DAIRY STATE BANK, CLARK J. YOLITZ

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-C44

Subject

Docket No. R-1896 and RIN 7100-AH27

Submitter Information

Organization Name: Dairy State 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:

Dairy State Bank is a $750MM state-chartered community bank in northwest Wisconsin. We often extend credit to executive officers, directors, principal shareholders, or their related interests, but have been hindered by the current parameters.

Dairy State 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.

Dairy State Bank 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 Dairy State Bank 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, Dairy State Bank 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

Dairy State Bank 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.

For one of our Directors, our board must approve a routine annual line of credit because of the $500,000 threshold. To me personally, the $100,000 limit affected my ability to a credit extension for a recreational land purchase because I am an executive officer. Other executive officers of Dairy State Bank have sought credit at other institutions because of these thresholds.

Indexing

Dairy State Bank strongly supports FRB's proposal to index the dollar-based thresholds going forward. Dairy State 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.

Dairy State Bank requests that FRB publish each adjustment well in advance of its effective date, and that effective date run at the start of a calendar quarter. Dairy State Bank 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."

We are bringing on a new Director effective January 1st that has several investment properties. The investment-use condition would affect loans to him that we would reasonably expect to make.

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. As mentioned above with our new Director, this change would make such situations easier to navigate.]

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 martial 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 martial asset. As a result, it is difficult to determine when repayment is "not predicated on the insider's income." For this reason, Dairy State Bank 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. Dairy State Bank recommends that FRB maintain these presumptions as rebuttable and clearly define that trust and estate instruments as sufficient rebuttal evidence of that fact. Dairy State 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. Dairy State Bank is concerned that, given how fact-intensive the proposed factors are, they are likely to produce inconsistent conclusions between banks and examiners. Dairy State 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.

Conclusion

Dairy State Bank appreciates FRB's effort to modernize Regulation O and the opportunity to comment.

Thank you for considering my comments.

Respectfully,

Clark J. Yolitz, Chief Executive Officer

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