CPI provides a more direct measure of the economic factors that influence the practical impact of these thresholds on both borrowers and community banks.

Nominal GDP measures the size and growth of the overall economy, but it does not necessarily reflect the inflationary pressures experienced by individual consumers or the changing cost of major purchases typically financed through community banks. The challenge facing Regulation O today is not that the economy has grown; it is that fixed thresholds have failed to keep pace with rising costs and reduced purchasing power over time. For that reason, I believe CPI represents a more appropriate indexing mechanism for these lending thresholds.

Regardless of the methodology selected, the most important reform is the establishment of an automatic indexing process. The current proposal correctly recognizes that thresholds should not remain unchanged for decades at a time. Periodic adjustments based on a transparent, objective index will ensure that Regulation O continues to operate at its intended level of stringency while preventing future erosion caused by inflation and changing economic conditions.

I support the proposed increase in the credit card threshold from \$15,000 to \$60,000 together with future indexing. Credit card limits that may have been significant decades ago no longer reflect normal customer usage patterns or modern consumer credit needs. This proposal appropriately updates the threshold while preserving the regulation's safeguards against preferential treatment.

I also support the proposal to increase the inadvertent overdraft exception from \$1,000 to \$4,000. However, I encourage the Board to consider a somewhat higher threshold of \$5,000. In today's environment, a \$5,000 inadvertent overdraft

threshold would more accurately reflect the original intent of the exception while remaining fully consistent with the prohibition against preferential treatment of insiders. The requirement that the overdraft be inadvertent and promptly corrected would remain unchanged and would continue to provide an appropriate safeguard.

The proposal's effort to modernize and clarify the executive officer provisions is also welcome. As part of this effort, I encourage the Board to specifically address the treatment of independent, non-employee board chairpersons. In my view, an outside board chair who is not involved in day-to-day management should not be considered an executive officer solely because he or she serves as chair of the board. Governance oversight and executive management are fundamentally different functions. An independent board chair's primary responsibilities involve governance, oversight, strategic leadership of the board, and accountability of management rather than management of the institution itself.

Clarification on this issue would also promote consistency with the evolution of other federal banking regulations that increasingly recognize the distinction between independent board leadership and executive management. Recent changes to FDIC audit committee independence requirements under Parts 363 and 364 reflect an understanding that an independent board chair does not automatically lose independent status merely by serving as chair of the board¹. While Regulation O serves a different purpose, the continued characterization of some independent board chairs as executive officers can create confusion and inconsistent treatment across regulatory frameworks. Clarifying that an independent, non-employee board chair is not an executive officer solely by virtue of holding that position would better reflect modern governance practices while preserving the protections against insider abuse and preferential treatment that Regulation O is intended to provide.

I also encourage the Board to revisit the residence exception applicable to loans extended to executive officers. The proposal includes modifications to the residence exception, and I believe additional clarification would be beneficial. Specifically,

¹ The referenced amendments to FDIC audit committee independence requirements under Parts 363 and 364 do not amend or alter Regulation O. They are cited solely as an example of the banking agencies' recognition of the distinction between independent board oversight and executive management. Regulation O serves a different statutory purpose, and this comment requests clarification only to promote consistency in the treatment of independent, non-employee board chairpersons across regulatory frameworks.

the regulation should provide greater flexibility for refinancings of a qualifying primary residence. Once an executive officer has established a qualifying first-lien loan secured by a primary residence, the regulation should permit reasonable flexibility regarding the use of proceeds in subsequent refinancings. Current restrictions can create uncertainty regarding whether refinanced funds may be used for other legitimate purposes, such as purchasing a seasonal property, debt consolidation, educational expenses, family financial needs, or other personal financial objectives. Provided the credit remains secured by the executive officer's primary residence and remains subject to all existing Regulation O requirements regarding underwriting, market terms, and non-preferential treatment, greater flexibility would be appropriate and would align executive officers more closely with the options routinely available to other customers.

I also support the Board's recognition that outdated thresholds can create challenges for community banks, particularly in smaller and rural communities. The proposal notes that directors often are active businesspeople whose service to a local bank can create meaningful restrictions in obtaining credit and that insiders in rural markets frequently have fewer alternative credit providers available. This observation is particularly relevant in Maine and other rural states. Community banks depend upon attracting qualified directors, many of whom are successful, local business owners, professionals, farmers, nonprofit leaders, and community advocates. Regulations intended to prevent preferential treatment should not unintentionally discourage these individuals from serving on bank boards or maintaining ordinary banking relationships with their community bank.

Finally, should the Board determine that nominal GDP remains the preferred methodology, I would nevertheless strongly encourage adoption of automatic indexing. The absence of regular updates, rather than the particular index chosen, is what has caused many of Regulation O's thresholds to become outdated over time.

More broadly, I believe Regulation O should continue to focus on its central purpose: preventing preferential treatment and inappropriate insider transactions. Community banks want their employees, officers, and directors to use the products and services offered by the institution they serve. Insider transactions should continue to occur on market terms, subject to normal underwriting standards and appropriate governance requirements. However, thresholds that have been eroded by decades of inflation and economic growth should be updated so that the

regulation operates as originally intended rather than becoming progressively more restrictive over time.

I commend the Board for undertaking the first comprehensive modernization of Regulation O in decades and encourage adoption of the proposed threshold increases, automatic indexing, and the additional clarifications discussed above. I also respectfully request consideration of the additional recommendations described above regarding inadvertent overdrafts, independent board chairpersons, and flexibility within the residence refinancing exception.

Thank you for the opportunity to comment on this important proposal.

Sincerely,



Andrew E. Silsby
President & Chief Executive Officer
Kennebec Savings Bank