Date: August 21, 2026

To: Board of Governors

From: Staff[1]

Subject: Draft Interim Final Rule to Increase the Asset Threshold below which Certain Small Insured Depository Institutions and U.S. Branches and Agencies of Foreign Banks May Qualify for an Extended Examination Cycle

ACTIONS REQUESTED:

Staff requests: (1) approval to publish in the *Federal Register* the attached interim final rule, which adopts section 903 of the 21st Century ROAD to Housing Act, allowing certain state member banks and U.S. branches and agencies of foreign banks to qualify for an 18-month (rather than a 12-month) on-site examination cycle; and (2) the authority to make technical, non-substantive changes to the attached materials prior to publication in the *Federal Register*. The interim final rule would be published jointly with the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) and would make similar changes to their rules governing on-site examinations.

EXECUTIVE SUMMARY:

- Congress raised the maximum asset thresholds for certain insured depository institutions (IDIs) to qualify for an extended 18-month exam cycle. Specifically, section 903 of the 21st Century ROAD to Housing Act amends section 10(d) of the Federal Deposit Insurance Act (FDI Act)[2] to increase from $3 billion to $6 billion the total asset threshold below which an IDI may qualify for an 18-month examination cycle.
- The interim final rule would raise the 18-month examination total asset thresholds to the increased threshold identified in the statute. Specifically, the interim final rule would implement this section of the law by raising the asset threshold to $6 billion for an IDI that

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[2] 12 U.S.C. 1820(d).

has a CAMELS[3] composite rating of 1 or 2. In doing so, and as required by statute, the interim final rule would communicate a determination by the Board that an increase in the 18-month total asset threshold with respect to state member banks with a CAMELS composite rating of 2 is consistent with safety and soundness. The interim final rule would also make parallel changes to the Board's regulations governing the on-site examination cycle for U.S. branches and agencies of foreign banks to be consistent with section 7(c)(1)(C) of the International Banking Act (IBA).[4]

- This proposal would not limit the Board's other supervisory authorities. The Board would continue to use off-site monitoring tools in its supervision of IDIs and U.S. branches and agencies of foreign banks (together, supervised institutions), and the interim final rule would reserve the Board's right to examine a supervised institution that qualifies for an extended examination cycle more frequently, as warranted.

BACKGROUND:

Section 10(d) of the FDI Act generally requires the appropriate Federal banking agency to conduct a full-scope, on-site examination of an IDI at least once during each 12-month period.[5] Until the enactment of section 903 of the 21st Century ROAD to Housing Act, section 10(d)(4) of the FDI Act authorized the appropriate Federal banking agency to extend the on-site examination cycle for an IDI to 18 months if the institution (1) had total assets of less than $3 billion; (2) was well capitalized; (3) was found at its most recent examination to be well managed and have a composite condition of "outstanding" (*i.e.*, a CAMELS composite rating of 1) or, in the case of an IDI with total assets of not more than $200 million, a composite condition of "outstanding" or "good" (*i.e.*, a CAMELS composite rating of 1 or 2); and (4) met certain other supervisory and ownership criteria.[6] Additionally, section 10(d)(10) of the FDI Act gave each appropriate Federal banking agency discretionary authority to increase this $200 million threshold to an amount no greater than $3 billion if the appropriate Federal banking agency

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3 "CAMELS" refers to the Uniform Financial Institutions Rating System. See SR Letter 96-38 (SUP), "Uniform Financial Institutions Rating System" (December 27, 1996).
4 12 U.S.C. 3105(c)(1)(C).
5 12 U.S.C. 1820(d).
6 Specifically, section 10(d)(4) of the FDI Act requires that an IDI must (1) not be subject to a formal enforcement proceeding by the Board, OCC, or FDIC; and (2) have not undergone a change in control during the previous 12-month period in which a full-scope, on-site examination otherwise would have been required.

determined that this amount would be consistent with the principles of safety and soundness for IDIs. The Board's Regulation H implements this provision for state member banks and sets the threshold to $3 billion.[7]

Section 7(c)(1)(C) of the IBA provides that any U.S. branch or agency of a foreign bank shall be subject to an on-site examination by its appropriate Federal banking agency or State bank supervisor as frequently as a national or state bank would be subject to an on-site examination.[8] The Board's Regulation K governs examination cycles for U.S. branches and agencies of foreign banks.[9]

Section 903 of the 21st Century ROAD to Housing Act amended sections 10(d)(4) and 10(d)(10) of the FDI Act to raise all of the applicable asset thresholds from $3 billion to $6 billion. These changes to section 10(d) became effective on July 11, 2026.

DISCUSSION:

Consistent with section 903 of the 21st Century ROAD to Housing Act's amendment to sections 10(d)(4) and (10)(d)(10) of the FDI Act, the interim final rule would amend Regulation H to increase, from $3 billion to $6 billion, the total asset threshold under which the Board may apply an 18-month on-site examination cycle for qualifying state member banks that have a CAMELS composite rating of 1 or 2.[10] In doing so, and as required by statute, the interim final rule would communicate a determination by the Board that an increase in the 18-month total asset threshold with respect to state member banks with a CAMELS composite rating of 2 or better is consistent with safety and soundness.[11]

The interim final rule would also make corresponding changes to the examination provisions of the Board's Regulation K to allow a foreign bank branch or agency with less than $6 billion in total assets to qualify for an 18-month examination cycle if the branch or agency

[7] 12 CFR 208.64.
[8] 12 U.S.C. 3105(c)(1)(C).
[9] 12 CFR. 211.26.
[10] Prior to the 21st Century ROAD to Housing Act, the Board, FDIC, and OCC (collectively, the "Agencies") were authorized on four occasions to raise the threshold to the maximum allowable amount for an institution that received a CAMELS composite rating of 2 at its most recent examination, so long as the greater threshold was consistent with safety and soundness. On each occasion, the Agencies elected to extend to these institutions the maximum allowable threshold ($250 million in 1997, $500 million in 2007, $1 billion in 2016, and $3 billion in 2018). *See* 63 FR 16377 (April 2, 1998), 72 FR 17798 (April 10, 2007), 81 FR 10063 (February 29, 2016), and 83 FR 43961 (August 29, 2018).
[11] 12 U.S.C. 1820(d)(10).

receives a ROCA[12] rating of 1 or 2 at its most recent examination and meets certain other supervisory criteria.

Although an extended examination cycle may decrease the Board's ability to detect a deterioration in a supervised institution's performance, this risk can be mitigated through off-site monitoring activities and the ability retained by the Board to examine supervised institutions more frequently, as necessary or appropriate. Staff believes off-site monitoring, combined with the capital, managerial, and other supervisory criteria set forth in section 10(d) of the FDI Act, will permit the Board, on an 18-month examination cycle, to effectively supervise and protect the safety and soundness of supervised institutions of a size up to the maximum threshold identified by Congress. Further, this interim final rule also would not change the Board's existing authorities to examine supervised institutions more frequently, as necessary or appropriate.[13]

ADMINISTRATIVE LAW CONSIDERATIONS:

To issue this rule as an interim final rule (*i.e.*, without advance notice and comment), the Board must determine for good cause that the notice and public comment procedure is "impracticable, unnecessary, or contrary to public interest."[14] As reflected in the interim final rule, staff believes that the public interest would best be served by adopting the already-effective statutorily amended thresholds as soon as possible, which will reduce regulatory burden on small, well capitalized, and well managed financial institutions and provide the certainty necessary to allow the affected financial institutions and Board to begin scheduling for examinations according to the new examination cycle period.[15]

Although the interim final rule would be effective immediately upon publication in the *Federal Register*, the Board would invite comment on all aspects of the interim final rule. The

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12 "ROCA" refers to the rating system for U.S. branches, agencies and commercial lending companies of foreign banking organizations. *See* Attachment to SR Letter 00-14 (SUP), "Enhancements to the Interagency Program for Supervising the U.S. Operations of Foreign Banking Organizations" (October 23, 2000).

13 *See* 12 CFR 208.64(c), 211.26(c)(3).

14 5 U.S.C. 553(b)(B). In addition, for the interim final rule to have an immediate effective date, the Board must also find that good cause exists to waive the 30-day delayed effective date that would typically apply under the APA. 5 U.S.C. 553(d)(3).

15 On the four prior occasions that Congress has similarly amended the statutory asset thresholds in sections 10(d)(4) and (10)(d)(10) of the FDI Act, the Agencies found good cause to initially implement the changes as interim final rules. *See* 62 FR 6449 (February 12, 1997); 72 FR 17798 (April 10, 2007); 81 FR 10063 (February 29, 2016); 83 FR 43961 (August 29, 2018).

Board could address any comments received and finalize these changes in a later *Federal Register* notice.

ECONOMIC ANALYSIS:

The interim final rule would increase the number of state member banks eligible for an 18-month examination cycle by approximately 35 and state-licensed branches and agencies of foreign banks by approximately 8.[16] Supervised institutions with assets greater than $3 billion but less than $6 billion that are eligible for the 18-month examination cycle will realize cost savings associated with less frequent examinations. Staff believes that extending the examination cycle from 12 months to 18 months for these small supervised institutions with relatively simple risk profiles should not appreciably increase their risk of financial deterioration or failure. As noted above, to the extent the extended examination cycle creates a longer window during which emerging problems could develop, staff believes that the strict eligibility requirements, off-site monitoring, and the ability of the Board to examine more frequently if appropriate mitigate these risks.

RECOMMENDATIONS:

Based on the foregoing, staff recommends that the Board: (1) approve the attached draft interim final rule for publication in the *Federal Register*, including as a joint rule with the OCC and FDIC; and (2) grant staff the authority to make technical, non-substantive changes to the attached materials prior to publication in the *Federal Register*.

Attachment

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[16] The estimates are based off active institutions as of July 11, 2026, as well as, March 31, 2026, data from the Call Report and FFIEC 002, "Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks."