

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

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Date: January 26, 2026  
To: Board of Governors  
From: Staff<sup>1</sup>  
Subject: Proposal to Prohibit the Use of Reputation Risk or Other Supervisory Tools to Encourage or Compel Banking Organizations to Engage in Politicized or Unlawful Discrimination

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**ACTIONS REQUESTED:**

Staff requests approval to publish in the Federal Register the attached draft notice of proposed rulemaking (proposal), which would invite public comment on (1) codifying the removal of reputation risk from the Board’s supervisory programs; and (2) prohibiting the Board from encouraging or compelling Board-supervised banking organizations to deny or condition the provision of banking or other financial products or services to an individual or business (i) based on their constitutionally protected political or religious beliefs, associations, speech, or conduct, or (ii) based on involvement by the individual or business in politically disfavored but lawful business activities perceived to present reputation risk. Staff also requests authority to make technical, non-substantive changes to the attached materials to prepare them for publication in the Federal Register.

**BACKGROUND:**

The Board announced in June 2025 that reputation risk will no longer be a component of examination programs in its supervision of banks, and that the Board will train examiners to help ensure this change is implemented consistently across Board-supervised banking organizations.<sup>2</sup> The Board has defined reputation risk as “the potential that negative publicity regarding an institution’s business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions.”<sup>3</sup> Over time, concerns have arisen that reputation risk

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<sup>2</sup> Board, Press Release (June 23, 2025), <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250623a.htm>.

<sup>3</sup> Attachment B to SR Letter 95-51, “Rating the Adequacy of Risk Management Processes and Internal Controls at State Member Banks and Bank Holding Companies” (November 14, 1995). In connection with the Board’s June 23, 2025, press release, this attachment was revised to remove the reference to reputation risk.

and other similar supervisory tools have been misused. A recent Executive Order raised concerns regarding debanking based on political or religious beliefs or lawful business activities.<sup>4</sup>

The Board is eliminating references to reputation and reputation risk in its supervisory materials, including examination manuals. The Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the National Credit Union Administration (NCUA) also have announced their intention to eliminate references to reputation risk in their supervisory materials.<sup>5</sup> These agencies recently requested comment on proposals to codify the removal of reputation risk from their supervisory programs.<sup>6</sup>

## **DISCUSSION:**

The proposal would codify the removal of reputation risk from the Board's supervisory programs. The proposal also would explicitly prohibit the Board from encouraging or compelling Board-supervised banking organizations to deny or condition the provision of banking or other financial products or services to an individual or business (i) based on their constitutionally protected political or religious beliefs, associations, speech, or conduct, or (ii) based on involvement by the individual or business in politically disfavored but lawful business activities perceived to present reputation risk. The proposal would state that the decision regarding whether or not to make a loan or to open, close, or maintain an account, provide any other financial product or service, or modify the terms of any financial product or service rests with the banking organization, acting in accordance with applicable law.

The proposal aims to achieve several objectives. First, by establishing a binding regulation, the proposal would further ensure that the actions and decisions of supervisory staff are not based on reputation risk and align with the Board's broader policy. Furthermore, the proposal would reflect experience that reputation risk can be difficult to quantify and communicate, making it challenging for firms to remedy identified concerns. Therefore, this proposal would increase supervisory clarity through the codification of the removal of reputation

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<sup>4</sup> E.O. 14331, 90 FR 38925 (August 12, 2025).

<sup>5</sup> See FDIC, Press Release (October 7, 2025), <https://www.fdic.gov/news/financial-institution-letters/2025/agencies-issue-proposal-prohibit-use-reputation-risk>; OCC, News Release 2025-21 (March 20, 2025), <https://www.occ.gov/news-issuances/news-releases/2025/nr-occ-2025-21.html> and OCC Bulletin 2025-4 (March 20, 2025), <https://www.occ.gov/news-issuances/bulletins/2025/bulletin-2025-4.html>; NCUA, Press Release (September 25, 2025), <https://ncua.gov/newsroom/press-release/2025/ncua-eliminates-use-reputational-risk>.

<sup>6</sup> 90 FR 48825 (October 30, 2025); 90 FR 48409 (October 21, 2025).

risk and would facilitate greater precision in supervisory decision making. It also would support the Board's supervisory focus on core financial risks. Procedurally, issuing this proposal for notice and comment would allow external stakeholders to provide their views on this issue. Staff does not believe that the proposal would inhibit the efficacy of the Board's supervision and regulation function moving forward.

**RECOMMENDATIONS:**

Based on the foregoing, staff recommends that the Board approve the attached proposal for publication in the Federal Register. Staff also recommends that the Board delegate to staff authority to make technical, non-substantive changes to the attached materials to prepare them for publication in the Federal Register.

Attachment