

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date: April 14, 2026
To: Board of Governors
From: Staff¹
Subject: Final rule to modify the community bank leverage ratio

ACTIONS REQUESTED: Staff requests approval of a final rule that would reduce regulatory burden for community banking organizations while maintaining strong capital requirements. The final rule 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 the qualifying criteria (grace period) from two consecutive quarters to four consecutive quarters. Staff also requests authority to make technical, non-substantive changes to the attached materials prior to publication in the Federal Register. The final rule 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:

- The final rule, which would become effective July 1, 2026, would adopt, as proposed, the agencies' December 2025 proposed rule with the goals of enhancing community banks' ability to serve their communities, reducing their regulatory burden, and maintaining strong capital requirements.²

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² See 90 FR 55048 (December 1, 2025).

- Consistent with the relevant statute and the proposal, the final rule would lower the required CBLR, which is calculated as tier 1 capital divided by average total consolidated assets, from 9 percent to 8 percent.³
 - This calibration would make 477 additional community banking organizations eligible to opt in to the CBLR framework.
 - Such calibration would 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.
- The final rule would extend the CBLR grace period from two consecutive quarters to four consecutive quarters, subject to a limit of eight quarters in the previous five-year period.
 - The longer grace period would reduce the possibility that a community banking organization would need to rapidly revert to the risk-based capital framework, which could encourage greater adoption of the CBLR framework.
 - Under the final rule, a community banking organization would immediately become subject to the risk-based framework if its leverage ratio were to fall to or below 7 percent.

DISCUSSION:

A. Background

Under the current CBLR framework, a community banking organization with less than \$10 billion in total consolidated assets 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

³ 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.

⁴ See 84 FR 61776 (November 13, 2019). In addition, a qualifying community banking organization must have 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. See 12 CFR 217.12(a)(2)

insured depository institution, is considered well capitalized under the agencies' prompt corrective action (PCA) framework.

The current CBLR framework 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. Summary of Proposal and Comments Received

On December 1, 2025, the agencies published in the Federal Register a notice of proposed rulemaking (the proposal) that would implement changes to the CBLR framework in accordance with statutory authority.⁵ The proposal would provide additional regulatory burden relief to community banking organizations, while maintaining a safe and sound banking system. Specifically, the proposal would lower the calibration of the CBLR requirement from 9 percent to 8 percent.

The proposal would extend the grace period from two quarters to four quarters to allow additional time for community banking organizations that opted into the CBLR framework, but no longer meet the qualifying criteria, to come back into compliance with the CBLR 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 fell to or below 7 percent. To ensure the extended grace period would continue to support prudent capital levels,

⁵ See 90 FR 55048 (December 1, 2025).

the proposal would limit the use of the grace period to eight quarters in the previous five-year period.⁶

The agencies received approximately 30 comments on the proposal from community banks, industry trade associations, public advocacy groups, and other individuals. Some commenters were supportive of the proposal, while others recommended the agencies take further action to reduce regulatory burden on community banking organizations.

Most commenters supported the proposal to lower the calibration of the CBLR requirement from 9 percent to 8 percent, and no commenters opposed the reduced calibration. Supportive commenters noted that the 8 percent calibration would increase eligibility for, and adoption of, the CBLR and that such calibration would remain comparable to the agencies' well-capitalized standard under the PCA framework. These commenters stated that the proposal would result in a larger management buffer that would allow some community banking organizations to redirect some of the additional capital toward lending and other investments.

Commenters were largely supportive of the proposal to extend the grace period from two quarters to four quarters to give additional time to temporarily non-compliant banks to return to compliance with the CBLR framework, and no commenters opposed the extension. Supportive commenters noted that a four-quarter grace period would be better aligned with community banking organizations' reliance on retained earnings for building regulatory capital. These commenters also stated that the proposed grace period would reduce operational burden and

⁶ For example, if a community banking organization were to use the grace period for each quarter in calendar years 2027 and 2029 (eight total quarters in the grace period), without using the grace period in calendar year 2028, it would not be able to use the grace period during calendar years 2030 or 2031 or the first quarter of 2032.

provide more time for community banking organizations to address potential volatility in capital ratios.

Some commenters expressed support for the proposed limitation on the use of the grace period to eight quarters in the previous five-year period, and no commenters opposed such limitation.

C. Overview of the Final Rule

The final rule would adopt the proposal without modification. The final rule would provide meaningful regulatory burden relief to community banking organizations while continuing to achieve the CBLR framework's safety and soundness objectives. The final rule would lower the CBLR requirement from 9 percent to 8 percent, as proposed. The recalibration would expand eligibility for the CBLR framework, which is a significantly less burdensome capital framework than that of the risk-based capital framework. The recalibration, which would generally increase CBLR banking organizations' management buffers, could encourage a significant number of additional organizations to opt in to the CBLR framework. The capital requirement under the final rule remains broadly consistent with the levels of capital required by the risk-based capital framework, as well as the requirements under the PCA framework applicable to depository institutions.

Consistent with the proposal, the final rule would extend the CBLR grace period from two consecutive quarters to four consecutive quarters, subject to a limit of eight quarters in the previous five-year period. The four-quarter grace period would allow a banking organization that ceases to meet the CBLR's qualifying criteria sufficient time to make appropriate changes to its activities, build up its regulatory capital levels as necessary, or begin reporting risk-based

capital consistent with the risk-based capital framework. The extended grace period in the final rule could incentivize greater adoption of the CBLR framework by reducing the risk that a community banking organization that temporarily falls out of compliance with the CBLR framework would need to quickly revert to the risk-based capital framework. Under the final rule, a community banking organization whose leverage ratio falls to 7 percent or below would not be able to make use of the grace period. In addition, to support prudent capital levels, the final rule would limit use of the grace period to eight quarters in the previous five-year period.

The final rule would have an effective date of July 1, 2026.

D. Economic Analysis

As detailed in Section V of the preamble to the final rule, staff estimates that the number of community banking organizations eligible to participate in the CBLR framework would increase by 477, which would represent a 14 percent increase in the number of eligible community banking organizations.⁷ Newly participating community banking organizations would benefit from substantial burden reductions, including the elimination of the risk-based capital requirements. Furthermore, staff estimates that the 8 percent CBLR calibration in the final rule could provide currently participating organizations with the capacity to expand their balance sheets by approximately \$64 billion in aggregate.⁸ 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

⁷ Currently, 3,426 community banking organizations qualify for the CBLR framework.

⁸ This would represent an 8.1 percent increase in balance sheet capacity for participating community banking organizations.

serve. Although the final rule's reduction in the CBLR requirement would be associated with a slight increase in the risk of failure of qualifying banking organizations that participate in the CBLR framework, the final rule'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 final rule. Staff also recommends that the Board authorize staff to make technical, non-substantive changes to the attached materials prior to publication in the Federal Register.

Attachment