

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date: November 7, 2025
To: Board of Governors
From: Staff¹
Subject: Notice of proposed rulemaking to modify the community bank leverage ratio

ACTIONS REQUESTED: Staff requests approval to publish in the Federal Register the attached draft notice of proposed rulemaking (proposal) that would reduce regulatory burden for community banking organizations while maintaining strong capital requirements. The proposal would lower the community bank leverage ratio (CBLR) requirement from 9 percent to 8 percent and extend the length of time that a community banking organization can remain in the CBLR framework while not meeting all of the qualifying criteria (grace period) from two quarters to four quarters. Staff also requests authority to make technical, non-substantive changes to the attached materials prior to publication in the Federal Register. The proposal would be issued jointly by the Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (agencies) upon completion of their respective approval processes.

EXECUTIVE SUMMARY:

- Consistent with the relevant statute, the proposal would lower the required CBLR, which is equal to tier 1 capital divided by average total consolidated assets, from 9 percent to 8 percent.² This proposed calibration would enable 475 additional community banking organizations to benefit from the regulatory burden reduction provided by the CBLR framework if they choose to opt in.

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² Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) requires the agencies to establish a CBLR requirement of not less than 8 percent and not more than 10 percent for qualifying community banking organizations.

- The CBLR framework would continue to require an amount of capital that is comparable to and, in most cases, higher than, the amount of capital that would be required by the risk-based capital framework that applies to banking organizations that are not participating in the CBLR framework.³
- The proposal would extend the CBLR grace period from two quarters to four quarters, subject to a limit of eight quarters in any five-year period, to provide community banking organizations that have opted into the framework, but no longer meet the qualifying criteria, with more time to return to compliance with the framework. Under the proposal, a community banking organization would not be able to use the grace period if its leverage ratio were to fall below 7 percent.

DISCUSSION:

A. Background

Under the current CBLR framework, a community banking organization that has a leverage ratio of greater than 9 percent and that meets certain other criteria may choose to opt into the CBLR framework.⁴ A qualifying community banking organization that has elected to use the CBLR framework is considered to meet the risk-based and leverage capital requirements in the capital rule and, in the case of an insured depository institution, is considered well capitalized under the agencies' PCA framework.

³ The proposed CBLR calibration would remain broadly consistent with the current well capitalized standard under the PCA framework. See 12 CFR 208.43(b)(1)(i). The PCA framework applies only to insured depository institutions. The definitions of well capitalized for bank holding companies and savings and loan holding companies can be found at 12 CFR 225.2(r) and 12 CFR 238.2(s), respectively.

⁴ See 84 FR 61776 (November 13, 2019). In addition to maintaining a leverage ratio of greater than 9 percent, a qualifying community banking organization must have less than \$10 billion in total consolidated assets; off-balance sheet exposures (excluding certain derivatives) of 25 percent or less of total consolidated assets; and trading assets and liabilities of 5 percent or less of total consolidated assets. The banking organization also cannot be an advanced approaches banking organization. See 12 CFR 217.12(a)(2)

The current rule provides a two-quarter grace period during which a community banking organization that fails to meet any of the qualifying criteria generally would be allowed to remain in the CBLR framework, so long as it maintains a leverage ratio of greater than 8 percent.

B. Draft Notice of Proposed Rulemaking

The proposal would provide additional regulatory burden relief to community banking organizations, while maintaining a safe and sound banking system. Specifically, the proposed 8 percent calibration would allow 475 additional community banking organizations to benefit from the burden reduction provided by the CBLR framework if they choose to opt in. For the 1,659 community banking organizations already participating in the CBLR framework, the proposal would provide more flexibility to manage their balance sheets. Importantly, the CBLR framework would continue to require capital levels that are typically higher than levels required by the risk-based capital framework.

The proposal would also extend the grace period from two quarters to four quarters to allow additional time for community banking organizations that have opted into the CBLR framework, but that no longer meet the qualifying criteria, to come back into compliance with the framework or to satisfy risk-based capital requirements. Under the proposal, a community banking organization would not be able to use the grace period if its leverage ratio falls below 7 percent. The proposed four quarter grace period could also lead to greater CBLR framework adoption rates by providing additional time for CBLR firms to re-satisfy the qualifying criteria, thereby reducing the likelihood that CBLR firms would need to revert to the risk-based capital framework. To ensure the extended grace period continues to support prudent capital levels, the proposal would limit use of the grace period to eight quarters in any given five-year period.

C. Economic Analysis

Staff estimates that under the proposal the number of community banking organizations eligible to participate in the CBLR framework would increase by 475, which would represent a 14 percent increase in the number of eligible community banking organizations.⁵ Newly participating community banking organizations would benefit from substantial burden reductions, including the elimination of the risk-based capital requirements. Furthermore, staff estimate that the proposed 8 percent CBLR calibration could provide currently participating organizations with the capacity to expand their balance sheets by approximately \$64 billion in aggregate.⁶ This increase in balance sheet capacity could facilitate additional lending by qualifying banking organizations that are participating in the CBLR framework and support the economic activity of the communities they serve. Although the proposed reduction in the CBLR requirement would be associated with a slight increase in the risk of failure of qualifying banking organizations that are participating in the CBLR framework, the proposal's regulatory burden relief benefits would outweigh the costs, while maintaining the safety and soundness of the banking system.

RECOMMENDATIONS:

For the reasons discussed above, staff recommends that the Board approve the attached draft notice of proposed rulemaking. Staff also recommends that the Board authorize staff to make technical, non-substantive changes to the attached materials prior to publication.

Attachment

⁵ Currently, 3,430 community banking organizations qualify for the CBLR framework.

⁶ This would represent an 8.1 percent increase in balance sheet capacity for participating community banking organizations.