

Supervision and Regulation Report





The Federal Reserve System is the central bank of the United States. It performs five key functions to promote the effective operation of the U.S. economy and, more generally, the public interest.

The Federal Reserve

- conducts the nation's monetary policy to promote maximum employment and stable prices in the U.S. economy;
- promotes the stability of the financial system and seeks to minimize and contain systemic risks through active monitoring and engagement in the U.S. and abroad;
- **promotes the safety and soundness of individual financial institutions** and monitors their impact on the financial system as a whole;
- fosters payment and settlement system safety and efficiency through services to the banking industry and U.S. government that facilitate U.S.-dollar transactions and payments; and
- promotes consumer protection and community development through consumer-focused supervision and examination, research and analysis of emerging consumer issues and trends, community economic development activities, and administration of consumer laws and regulations.

To learn more about us, visit www.federalreserve.gov/aboutthefed.htm.

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Preface

The Federal Reserve Board publishes its semiannual Supervision and Regulation Report to inform the public and provide transparency about its supervisory and regulatory policies and actions, as well as current banking conditions. Previous reports are available at https://www.federalreserve.gov/publications/supervision-and-regulation-report.htm.

For more information on how the Federal Reserve promotes the safety and soundness of individual financial institutions and the financial system, see *The Fed Explained: What the Central Bank Does* at https://www.federalreserve.gov/aboutthefed/the-fed-explained.htm and visit the Supervision and Regulation webpage on the Board's public website at https://www.federalreserve.gov/supervisionreg.htm.

This report focuses on developments in three areas:

- Banking System Conditions provides an overview of the financial condition of the banking sector.
- 2. Regulatory Developments outlines the Federal Reserve's recent regulatory policy work.
- 3. Supervisory Developments highlights the Federal Reserve's current supervisory programs and priorities.

Abbreviations

AML	anti-money laundering			
ВНС	bank holding company			
BSA	Bank Secrecy Act			
CA	Consumer Affairs			
CAMELS ratings	Capital, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk ratings			
CBLR	community bank leverage ratio			
СВО	community banking organization			
CCAR	Comprehensive Capital Analysis and Review			
CDS	credit default swap			
CET1	common equity tier 1			
CRE	commercial real estate			
C&I	commercial and industrial			
FB0	foreign banking organization			
FDIC	Federal Deposit Insurance Corporation			
FFIEC	Federal Financial Institutions Examination Council			
G-SIB	global systemically important banking organization			
IHC	intermediate holding company			
IT	information technology			
LB0	large banking organization			
LCR	liquidity coverage ratio			
LFB0	large and foreign banking organization			
LFI ratings	large financial institution ratings			
M&A	mergers and acquisitions			
NDFI	nondepository financial institutions			
RB0	regional banking organization			
ROAA	return on average assets			
ROE	return on equity			
RRE	residential real estate			
SLHC	savings and loan holding company			
SMB	state member bank			

SR	Supervision and Regulation
TCE	tangible common equity
YoY	year over year

Introduction

The U.S. Banking System Remains Strong

The U.S. banking system continues to maintain strong capital and liquidity levels while maintaining strong profitability and healthy loan growth. U.S. banks are well positioned to continue to support a growing economy.

In Accordance with Our Statutory Mandates, Supervisors Are Focusing on Risks to Banks' Safety and Soundness, Particularly Core and Material Financial Risks . . .

The Federal Reserve is closely monitoring and addressing vulnerabilities that could lead to bank failures or significant deterioration in financial condition. This approach prioritizes addressing financial risks over process and documentation shortcomings, which will ensure more efficient and effective supervision. As part of this strategic shift, we are updating the supervisory ratings frameworks and changing examination priorities. These reforms and other changes will enhance transparency and increase public accountability.

... and Tailoring Supervision to Each Banks' Risk and Business Profile

The Federal Reserve is focused on effectively and efficiently tailoring the supervisory approach to each bank based on its size, complexity, business model, and risk profile. As banks continue to innovate, supervisors will work to evaluate the benefits of these innovations to the banking system. Concurrently, we will modernize our regulatory and supervisory approaches to facilitate responsible innovation while maintaining our commitment to safety and soundness.

To Optimize Financial Market Functioning and the Provision of Credit to Businesses and Households, the Federal Reserve Is Reviewing the Capital Framework

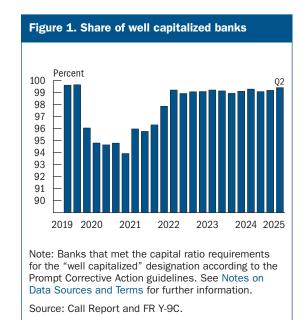
The Board is comprehensively evaluating the current capital framework. This includes evaluating the supplementary leverage ratio and other leverage ratio requirements, potential reforms to the global systemically important banks (G-SIB) surcharge, the Board's stress testing practices and framework, and Basel III capital requirements.

Banking System Conditions

Banks Maintain Strong Capital Levels

In the first half of 2025, the vast majority of banking organizations continued to report capital levels well above applicable regulatory requirements. As of the second quarter, over 99 percent of all banks were well capitalized (figure 1). Aggregate CET1 risk-based capital ratios were about 13 percent for both large and small banks, which is roughly the same level from a year earlier. Furthermore, 2025 stress test results showed that large banks are well positioned to weather a severe recession while maintaining minimum capital requirements and the ability to lend to house-holds and businesses.

Tangible common equity (TCE) ratios, an alternate measure of bank capital, were also solid



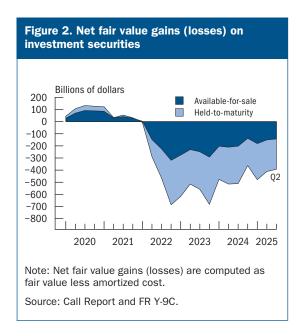
in the first half of 2025, but below pre-pandemic levels. Aggregate TCE grew to \$2.2 trillion in the second quarter compared with \$2.0 trillion one year earlier. The TCE ratio incorporates changes in the fair value of available-for-sale securities for all banks. Banks reported \$143 billion in unrealized losses at fair value on available-for-sale securities as of the second quarter of 2025, lower than in the previous two quarters. They also reported \$250 billion in unrealized losses at fair value on held-to-maturity securities (figure 2).

Liquidity and Funding Conditions Are Stable

Aggregate liquidity levels remained solid in the first half of 2025. Banking organizations subject to the liquidity coverage ratio (LCR) requirement maintained liquid asset levels well above regulatory requirements. At smaller banks, liquid asset levels were stable.

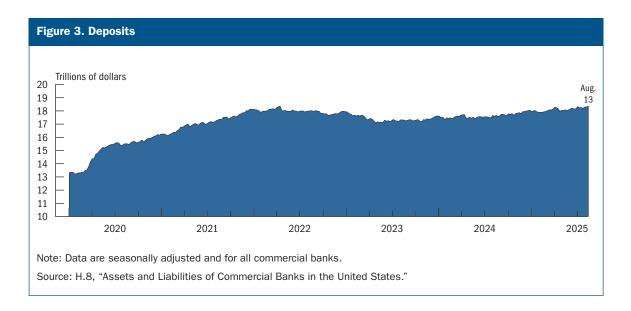
¹ In contrast to TCE, only the largest banks are required to include changes in the fair value of available-for-sale securities in CET1 capital.

² Accounting standards do not require banks to reflect unrealized losses at fair value on held-to-maturity securities within equity capital. However, for held-to-maturity securities that were transferred from the available-for-sale category, unrealized losses at fair value that existed at the date of the transfer are reported within equity capital.



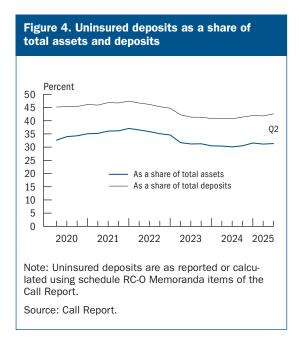
Funding risk for banks was in-line with historical norms in the first half of 2025. Aggregate deposit and liquid asset levels were stable over this period. Deposit growth at commercial banks continued as aggregate deposits reached a historical high of \$18.3 trillion in August 2025 (figure 3). Uninsured deposits as a percentage of total assets and as a percentage of total deposits each remained below the level observed at the end of 2022 (figure 4). Lower levels of uninsured deposits help reduce funding vulnerabilities for banks. Over the first half of the year, aggregate wholesale funding as a share of total assets was roughly unchanged (figure 5), though G-SIB banks increased

short-term wholesale funding, which can be more costly and less stable than insured deposits.

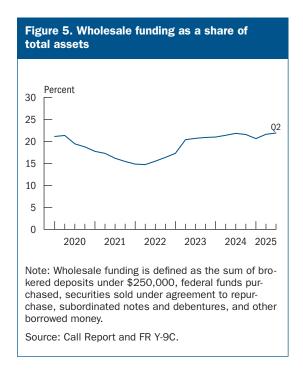


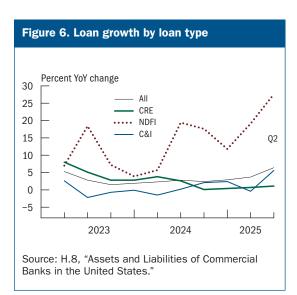
Loan Growth Was Strong as Most Major Loan Categories Experience Declines in Delinquency Rates

Aggregate loan growth across commercial banks was strong in the first half of 2025 reaching over 5 percent on an annual basis in the second quarter (figure 6). Most major loan categories experienced growth over this time horizon. After a slow first quarter, C&I loan growth exceeded 5 percent on an annualized basis in the second quarter. CRE loans grew modestly but at a higher rate



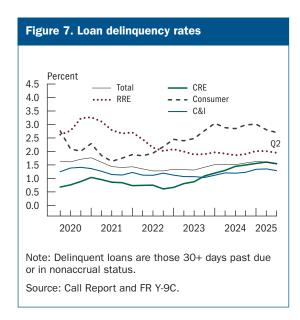
relative to the latter half of 2024. Loans to nondepository financial institutions continue to expand as banks continue to partner with nonbank financial entities. Nonbank financial entities, such as private credit funds, are subject to less regulation and oversight than regulated banks and are gaining market share from banks by lending directly to companies. As a result, their risk appetite and risk management may be different than that of regulated banks. Recent defaults have further heightened regulators' attention to banks' exposures to nonbank financial entities. Thus far, realized losses on these exposures appear contained, and current supervisory monitoring reveals that banks are revisiting

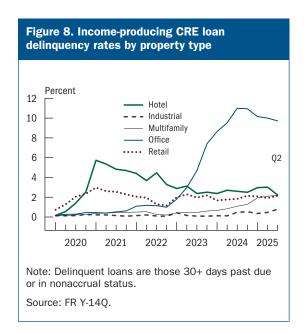




their underwriting policies and processes. Supervisors continue to monitor these events and conduct targeted supervisory work.

Loan delinquency rates decreased across most loan categories (figure 7). The total loan delinquency rate was about 1.5 percent in the first half of 2025, which is below the 10-year average of about 1.7 percent. In the last 10 years, the total quarterly peak delinquency rate is 2.5 percent.





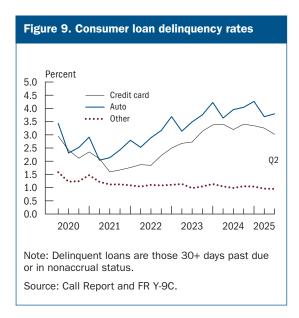
As of the second quarter of 2025, the available data showed limited delinquencies for loans to nondepository financial institutions.

Despite declining somewhat, delinquency rates for CRE loans and consumer loans were above the average and median levels observed over the previous decade. The delinquency rate for CRE loans declined to about 1.5 percent, just below the highest quarterly rate observed over the past decade, which occurred in the first quarter of 2025. It remains roughly double the average over that period. At large banks, the delinquency rate for office loans also declined somewhat but remained near 10 percent in the second quarter of 2025 (figure 8). The aggregate delinquency rate for multifamily loans also declined somewhat from a 10-year high except at large banks where the rate was roughly constant.

The delinquency rate for consumer loans leveled off over the first half of 2025. The credit card loan and auto loan delinquency rates shrank from a year earlier but remain above their 10-year quarterly average values (figure 9).

Banks Saw Solid Profitability in the First Half of 2025

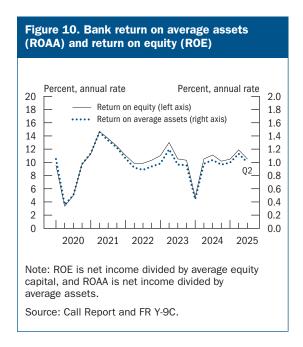
Return on average assets and return on equity were about 1 percent and 10.5 percent, respectively, in the first half of 2025. Both measures remained above their average levels over the past decade of 0.98 percent and 9.6 percent, respectively (figure 10). Aggregate net interest margins

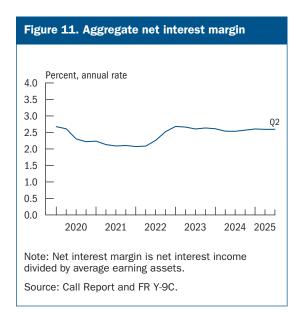


were flat but remained at a healthy level (figure 11).³ This reflected, in part, a decline in the cost of funding.

Market Indicators of Large Banks Implied Positive Risk Sentiment at the End of the Second Quarter

Market assessments of bank risk, including the market leverage ratio and credit default swap (CDS) spreads, provide a forward-looking assessment of a bank's financial strength. The market leverage ratio measures a bank's financial position based on the ratio of its market capitalization to the sum of market capitalization and the book value of liabilities.



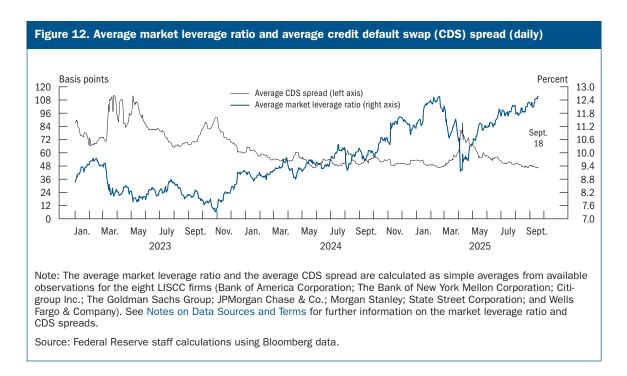


A lower price for the bank's stock reduces the market leverage ratio, while a higher price for the bank's stock increases the ratio. A higher market leverage ratio generally indicates a higher degree of market confidence in a bank's financial strength. As a complement to the market leverage ratio, CDS spreads track the price of insurance against a default by a given bank. If a bank's CDS spread increases, it means the market has lower confidence in the bank's

³ Net interest margin measures the difference between interest income and interest expense, relative to interestearning assets.

creditworthiness. Conversely, lower CDS spreads indicate higher market confidence in a bank's creditworthiness.⁴

Average CDS spreads for the largest banks hovered towards the bottom of the range observed since 2015. The average market leverage ratio ended the second quarter close to a multiyear high (figure 12).



Third Quarter 2025 Financial Results at Large Banks

Third-quarter earnings were solid at large banks.⁵ In the third quarter of 2025, median return on equity for large banks was 13 percent, compared with 12 percent in the second quarter of 2025. The quarter-over-quarter increase in large banks' median return on equity was driven by growth in net revenue and lower credit loss provisions, which outweighed higher operating expenses. Net revenue growth was driven by increased net interest income, as well as higher investment banking and wealth management fees.

⁴ See Notes on Data Sources and Terms for additional information on the market indicators.

This section is based on a sample of 22 large banks that includes Ally Financial Inc.; American Express Company; Bank of America Corporation; The Bank of New York Mellon Corporation; Capital One Financial Corporation; The Charles Schwab Corporation; Citigroup Inc.; Citizens Financial Group, Inc.; Fifth Third Bancorp; The Goldman Sachs Group, Inc.; Huntington Bancshares Incorporated; JPMorgan Chase & Co.; KeyCorp; M&T Bank Corporation; Morgan Stanley; Northern Trust Corporation; The PNC Financial Services Group, Inc.; Regions Financial Corporation; State Street Corporation; Truist Financial Corporation; U.S. Bancorp; and Wells Fargo & Company. Data are unadjusted for mergers and acquisitions.

Nonperforming loan-, loan loss-, and credit loss reserve-ratios slightly declined quarter-over-quarter in the third quarter of 2025 at most large banks despite a few large banks being exposed to a small number of bankruptcies by firms in the subprime auto sector.

Loan growth was solid at most banks in the third quarter of 2025, driven by most categories except residential and commercial real estate. While deposits increased quarter-over-quarter at most banks in the third quarter of 2025, deposit growth was outpaced by loan growth.

The median common equity tier 1 (CET1) capital ratio for large banks at the end of third quarter of 2025 was 11.0 percent. Most banks reported quarter-over-quarter increases in CET1 capital ratios, as incremental earnings offset increased shareholder distributions and risk-weighted asset growth.

Regulatory Developments

The Federal Reserve has taken several regulatory and policy actions since the publication of the Fall 2024 Supervision and Regulation Report. Key actions are detailed in table 1. All Supervision and Regulation (SR) and Consumer Affairs (CA) letters are available on the Federal Reserve Board's public website.⁶

	From 11/1/2024-11/25/2025
Date issued	Rule/guidance
11/13/2024	Federal Reserve Board invites comment on a report, as prescribed by law, that discusses the impact of a proposed international capital standard. Press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20241113a.htm
12/3/2024	Federal bank regulatory agencies seek further comment on interagency effort to reduce regulatory burden. Press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20241203a.htm
12/4/2024	Agencies issue statement on elder financial exploitation. Joint press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20241204a.htm
12/23/2024	Because of evolving legal landscape and changes in the framework of administrative law, the Federal Reserve Board will soon seek public comment on significant changes to improve transparency of bank stress tests and reduce volatility of resulting capital requirements. Press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20241223a.htm
1/31/2025	Federal banking regulatory agencies announce second public outreach meeting as part of their review of regulations. Joint press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250131a.htm
4/17/2025	Federal Reserve Board requests comment on a proposal to reduce the volatility of the capital requirements stemming from the Board's annual stress test results. Press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250417a.htm
4/24/2025	Federal Reserve Board announces the withdrawal of guidance for banks related to their crypto-asset and dollar token activities and related changes to its expectations for these activities. Press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250424a.htm
6/16/2025	Federal bank regulatory agencies seek comment to address payments and check fraud. Joint press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250616a.htm
6/23/2025	Federal Reserve Board announces that reputational risk will no longer be a component of examination programs in its supervision of banks. Press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250623a.htm
6/27/2025	Agencies request comment on proposal to modify certain regulatory capital standards. Joint press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250627a.htm
7/10/2025	Federal Reserve Board requests comment on targeted proposal to revise its supervisory rating framework for large bank holding companies to address the "well managed" status of these firms. Press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250710a.htm

(continued)

⁶ The Federal Reserve publishes SR and CA letters to address significant policy and procedural matters related to the Federal Reserve System's safety-and-soundness and consumer compliance supervisory responsibilities, respectively. SR letters are available on the Board's public website at https://www.federalreserve.gov/supervisionreg/srletters/srletters.htm, and CA letters are available on the Board's public website at https://www.federalreserve.gov/supervisionreg/caletters/caletters.htm.

	From 11/1/2024-11/25/2025
7/14/2025	Agencies issue joint statement on risk-management considerations for crypto-asset safekeeping. Joint press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250714a.htm
7/21/2025	Federal bank regulatory agencies seek further comment on interagency effort to reduce regulatory burden. Joint press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250721a.htm
7/31/2025	Federal Reserve Board joins other federal financial institution regulatory agencies in providing banks the flexibility to use an alternative method for collecting certain customer identification information. Press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250731a.htm
8/5/2025	Federal Reserve Board and FDIC release public sections of resolution plans for banking organizations. Joint press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250805a.htm
8/15/2025	Federal Reserve Board announces it will sunset its novel activities supervision program and return to monitoring banks' novel activities through the normal supervisory process. Press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250815a.htm
8/29/2025	Federal Reserve Board announces final individual capital requirements for large banks, effective on October 1. Press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250829a.htm
10/16/2025	Agencies announce withdrawal of principles for climate-related financial risk management. Joint press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251016a.htm
10/22/2025	SR 25-5: Regulatory Capital Instrument Issuance by Mutual Banking Organizations SR letter: https://www.federalreserve.gov/supervisionreg/srletters/SR2505.htm
10/24/2025	Federal Reserve Board requests comment on proposals to enhance the transparency and public accountability of its annual stress test. Press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251024a.htm
11/05/2025	Federal Reserve Board finalizes changes to its supervisory rating framework for large bank holding companies. Press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251105a.htm
11/18/2025	Federal Reserve Board releases information regarding enhancements to bank supervision. Press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251118a.htm
11/25/2025	Agencies issue final rule to modify certain regulatory capital standards. Joint press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251125b.htm
11/25/2025	Agencies issue proposal to enhance community banks' ability to serve their communities while maintaining strong capita requirements. Joint press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251125a.htm

Economic Growth and Regulatory Paperwork Reduction Act of 1996

In December 2024 and July 2025 the federal bank regulatory agencies announced their third and fourth notices, respectively, requesting comment to reduce regulatory burden. The Economic Growth and Regulatory Paperwork Reduction Act of 1996 requires the Federal Financial Institutions Examination Council and federal bank regulatory agencies to review their regulations every 10 years to identify any outdated or otherwise unnecessary regulatory requirements for their supervised institutions. The federal bank regulatory agencies divided their regulations into 12 categories and are soliciting comments. The third request solicited feedback on: Rules of Procedure, Safety and Soundness, and Securities. The comment period for the third request closed on

⁷ See Board of Governors of the Federal Reserve System, "Federal Bank Regulatory Agencies Seek Further Comment on Interagency Effort to Reduce Regulatory Burden," news release, December 3, 2024, https://www.federalreserve.gov/ newsevents/pressreleases/bcreg20241203a.htm; Board of Governors of the Federal Reserve System, "Federal Bank Regulatory Agencies Seek Further Comment on Interagency Effort to Reduce Regulatory Burden," news release, July 21, 2025, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250721a.htm.

March 11, 2025, and the federal banking agencies received 23 comment letters. The fourth request solicited feedback on: Banking Operations, Capital, and Community Reinvestment Act. The comment period on the relevant regulations closed October 23, 2025, and the federal banking agencies received 63 comment letters. In total, the agencies have received 144 written comments and more than 60 oral comments from outreach events.

On March 6, 2025, the federal bank regulatory agencies held the second virtual public outreach meeting as part of their review of regulations. The outreach meeting was an opportunity for stakeholders to present their views on the six categories of regulations listed in the first two *Federal Register* notices: Applications and Reporting; Powers and Activities; International Operations; Consumer Protection; Directors, Officers, and Employees; and Money Laundering. The federal bank regulatory agencies held the third public outreach meeting in Kansas City, Missouri, on October 30, 2025. This outreach meeting was an opportunity for stakeholders to present their views on the regulatory categories listed in any of the four *Federal Register* notices. The federal bank regulatory agencies will announce additional public meetings in 2026.

Modifications to the Enhanced Supplementary Leverage Ratio Standards

On November 25, 2025, the federal bank regulatory agencies jointly issued a final rule that modifies certain regulatory capital standards to reduce disincentives a banking organization may have to engage in lower-risk activities, such as intermediating in U.S. Treasury markets. The final rule is substantially similar to the proposal issued in June, with changes at the depository institution level.

The final rule modifies certain leverage capital standards applicable to the largest and most systemically important banking organizations to serve as a backstop to risk-based capital requirements and to avoid discouraging these organizations from engaging in low-risk activities. The rule sets the standard for these bank holding companies and their depository institution subsidiaries based on each organization's overall systemic risk.

For depository institution subsidiaries, the final rule differs from the proposal by capping the enhanced supplementary leverage ratio standard at 1 percent, making the overall requirement for these institutions no more than 4 percent. This treatment is intended to reflect differences in the capital requirements and systemic risk profile of the overall organization relative to its depository institution subsidiaries. This change would also help ensure that the leverage standard operates

See Board of Governors of the Federal Reserve System, "Agencies Announce Second Public Outreach Meeting as Part of Their Review of Regulations," news release, January 31, 2025, https://www.federalreserve.gov/newsevents/ pressreleases/bcreg20250131a.htm.

as a backstop to risk-based capital requirements for depository institutions, particularly during times of stress.

The agencies estimate that overall levels of capital that banking organizations maintain will remain broadly unchanged as a result of this rule. In aggregate, the rule will reduce tier 1 capital requirements for affected bank holding companies by less than 2 percent. While depository institution subsidiaries would see greater reductions, that capital generally would not be available for distribution to external shareholders because of capital restrictions at the holding company level.

The final rule also includes conforming changes to other regulations that are tied to the leverage capital standards, such as the total loss-absorbing capacity and long-term debt requirements.

The final rule will take effect on April 1, 2026. Banking organizations may elect to adopt the modified standards beginning January 1, 2026.

Recalibration of the Community Bank Leverage Ratio

On November 25, 2025, the federal bank regulatory agencies invited public comment on a proposal that would implement changes to the community bank leverage ratio (CBLR) framework in accordance with statutory authority. By incorporating these changes, the revisions would reduce regulatory burden and provide community banks with greater flexibility and optionality in their capital management approach. The proposal reflects a deeper understanding of the unique business models, risk profiles, and operational realities of community banks. These tailored modifications represent a necessary step in continuing to focus attention on the unique needs of community banks in today's financial landscape.

The proposal would lower the CBLR requirement to 8 percent from the current 9 percent. The proposal would also extend the grace period, from two quarters to four quarters, for a community bank that opts into the framework and falls out of compliance to come back into compliance.

The proposal would continue to require a level of capital that is consistent with ensuring the safety and soundness of community banks and comparable to—or higher than—the amount required under the risk-based capital framework. It would also maintain a leverage ratio that is double the minimum leverage ratio applicable to community banks that do not opt into the framework.

Comments on the proposal are due 60 days after publication in the Federal Register.

Revisions to the Large Financial Institution (LFI) Rating System and Framework for the Supervision of Insurance Organizations

On November 5, 2025, the Board finalized changes to its supervisory rating framework for large bank holding companies and supervised insurance organizations. The finalized framework is substantially similar to the proposal issued on July 10, 2025.

The Board's large bank supervisory rating framework, issued in 2018, evaluates whether these firms have sufficient financial and operational strength and resilience to maintain safe-and-sound operations and comply with laws and regulations through a range of conditions. The framework includes three components: capital, liquidity, and governance and controls. Each component has four potential ratings: broadly meets expectations, conditionally meets expectations, deficient-1, or deficient-2.

The finalized framework will now consider a firm with no more than one deficient-1 rating to be "well managed." Consistent with the prior framework, a firm with a deficient-2 rating for any component will continue to be considered not well managed. Firms that are not well managed face limitations on certain activities and acquisitions.

The revisions contained in the finalized framework will take effect on January 16, 2026.

Revisions to Stress Testing Practices and Framework

In December 2024, the Board announced that it would seek public comment on a proposal to make significant changes to its supervisory stress test process and framework to improve their transparency and reduce volatility. In April 2025, the Board requested comment on a proposal to reduce the volatility of the capital requirements stemming from the Board's annual stress test results. In

On October 24, 2025, the Board requested comment on the models it uses to determine the hypothetical losses and revenue of firms for the supervisory stress test and on a process to update the models at a frequency that ensures they remain dynamic while still subjecting those future changes to notice and comment. The Board also requested public comment on the supervisory scenarios used in the supervisory stress test and changes to the framework that guides the design of the hypothetical scenarios. In doing so, the Board seeks to improve the transparency of

⁹ See Board of Governors of the Federal Reserve System, "Due to Evolving Legal Landscape and Changes in the Framework of Administrative Law, Federal Reserve Board Will Soon Seek Public Comment on Significant Changes to Improve Transparency of Bank Stress Tests and Reduce Volatility of Resulting Capital Requirements," news release, December 23, 2024, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20241223a.htm.

See Board of Governors of the Federal Reserve System, "Federal Reserve Board Requests Comment on a Proposal to Reduce the Volatility of the Capital Requirements Stemming from the Board's Annual Stress Test Results," news release, April 17, 2025, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250417a.htm.

its supervisory stress test, while retaining appropriate risk sensitivity and risk capture in capital requirements, as well as effective tools for understanding and assessing risk. Comments on the 2026 scenarios are due by December 1, 2025. Comments on the proposal enhancing model and scenario transparency are due by February 21, 2026.

Statement of Supervisory Operating Principles

On November 18, 2025, the Board released information regarding enhancements to bank supervision. The new supervisory operating principles were provided to all Federal Reserve supervisory leadership and staff and are intended to focus Federal Reserve examiners on material financial risks that may impact the safety and soundness of banks and on taking timely, proportionate action to ensure that those risks are properly addressed.

The principles align bank examination and ratings to material financial risks, reduce duplication between exams from different supervisors, and streamline the remediation of issues cited by supervisors. The Federal Reserve is training examiners to help ensure prompt implementation of the principles. Supervision leadership will continue to refine these principles and expects to formalize them in public supervisory guidance or regulatory changes, where appropriate.

Supervisory Developments

This section provides an overview of recent supervisory efforts to assess institutions' safety and soundness and compliance with laws and regulations. Supervisory approaches and priorities differ by a financial institution's size and complexity. The subsections below discuss developments separately for community and regional banking organizations with assets of less than \$100 billion and large financial institutions with assets of \$100 billion or more.

The Federal Reserve is responsible for overseeing compliance with certain laws and regulations relating to consumer protection and community reinvestment. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), the Board is responsible for supervising and enforcing federal consumer financial protection laws and regulations at state member banks with \$10 billion or less in assets as well as for a more limited set of laws and regulations at state member banks with greater than \$10 billion in assets. Consumer-focused supervisory work is designed to ensure that supervised institutions comply with applicable federal consumer protection laws and regulations.

More information about the Federal Reserve's consumer-focused supervisory program can be found in the Federal Reserve's 110th Annual Report 2023. 11

Federal Reserve Supervision

The Federal Reserve conducts examinations to evaluate a banking organization's activities, risk management, and financial condition. Examinations of state member banks and other depository institutions include assessments of capital adequacy, asset quality, management quality, earnings strength and quality, liquidity position and funding sources, and sensitivity to interest rate risks. The Federal Reserve may also decide whether to further focus examinations on a bank's known and potential risks.

If supervisors find a bank's risk management or financial condition to be deficient, they provide direction and require the bank to correct its weaknesses. This direction takes the form of confidential supervisory findings called "Matters Requiring Attention" and, for more significant issues

¹¹ See Board of Governors of the Federal Reserve System, 110th Annual Report of the Board of Governors of the Federal Reserve System (Washington: Board of Governors, July 2024), https://www.federalreserve.gov/publications/files/2023-annual-report.pdf.

¹² See "Understanding Federal Reserve Supervision," https://www.federalreserve.gov/supervisionreg/how-federal-reserve-supervisors-do-their-jobs.htm.

¹³ Supervisors include both commissioned examiners (Federal Reserve staff who have been commissioned as an examiner) and subject matter experts that provide support during examinations and off-site monitoring.

that must be corrected on a priority basis, "Matters Requiring Immediate Attention." These findings are communicated to a banking organization's management and board of directors in a written report that clearly describes the issue requiring remediation. If a bank does not address these supervisory findings or if a firm's deficiencies are significant enough to amount to an unsafe or unsound practice, supervisors may lower the bank's supervisory rating or pursue an enforcement action against the bank. The Federal Reserve has also restored the practice of issuing non-binding supervisory observations to firms on issues that do not meet the threshold for a matter requiring attention to enhance communication and encourage earlier remediation.

Supervisory ratings, which are confidential, provide an assessment of a bank's risk management and financial condition based on examination results, supervisory findings, and other information gathered throughout the year. These ratings reflect supervisors' overall judgment of a bank's safety and soundness. Supervisory ratings are generally issued once every 12 to 18 months for banks that remain in satisfactory condition.¹⁴

Supervised Institutions

The Federal Reserve supervises bank holding companies (BHCs), savings and loan holding companies (SLHCs), state member banks (SMBs), and foreign banking organizations (FBOs) operating in the United States and certain affiliates of these banking organizations. The Federal Reserve follows a risk-focused approach by scaling supervisory work to the asset size and complexity of an institution:

- The Community Banking Organization (CBO) program supervises U.S. firms with less than \$10 billion in total assets.
- The Regional Banking Organization (RBO) program supervises U.S. firms with total assets between \$10 billion and \$100 billion.
- The Large and Foreign Banking Organization (LFBO) program supervises non–G-SIB U.S. firms
 with total assets of \$100 billion or more and all FBOs operating in the United States regardless
 of asset size.
- The G-SIB program (formerly Large Institution Supervision Coordinating Committee) supervises the U.S. G-SIBs, which are deemed to pose elevated risk to U.S. financial stability.

Table 2 provides an overview of Federal Reserve supervised organizations by portfolio, including the number of institutions and total assets in each portfolio.

¹⁴ See Board of Governors of the Federal Reserve System, "Supervisory Ratings for State Member Banks, Bank Holding Companies and Foreign Banking Organizations, and Related Requirements for the National Examination Data System," SR letter 99-17 (June 24, 1999), https://www.federalreserve.gov/boarddocs/srletters/1999/SR9917.htm.

Portfolio Definition		Number of institutions	Total assets (\$ trillions)
Community banking organizations (CBOs)	Total assets less than \$10 billion	3,367*	3.0
State member banks	SMBs within CBO organizations	646	0.7
Regional banking organizations (RBOs)	Total assets between \$10 billion and \$100 billion	100**	3.0
State member banks	SMBs within RBO organizations	43	1.2
Large and foreign banking organizations (LFBOs)	Non-G-SIB U.S. firms with total assets \$100 billion and greater, and all FBOs operating in the U.S. regardless of asset size	173	11.0
Large banking organizations (LBOs)	Non-G-SIB U.S. firms with total assets \$100 billion and greater	17	5.2
Large FBOs (with intermediate holding company)	FBOs with combined U.S. assets \$100 billion and greater	11	3.3
Large FBOs (without intermediate holding company)	FBOs with combined U.S. assets \$100 billion and greater	6	1.1
Small FBOs (excluding rep offices)	FBOs with combined assets less than \$100 billion	104	1.4
Small FBOs (rep offices)	FBO U.S. representative offices	35	0.0
State member banks	SMBs within LFBO organizations	10	1.1
Global systemically important banking organizations	Eight U.S. global systemically important banks (G-SIBs)	8	16.6
State member banks (SMBs)	SMBs that are subsidiaries of U.S. G-SIBs	4	1.4
nsurance and commercial savings and loan nolding companies (SLHCs)	SLHCs primarily engaged in insurance or commercial activities	4 insurance 3 commercial	0.5

^{**} Includes 98 holding companies and 2 state member banks that do not have a holding company.

Community and Regional Banking Organizations

This section of the report discusses the supervisory conditions and approach for banking organizations with assets of less than \$100 billion, including CBOs, which have less than \$10 billion in total assets, and RBOs, which have total assets of \$10 billion or more and less than \$100 billion.

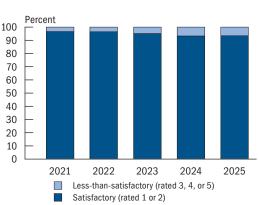
Trends in Supervisory Ratings and Findings

Federal Reserve supervisors use the RFI rating system to summarize their assessments of holding companies with consolidated assets of less than \$100 billion. In addition, the Federal Reserve and the other federal and state bank regulatory agencies utilize the Uniform Financial Institution Rating system, also known as the CAMELS rating system, to summarize supervisors' assessments of banks.

¹⁵ See Board of Governors of the Federal Reserve System, "Supervisory Rating System for Holding Companies with Total Consolidated Assets Less Than \$100 billion," SR letter 19-4/CA letter 19-3 (February 26, 2019), https://www.federalreserve.gov/supervisionreg/srletters/sr1904.htm.

¹⁶ See Notes on Data Sources and Terms for additional information on the RFI and CAMELS rating systems.

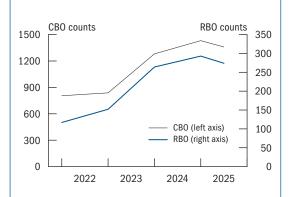




Note: Includes composite ratings for consolidated toptier holding companies and SMBs without holding companies for CBO and RBO firms. Values are as of yearend. The 2025 value is as of 2025:Q2. Key identifies bars in order from top to bottom.

Source: Internal Federal Reserve supervisory databases.

Figure 14. Outstanding number of supervisory findings, CBO and RBO firms



Note: Values are as of year-end. The 2025 value is as of 2025:Q2. The findings count data are subject to revisions as issues are reviewed, updated, and finalized; this could result in minor historical count fluctuations.

Source: Internal Federal Reserve supervisory databases.

Most CBOs and RBOs remain in satisfactory condition with effective risk-management practices (figure 13). Composite upgrades outpaced downgrades in the first half of 2025. However, supervisors cited weaknesses in financial condition or risk-management practices at some banks that resulted in downgrades.

The number of outstanding supervisory findings at CBOs and RBOs fell during the first half of 2025 compared with year-end 2024 (figure 14). For both CBOs and RBOs, the number of new findings in the first half of 2025 fell compared with the first half of 2024. For CBOs, IT/operational risk findings remained the most cited category of outstanding issues, followed by risk management and internal controls (figure 15). For RBOs, risk management and internal control findings comprised the largest portion of supervisory findings, followed by IT/operational risk (figure 16).

Supervisory Focus

Federal Reserve supervisors are focused on monitoring the financial condition of CBOs and RBOs and any material financial risks. They are also focused on tailoring supervision to each bank's risk and business profile, as discussed in the introduction.

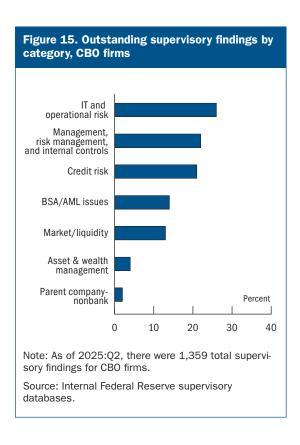
Consistent with the new Statement of Supervisory Operating Principles, the Federal Reserve is committed to ensuring that supervision is appropriate and effective for the community bank model. To that end, the Federal Reserve is reviewing its supervisory approaches and is making necessary program changes, including

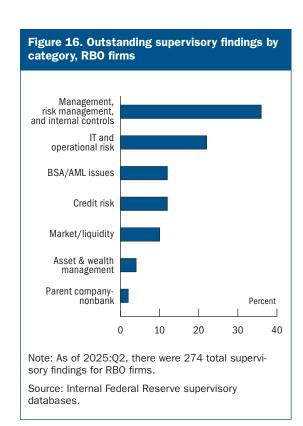
adjusting certain asset thresholds, reducing and streamlining reporting requirements, improving the communication of supervisory conclusions, and increasing transparency into the supervisory process.

Financial conditions are broadly stable at CBOs and RBOs, though some banks have increased their allowances for credit losses, as well as experienced pressure on earnings arising from higher operational expenses.

Most CBO and RBO banks have lower levels of past due and classified loans than they have had compared to their average over the previous 10 years. However, as discussed above, delinquencies on CRE loans and consumer loans remain above the averages from the past decade. Supervisors remain focused on CBOs and RBOs that are concentrated in CRE lending, particularly the office and multifamily sectors. Elevated interest rates, tighter underwriting standards, and lower commercial property values may affect CRE borrowers' ability to refinance or pay off their loans. Supervisors are monitoring CRE loan trends, including trends in modifications. Supervisors are also closely reviewing CBO and RBO broader underwriting practices, classifications, and credit loss reserves levels.

Federal Reserve supervisors remain focused on agriculture concentrations at CBOs as the agricultural sector continues to face pressures. Agricultural lending has experienced an increase in credit risk as profit margins at agricultural firms continue to be tight. Loans to agricultural firms remain at historical highs for CBOs as carryover debt has increased from





the previous farm production cycle. Liquidity has been tight for a growing share of farm lenders that have high loan-to-deposit ratios.

See below the core and material financial risks that CBO and RBO portfolios have prioritized in supervision. While core financial risks at all institutions are fundamental to the supervision of all firms, some priorities reflect increased focus on institutions with heightened risks within their balance sheets, such as credit and funding concentrations. Supervisors are also focused on creating an environment that does not hinder the integration of responsible innovation into regional and community bank strategies—for example, working with CBOs on engaging with fintech partnerships. Additionally, supervisors continue to prioritize supervision of firm remediation efforts on previous supervisory findings.

CBO and RBO Supervisory Priorities

Credit Risk

- · high-risk credit concentrations and credit risk management
- adequacy of allowances for credit losses
- loan underwriting and collateral management practices

Liquidity Risk

- firms with higher reliance on noncore funding sources
- · liquidity funding planning

Other Financial Risks

interest-rate risk

Other Risks

IT and cyber risk

Large Financial Institutions

This section of the report discusses the supervisory approach and outcomes for large financial institutions—namely, U.S. firms with total assets of \$100 billion or more, including G-SIBs, and FBOs with combined U.S. assets of \$100 billion or more. These firms are either within the G-SIB portfolio or the LFBO portfolio. Large financial institutions are subject to regulatory requirements that are tiered to the risk profiles of these firms.

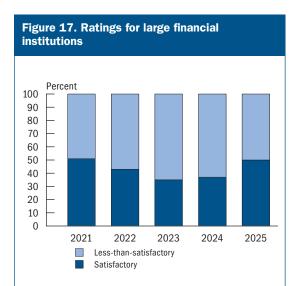
Supervisory efforts for large financial institutions focus on four components:

- 1. Capital planning and positions,
- 2. Liquidity risk management and positions,
- 3. Governance and controls, and
- 4. Recovery and resolution planning. 17

Trends in Supervisory Ratings and Findings

Federal Reserve supervisors summarize their assessments of large financial institutions using the LFI rating system. ¹⁸ The LFI rating system evaluates whether a firm possesses sufficient financial and operational strength and resilience to maintain safe and sound operations and comply with laws and regulations, including those related to consumer protection, through a range of conditions. It includes three components: (1) capital planning and positions; (2) liquidity risk management and positions; and (3) governance and controls. ¹⁹

As of June 30, 2025, about half of large financial institutions maintained satisfactory ratings across all three LFI rating components (figure 17). The remaining large financial institutions were rated less-than-satisfactory in at least one component. Supervisors identified weaknesses in capital planning and liquidity risk-management practices. In addition, supervisors identified other weaknesses in areas



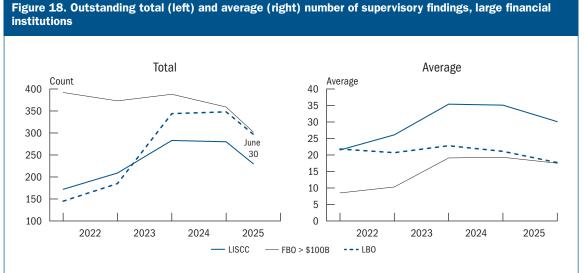
Note: Large financial institutions that receive LFI ratings are rated according to three components: Capital Planning and Positions; Liquidity Risk Management and Positions; and Governance and Controls. Bars show the percentage of satisfactory and less-thansatisfactory ratings across all components. The vast majority of the less-than-satisfactory ratings are based on the more subjective governance and controls component, not the more objective capital or liquidity components. Key identifies bars in order from top to bottom.

Source: Internal Federal Reserve supervisory databases.

¹⁷ For more information regarding the framework for supervision of large financial institutions, see Board of Governors of the Federal Reserve System, "Consolidated Supervision Framework for Large Financial Institutions," SR letter 12-17/ CA letter 12-14 (December 17, 2012), https://www.federalreserve.gov/supervisionreg/srletters/sr1217.htm; and box 4 in the Board of Governors of the Federal Reserve System, Supervision and Regulation Report 2018 (Washington: Board of Governors, November 2018), https://www.federalreserve.gov/publications/files/201811-supervision-and-regulation-report.pdf.

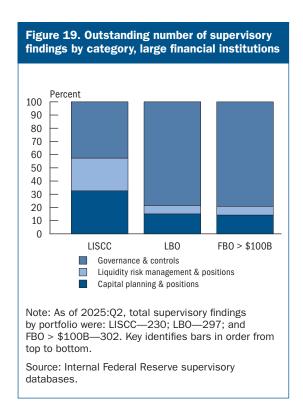
¹⁸ See Board of Governors of the Federal Reserve System, "Large Financial Institution (LFI) Rating System," SR letter 19-3/CA letter 19-2 (February 26, 2019), https://www.federalreserve.gov/supervisionreg/srletters/sr1903.htm. The LFI Rating system is not applicable to foreign banking institutions without a U.S. intermediate holding company.

¹⁹ In addition, the Federal Reserve and the other federal and state bank regulatory agencies utilize the Uniform Financial Institution Rating system, also known as the CAMELS rating system, to summarize supervisors' assessments of the capital, assets, management, earnings, liquidity, and sensitivity to interest-rate risk of banks. For more details, see Notes on Data Sources and Terms.



Note: Values are as of year-end. The 2025 value is as of the end of 2025:Q2. The findings count data are subject to revisions as issues are reviewed, updated, and finalized; this could result in minor historical count fluctuations.

Source: Internal Federal Reserve supervisory databases.



such as operational resilience, cybersecurity, and Bank Secrecy Act and anti-moneylaundering compliance.

In the first half of 2025, the total number and average number per firm of outstanding supervisory findings at large financial institutions decreased (figure 18). The distribution of supervisory findings by category also remained largely stable over the first half of 2025 (figure 19).

Supervisory Focus

Supervisors examine and monitor large financial institutions on a continuous basis, focusing on the most important risks. These risks are constantly evolving with business practices, financial and market environments, legal requirements, and risk management

capacities. Large financial institutions typically undergo multiple exams each year. These are a primary input into supervisory ratings in accordance with the Large Financial Institution ratings framework.

In the first half of 2025, the Federal Reserve prioritized reviews of liquidity, capital planning, and cybersecurity, in accordance with the Federal Reserve's prioritization of core and material financial risks. Liquidity risk management examinations focused on reviewing firms' internal liquidity stress testing deposit assumptions and derivatives methodologies, risk-management practices including limits, as well as verification of firm remediation on previous supervisory findings. Capital planning and risk management examinations included the 2025 Comprehensive Capital Analysis and Review (CCAR), which focused on firm internal estimation practices for credit card losses, commercial loan valuation for exposures to nonbank financial institutions, risk capture for options in firms' internal stress scenarios, and models to project pre-provision net revenues.²⁰ Supervisors also continue to monitor firm practices around managing interest-rate risk. Cybersecurity reviews focused on risk management and controls programs and production change controls.

In the first half of 2025, supervisors also reviewed firms' recovery plans with a focus on firm capabilities to provide timely and accurate management information for firm decisionmaking when a recovery plan is activated because of heightened exposure to significant losses. Supervisors also began reviewing the 2025 Title I targeted resolution plans. The review focuses on firms' strategies to maintain funding for material entities and critical operations through a range of resolution scenarios; actions of foreign authorities that may be necessary for the firms to carry out their preferred resolution strategies; firms' frameworks to provide assurance that their resolution capabilities will function if and when needed; and review of firms' efforts to remediate shortcomings identified in 2023 resolution plans.

Federal Reserve supervisors are reforming our supervisory practices and the supervisory action framework.

Large Financial Institution Supervisory Priorities

Capital Planning and Positions

- · interest-rate risk
- market and counterparty risk
- consumer and commercial credit, including CRE

Liquidity Risk Management and Positions

- internal liquidity stress testing, including derivatives methodologies
- · liquidity risk-management practices, including limits

²⁰ Pre-provision net revenue is net interest income plus noninterest income minus noninterest expenses.

Governance and Controls

- operational resilience, including cybersecurity
- technology change risk management and controls
- firm remediation efforts on previous supervisory findings

Recovery and Resolution Planning

• recovery planning for U.S. G-SIBs and resolution planning for large financial institutions

Bank Applications and M&A

The Federal Reserve, in its role as a primary federal banking regulator, reviews applications submitted by bank holding companies (BHCs), state member banks (SMBs), savings and loan holding companies (SLHCs), foreign banking organizations, and other entities and individuals for approval to undertake various transactions, including mergers and acquisitions (M&A), and to engage in new activities.²¹

Overview of Activity

As reflected in the table below, the Federal Reserve approved 413 applications in the first half of 2025. As noted in the lower portion of the table, of those applications, 12 required approval by members of the Board. Nine of these 12 involved M&A transactions, including one M&A transaction whose application was submitted by a firm with greater than \$100 billion. Overall, M&A applications accounted for 18.0 percent (74) of total approved applications in the first half of 2025.

Applications can require action by members of the Board for a variety of reasons, including receipt of an adverse public comment; the application exceeding certain competitive or financial stability thresholds; the presence of significant legal, policy, or supervisory issues; or the application containing other characteristics that would not permit action under authority delegated to the Reserve Banks by the Board.²³ By their nature, such applications typically require additional review, which may result in materially longer periods of time for processing.

The processing times for applications in table 3 are the times from receipt of the application until the application is approved. The processing times shown below include any time between the receipt of application filing and when it is deemed complete, including time for the applicant to complete the record by responding to additional information requests. The periods would be longer

²¹ The entities noted are required by statute to file applications relative to certain proposals pursuant to the Bank Holding Company Act (BHCA); the Bank Merger Act (BMA); the Change-in-Bank-Control Act (CIBCA); the Federal Reserve Act (FRA); section 914 of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA); section 10 of the Home Owners' Loan Act (HOLA); the International Banking Act; and other provisions of law. For example, in addition to M&A and new activities, BHC applications can include, but are not limited to, change-in-control proposals, stock redemptions, and management changes. SMB applications can include, but are not limited to, establishment of new branches, public welfare investments, and acquisition of financial subsidiaries. Applications by individuals primarily involve change-in-control transactions.

The data presented in this section are derived from the Federal Reserve's electronic applications platform (FedEZFile). The data are subject to minor updates reflecting data corrections or other revisions to the input. As presented here, application is defined as one filing, which may have been submitted pursuant to multiple statutes. For example, an application could include the acquisition of a BHC, the merger of the target's subsidiary bank with the applicant's subsidiary bank, and the establishment of branches at the location of the target bank's branches. This one application includes filings under various regulatory statutes.

²³ See 12 C.F.R. 265.20(c); and C.F.R. 265.20(e).

Table 3. All approved applications and proce	essing times; A	pprovals acted (on by Board Me	embers
	2022	2023	2024	2025:H1
All approved applications	868	664	751	413
Average processing days	49	48	50	51
Median processing days	37	34	41	36
All approved merger & acquisition applications	155	96	99	74
Average processing days	87	81	101	99
Median processing days	48	49	58	60
All approved applications acted on by Board members	26	8	11	12
Average processing days	194	180	215	167
Median processing days	158	184	153	167
Merger & acquisition applications acted on by Board members	19	4	7	9
Average processing days	189	233	259	177
Median processing days	160	204	165	157
Merger & acquisition applications acted on by Board members for firms greater than \$100 billion	3	1	1	1
Average processing days	306	364	98	393
Median processing days	346	364	98	393

Note: Since 2022, the Board's average time to approve a merger and acquisition application for firms greater than \$100 billion has been 295 days. The one transaction approved in 2025 was a complex application involving the merger of two large financial organizations. Competitive considerations, the receipt of over 6,000 public comments, and coordination among various agencies contributed to an extended review period.

if the starting date were the date on which an application was first discussed with the Board or a Federal Reserve Bank or the date on which the parties signed a definitive M&A agreement.

For further information on Federal Reserve applications activity, please see the webpage Semiannual Banking Applications Activities at https://www.federalreserve.gov/publications/semiannual-report-on-banking-applications-activity.htm.

Find other Federal Reserve Board publications at www.federalreserve.gov/publications/default.htm, or visit our website to learn more about the Board and how to connect with us on social media.



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