

WISCONSIN BANKERS ASSOCIATION, ROSE OSWALD POELS

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-C31

Submitter Information

Organization Name: Wisconsin Bankers Association

Organization Type: Organization

Name: Rose Oswald Poels

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Please find attached the Wisconsin Bankers Association's comments regarding RIN 7100-AH27.



October 5, 2026

ELECTRONIC SUBMISSION ONLY

Benjamin W. McDonough,
Secretary,
Board of Governors of the Federal Reserve System,
20th Street and Constitution Avenue NW,
Washington, DC 20551

**Re: Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks;
Bank Holding Companies; RIN 7100-AH27**

To Whom It May Concern:

The Wisconsin Bankers Association (WBA) is the largest financial trade association in Wisconsin, representing nearly 180 state and nationally chartered banks, savings banks, and savings and loan associations of all sizes located in Wisconsin, their branches, and over 30,000 employees. WBA appreciates the opportunity to comment on the Board of Governors of the Federal Reserve System's (FRB) proposed amendments to Regulation O (proposal).

Regulation O governs loans by member banks to their insiders and insiders of their affiliates and has been a longstanding rule within the banking regulatory framework since 1979. Over the years, these requirements have been significantly revised, and interpreted through guidance documents. This has compounded the complexity of complying with a regulation that is already difficult to parse. In addition, as time has passed, structural changes and market shifts have resulted in the need for updates.

Wisconsin banks understand the importance of ensuring insiders do not receive preferential treatment. At its core, Regulation O operates to protect banks from exposure to undue risk. And while Wisconsin banks are committed to that goal and have been working with these rules for many years now, it remains one of the most taxing and time consuming to navigate, understand, and comply with. Not only this, but the current thresholds Regulation O operates at are in serious need of updating. Credits that pose no real risk, made on the same terms available to any customer, now routinely trigger board approval, exception limits, and disclosure requirements designed for a different world.

To that extent, WBA welcomes the opportunity to update and modernize the regulation, increase transparency by clarifying requirements and incorporating existing interpretations, and promote efficiency by reducing regulatory burden. FRB has proposed to incorporate existing statutory requirements that are not currently reflected in the regulation, update several outdated dollar-based thresholds and index these thresholds going forward.

WBA strongly supports the Board's effort to bring meaningful regulatory relief to this area of lending and to better align very outdated thresholds and update to modern standards. However, WBA also believes that several aspects of the proposal can be improved, and we offer the following comments. And, perhaps most critically, WBA urges FRB and FDIC to coordinate and issue their rules in coordination and harmony.

Dollar-Based Thresholds

WBA strongly supports increasing each of the dollar-based thresholds as proposed. The adjustments would include:

- Credit card exception from \$15,000 to \$60,000;
- Interest-bearing overdraft plan exception from \$5,000 to \$20,000;
- Inadvertent overdraft exception from \$1,000 to \$4,000;
- “Other purpose” exception for extensions of credit to executive officers from \$100,000 to \$400,000; and,
- Both the board prior-approval threshold and the public disclosure threshold from \$500,000 to \$2 million.

A \$500,000 extension of credit was a substantial loan when that limit was set in 1983. For Wisconsin banks today, such a loan is just ordinary commercial, agricultural, or real estate activity. Requiring approval by a majority of the board for credits of that size overly burdens the board, delays closings, adds documentation, and diverts compliance costs and resources unnecessarily. In some Wisconsin communities, directors may be local business owners or farmers among other professionals who have credit needs independent of their position on the board. Outdated limits discourage qualified people from serving on bank boards and make it harder for banks to recruit and retain talented executive officers and WBA agrees with FRB’s analysis that this burden falls hardest on community banks.

FRB would also increase the dollar cap in the prior-approval formula from \$500,000 to \$2,000,000, and in the “other purpose” exception for executive officers from \$100,000 to \$400,000, while retaining the existing 5 percent and 2.5 percent of capital tests. WBA supports these increases as well. However, in response to Question 3, WBA encourages FRB to go further for well capitalized and well managed community banks, including through higher thresholds or alternative percentage tests.

Indexing

WBA strongly supports FRB’s proposal to index the dollar-based thresholds going forward. Without an automatic adjustment mechanism, the previous thresholds sat where they were for decades and became obsolete, for which periodic rulemaking was unable to address. Indexing ensures this no longer remains a problem going forward.

That said, WBA does request that FRB publish each adjustment well in advance of its effective date, and that effective date run at the start of a calendar quarter. WBA also recommends that FRB coordinate with the FDIC and OCC so that all insured institutions adopt the same amounts on the same date. FRB should also publish a simple table of the current thresholds and the calculation behind them, and round adjusted thresholds to simple figures that can be readily incorporated into bank policies and systems.

Overdrafts

WBA supports the increase in the inadvertent overdraft exception for executive officers and directors from \$1,000 to \$4,000, and the increase in the exception for interest-bearing overdraft plans from \$5,000 to \$20,000. WBA also agrees with the Board that eliminating the inadvertent overdraft exception from the prohibition on paying overdrafts would be overly punitive, as a bank would be in immediate violation for small, unintentional, and promptly repaid overdrafts.

FRB asks (in questions 37 through 39) regarding the advantages and disadvantages of removing the inadvertent overdraft exception from the definition of “extension of credit.” The

proposal suggests that this change would eliminate confusion and align with the definition under Regulation W. WBA is not as concerned with these worries. Rather, as FRB also recognizes, under the proposal, an inadvertent overdraft paid to an executive officer or director would still need to meet the requirements that apply to all extensions of credit to executive officers, which include prompt reporting to the board and submission of a current financial statement. For the smallest and most routine transactions a bank processes, that is a significant new compliance burden, and while WBA does not believe the proposed changes would resolve it. Nor is the proposed benefit worth the change. For that reason, WBA instead asks that the final rule retain the current exclusion for inadvertent overdrafts in the definition of "extension of credit."

Home Mortgage Exception for Executive Officers

Under current Regulation O, the home mortgage exception has no numeric occupancy standard. The proposal would replace that flexible approach with a defined 3-month occupancy requirement, measured over a 12-month period, with a bar on any rental use of the property. While this defined standard provides more certainty on application, this isn't an aspect of Regulation O where the industry has experienced confusion. As a result, WBA is concerned that a stricter standard may create more difficulty than the current definition. For example, a residence where an executive officer rents part of the property, such as one unit of a duplex or a spare room, could fail the investment-use condition even though the officer plainly lives there. WBA offers this comparison for the FRB's consideration as it weighs certainty against flexibility in this exception.

Definition of "Extension of Credit"

The proposal would revise the definition of "extension of credit" in several ways. It would treat a modification to an existing extension of credit, including a rate adjustment, maturity extension, or other material term change, as a new extension of credit, and it would codify that a lease that is the functional equivalent of an extension of credit, an investment in an insider's debt securities, a guarantee or letter of credit issued on behalf of an insider, and credit exposure from a derivative transaction or securities financing transaction with an insider, are each extensions of credit.

Specifying that an extension of credit includes an increase in the amount, extension of maturity, or adjustment to the interest rate term or other material term, of an extension of credit as proposed would touch on nearly every insider loan relationship. If each is treated as a new extension of credit, an insider loan above the approval threshold could require new full-board approval for a routine change. For this reason, WBA requests that FRB clarify that scheduled or automatic adjustments, and modifications that do not increase the bank's risk or benefit the insider, are not new extensions of credit, and that "material term" is defined, with examples.

Spouses, Trusts, Estates, and Related Interests

The proposal would attribute credit extended to the spouse of an insider to the insider unless the spouse is independently creditworthy and repayment is not predicated on the insider's income. As a marital property state, the evaluation of a spouse's interests has been a longstanding issue in relevant Regulation O fact-patterns. Wisconsin law provides, that, generally speaking, income earned by either spouse during marriage is presumed to be a marital asset. As a result, it is difficult to determine when repayment is "not predicated on the insider's income." For this reason, WBA asks FRB to clarify how this condition applies in marital and community property states, and to provide a safe harbor under which a bank that documents in its credit file that the spouse qualified on his or her own income, assets, and credit

history has satisfied the conditions. Similarly, the additional conditions for the related interests of a spouse should be satisfiable through the borrower's written certification.

The proposal would also presume that a trustee controls a trust and that an executor controls companies and shares controlled by an estate, and would treat credit to a trust or estate as credit to an insider with at least a 25 percent present or contingent beneficial interest. WBA recommends that FRB maintain these presumptions as rebuttable and clearly define that trust and estate instruments as sufficient rebuttal evidence of that fact. WBA also supports the proposed 25 percent threshold over 10 percent.

Finally, the proposal would apply the executive officer restrictions to a related interest that is the "alter ego" of the executive officer and has no independent means of repayment. WBA is concerned that, given how fact-intensive the proposed factors are, they are likely to produce inconsistent conclusions between banks and examiners. WBA asks FRB to provide a clear safe harbor, such as that a related interest with documented independent sources of repayment, operating cash flow, business assets, or third-party guarantors, should not be considered an alter ego.

Transition Loans, Lines of Credit, and Prior Approval

Under current Regulation O, an extension of credit is made "at the time the bank enters into a binding commitment." The rule doesn't address what happens when the borrower later becomes an insider. Banks have had to rely on informal FRB staff positions to determine whether a loan made before someone became a director or officer needs to be unwound, modified, or otherwise brought into compliance, and that gap has been a persistent source of confusion for Wisconsin banks.

For this reason, WBA supports FRB's proposal to codify that such loans need not be unwound or modified, and that they instead count toward the applicable limits going forward. This is a sensible and clear rule and should be finalized as such. Furthermore, this is helpful for small communities where local business owners with existing bank relationships frequently serve as directors. To be most effective, WBA requests that the exclusion for loans made "in contemplation" of a borrower becoming an insider be tied to objective criteria, such as the bank's documented knowledge of a pending nomination or hire, rather than a subjective inquiry into intent. WBA does not believe additional recordkeeping for transition loans is necessary, as existing credit files should suffice.

Correspondent Lending Restrictions

The proposal would codify the correspondent lending restrictions in 12 U.S.C. 1972(2) and add new Regulation O recordkeeping requirements for them. Many Wisconsin community banks rely on correspondent relationships. WBA supports the proposed safe harbor for the survey and borrower inquiry methods and asks FRB to confirm that a bank may rely in good faith on survey responses and borrower answers without independent verification, permit the borrower inquiry to be incorporated into existing loan application or insider certification forms, and exempt smaller institutions, or banks whose correspondent accounts are limited to routine services, from the recordkeeping requirement or provide an even simpler alternative.

WBA also recommends narrowing the proposed definition of "correspondent account." As proposed, any account maintained "for the deposit or placement of funds" would sweep in ordinary deposits that banks place at other institutions for liquidity and investment purposes.

WBA supports limiting the definition to accounts used for payment or other transaction services, consistent with the purpose of the statute.

Disclosure Simplification

WBA supports FRB's proposal to raise the public disclosure threshold to \$2 million and to eliminate the separate definitions of "principal shareholder" and "related interest" in the disclosure requirement, including by no longer treating a bank's holding company as a principal shareholder. Additionally, WBA supports the proposed clarification of the definition of "principal shareholder" and the proposed treatment of bank subsidiaries, which excludes operating subsidiaries from the definition of "affiliate." With respect to the consolidated disclosure of extensions of credit secured by bank or holding company shares, WBA asks that a single annual report be permitted to satisfy the requirement for both the bank and its holding company where their boards overlap.

Community Bank Burden, Coordination, and Implementation

FRB concludes that the proposal will not have a significant economic impact on a substantial number of small entities and will not impose measurable additional reporting burden. WBA agrees that the threshold and indexing changes will reduce burden. However, the new requirements discussed above, including spousal and trust attribution, modification standards, residence conditions, correspondent recordkeeping, and the executive officer analysis, will require community banks to revise policies, procedures, forms, and training and, in some cases, to review existing insider relationships. WBA urges FRB should weigh that burden appropriately, where possible, adopt the accommodations for smaller institutions suggested in this letter.

FDIC has issued a parallel proposal to raise and index the insider lending thresholds for FDIC-supervised institutions. WBA's members hold a mix of national, state, and savings charters supervised by different agencies, and consistency across those agencies is essential. Because FRB proposes to restate Regulation O in its entirety while the FDIC proposes targeted amendments to its own rules, any difference in thresholds, definitions, or effective dates would create dual standards for banks that are otherwise similarly situated. WBA urges the agencies to finalize their rules together, with identical thresholds and a common effective date, and will comment separately on the FDIC's proposal.

WBA asks that the new, higher thresholds take effect on the effective date of the final rule, and that banks be given a reasonable transition period of at least twelve months, for provisions that add new requirements. Extensions of credit made in compliance with the current rule should be grandfathered. Because the proposal would significantly renumber and reorganize Regulation O and states that existing interpretations continue to apply unless inconsistent with the final rule, WBA also asks the FRB to publish, with the final rule, a redline version from the current to the new section numbers and a list of the staff interpretations that are superseded and those that continue.

Conclusion

WBA appreciates FRB's commitment to modernizing Regulation O. The reforms in the proposal address issues Wisconsin banks have raised for years, and the updated thresholds in particular will meaningfully improve the ability of banks to serve their communities and to recruit local leaders to their boards. WBA looks forward to engaging further on this issue and will provide additional data, member input, and specific regulatory recommendations as FRB proceeds with the rulemaking process.

Thank you for considering our comments.

Sincerely,

A handwritten signature in black ink, reading "Rose Oswald Poels". The signature is fluid and cursive, with the first name "Rose" being the most prominent.

Rose Oswald Poels
President/CEO