

LAKE RIDGE BANK, TIM RYAN

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-C43

Subject

Docket No. R-1896 and RIN 7100-AH27

Submitter Information

Organization Name: Lake Ridge Bank

Organization Type: Company

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ELECTRONIC SUBMISSION ONLY

Benjamin W. McDonough,
Secretary,
Board of Governors of the Federal Reserve System,
20th Street and Constitution Avenue NW,
Washington, DC 20551
Docket No. R-1896 and RIN 7100-AH27

Re: Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks; Bank Holding Companies; Docket No. R01896 and RIN 7100-AH27

To Whom It May Concern:

I am the CFO of Lake Ridge Bank, a \$3.5 billion bank located in Middleton, Wisconsin. We are a State Nonmember bank with our holding company Lake Ridge Bancorp, Inc. regulated by the Federal Reserve Bank of Chicago. We have 21 locations across Dane, Green, Rock, and Sauk Counties in Wisconsin. As a community bank, Lake Ridge routinely extends credit to both our directors and their related interests and our executive officers. We do not have any principal shareholders.

Lake Ridge Bank appreciates the opportunity to comment on the Board of Governors of the Federal Reserve System's (FRB) proposal to update, restate, and reorganize Regulation O.

Lake Ridge understands 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 Lake Ridge is committed to that goal and has 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, Lake Ridge 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. I offer the following comments.

Dollar-Based Thresholds

Lake Ridge also supports increasing the dollar-based thresholds in Regulation O, including the 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, the threshold for extensions of credit to executive officers not otherwise authorized (from \$100,000 to \$400,000), and the threshold requiring prior board approval (from \$500,000 to \$2 million). These thresholds have not been meaningfully updated in decades, and outdated limits can require board approval for credit that poses no real risk of self-dealing.

The existing rules are complicated and contradictory in many ways, as such, Lake Ridge has taken the posture to pre-approve any extension of credit to a Regulation O covered individual and related interest.

And the current thresholds are small enough that every request would require pre-approval. From the perspective of an executive officer, the limits are so low that it is difficult for me to do business with Lake Ridge. Carrying our credit card or even doing a home remodel is a challenge. This forces me to use another bank or provider, just to finance personal projects.

For a director, they understand the process for a larger request and factor that into the timing of the requests. But the limits are such that in instances where smaller additional credit requests, like the purchase of a piece of equipment for a business, it becomes a transaction that cannot happen for thirty days.

Indexing

Lake Ridge Bank strongly supports FRB's proposal to index the dollar-based thresholds going forward. Lake Ridge Bank supports the index adjustment being tied to nominal GDP. 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.

Lake Ridge requests that FRB publish each adjustment well in advance of its effective date, and that effective date runs at the start of a calendar quarter. Lake Ridge also recommends that FRB coordinate with the FDIC and OCC so that all insured institutions adopt the same amounts on the same date.

Home Mortgage Exception

The proposal would add two new conditions to the home mortgage exception for executive officers: a requirement that the officer live in the property at least three months each year, and a bar on using the property "for investment purposes, including renting or leasing out any portion of the property for income."

An unintended consequence of forcing executive officers to use other institutions because of these exceptions is that as a bank, I will not know if an executive officer is having financial difficulties in meeting their obligations and adjust my monitoring of the situation accordingly.

Transition Loans

The proposal would clarify that a loan made to a person before that person becomes a director or executive officer does not need to be modified or unwound, so long as it is counted toward that person's lending limits going forward.

We have not yet run into a situation that we have been turned down by a prospective board member, but we do have directors that transition away from the board make a comment that they now do not have to follow the Regulation O process. And new directors, especially those new to a financial institution, think the rule is not a big deal, until they become covered, and then have a hard time understanding what risk is being mitigated. We actively encourage them to work with us, but restrictions that supposedly make the bank more sound, are hard to see.

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, [Bank Name] 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. Lake Ridge Bank recommends that FRB maintain these presumptions as rebuttable and clearly define that trust and estate instruments as sufficient rebuttal evidence of that fact. Lake Ridge Bank 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. Lake Ridge Bank is concerned that, given how fact-intensive the proposed factors are, they are likely to produce inconsistent conclusions between banks and examiners. Lake Ridge Bank 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.

Compliance Burden

The compliance a tracking burden is substantial. Lake Ridge Bank has nine independent directors and five Regulation O officers. We would ask all nine directors to do business with us, and they do. But several are very active in multi-family and residential development. Maintaining lists that not only capture the loans (the easy part) but also deposit accounts requires several layers of not only input, but also back-end auditing to make sure nothing is missed. Lake Ridge Bank enjoys great insight from these directors as they are actively involved in these businesses and bring a level of expertise and industry knowledge that a director brings to making credit decisions. Again, an unintended consequence is that type of knowledge leaves the board and is replaced by someone that does not need to worry about limits, etc. imposed by Regulation O.

Conclusion

Lake Ridge Bank appreciates FRB’s effort to modernize Regulation O and the opportunity to comment.

Thank you for considering my comments.

Respectfully,

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