MEMORANDUM

TO: FDIC Board of Directors

FROM: Ryan Billingsley
Director, Division of Risk Management Supervision

DATE: November 18, 2025

SUBJECT: Regulatory Capital Rule: Revisions to the Community Bank Leverage Ratio (CBLR) Framework

SUMMARY

Staff presents for approval by the Federal Deposit Insurance Corporation (FDIC) Board of Directors (FDIC Board) a request to publish the attached interagency notice of proposed rulemaking (proposal) by the FDIC, the Office of the Comptroller of the Currency, and the Board of Governors of the Federal Reserve System (collectively, the agencies) in the *Federal Register*. The proposal would revise the CBLR framework by (1) lowering the CBLR requirement for certain community banking organizations from 9 percent to 8 percent; and (2) extending the current two-quarter grace period to four quarters, to allow more time for community banking organizations that fall out of compliance with the CBLR framework to either return to full compliance or transition to the risk-based and leverage capital requirements applicable to other community banking organizations.

RECOMMENDATION

Staff presents to the FDIC Board for approval the attached proposal and requests authorization of its publication in the *Federal Register* with a comment period that closes 60 days from the date of publication in the *Federal Register*.

DISCUSSION

I. Background

The CBLR framework implements section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA), which 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.[1] Under section 201(c) of EGRRCPA, a qualifying community banking organization that exceeds the CBLR requirement shall be considered to have met: (i) the generally applicable risk-based and leverage capital requirements in the capital rule; (ii) the capital ratio requirements to be considered well capitalized under the agencies' prompt corrective action (PCA) framework (in the case of insured depository institutions); and (iii) any other applicable capital or leverage requirements (together, the capital requirements). In 2019, the agencies established a CBLR requirement of greater than 9 percent.[2]

Section 201(b) of EGRRCPA also requires the agencies to establish procedures for the treatment of a qualifying community banking organization whose leverage ratio falls below the CBLR requirement as established by each of the agencies. The agencies previously established a two-quarter grace period during which a qualifying community banking organization that fails to meet the qualifying criteria, including the 9 percent CBLR requirement, but maintains a leverage ratio of greater than 8 percent, would continue to be considered to satisfy the capital requirements while it seeks to return to compliance with all qualifying criteria.[3]

The CBLR framework is intended to provide a simple measure of capital adequacy for qualifying community banking organizations. It reduces burden by removing the requirements

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[1] Under the FDIC's capital rule, a qualifying community banking organization is an FDIC-supervised institution that has less than $10 billion in total consolidated assets; leverage ratios of greater than 9 percent; off-balance sheet exposures (excluding derivatives other than sold credit derivatives and unconditionally cancelable commitments) of 25 percent or less of total consolidated assets; and trading assets and liabilities of 5 percent or less of total consolidated assets. A qualifying community banking organization also cannot be an advanced approaches banking organization. *See* 12 CFR 324.12(a)(2).
[2] The CBLR was defined by reference to the capital rule's existing leverage ratio, equal to tier 1 capital divided by average total consolidated assets. 12 CFR 324.10(b)(4).
[3] 84 FR 61776 (Nov. 13, 2019).

for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework, thereby providing meaningful regulatory relief for qualifying community banking organizations, while maintaining capital levels that support safety and soundness.

As of the second quarter of 2025, the agencies estimate that 84 percent of community banking organizations qualify to use the CBLR framework. However, only 40 percent of community banking organizations have adopted the CBLR framework. This adoption rate has remained relatively constant since the rule was implemented in 2020. The overwhelming majority of qualifying community banking organizations that participate in the framework have continued to operate in a safe and sound manner through a range of conditions and most maintain capital levels well in excess of the CBLR requirement. Some qualifying community banking organizations that have chosen not to opt into the CBLR framework have indicated that they do not believe it provides effective regulatory burden relief. These organizations have raised concerns about the calibration of the framework and the two-quarter grace period.

II. The Proposal

The proposal would recalibrate the CBLR requirement and extend the grace period in a manner consistent with the statutory authority provided in section 201 of EGRRCPA. First, the proposal would lower the CBLR requirement from 9 percent to 8 percent to allow more community banking organizations to qualify for the CBLR framework and encourage community banking organizations that are currently eligible, but which are not participating in the framework, to opt in by providing a larger buffer between the amount of regulatory capital held and the CBLR requirement. Under an 8 percent calibration, tier 1 capital levels at institutions that participate in the CBLR framework would be expected to remain comparable to and, in most

cases, materially exceed, the level of capital required to be considered well capitalized under the risk-based and leverage capital requirements applicable to other community banking organizations.[4]

The proposal also would extend the grace period under the CBLR framework from two quarters to four quarters. Under the proposal, a community banking organization that has opted into the CBLR framework and no longer meets the qualifying criteria would have a four-quarter grace period to remain in the CBLR framework, provided it maintains a leverage ratio above 7 percent. Supervisory experience indicates that, since the adoption of the CBLR framework, about half of community banking organizations that fell out of compliance with the CBLR requirement returned to compliance within the two-quarter grace period. A four-quarter grace period would provide community banking organizations that fail to meet the qualifying criteria with additional time to return to full compliance with the CBLR framework, as well as a longer runway to achieve compliance with risk-based capital requirements should they fail to do so.

To ensure that the proposed recalibration of the CBLR and the extended grace period continue to support prudent levels of capitalization, the proposal includes a limitation on an institution's ability to use the grace period. Specifically, under the proposal, a qualifying community banking organization may use the grace period for up to four quarters at a time; however, it would only be allowed to use the grace period if it had not previously done so for more than eight of the prior twenty quarters.[5]

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[4] This analysis compares the proposed 8 percent CBLR requirement relative to the 8 percent tier 1 risk-based capital requirement to be considered well capitalized under the PCA framework for all community banking organizations that would qualify under the proposal, but which are not currently participating in the CBLR framework, in order to demonstrate the stringency of the CBLR relative to risk-based capital requirements. The PCA framework applies only to insured depository institutions.

[5] If a banking organization that has used the grace period for eight of the previous twenty quarters subsequently ceases to meet the definition of a qualifying community banking organization, it must immediately comply with the minimum risk-based capital requirements and report the required risk-based capital ratios.

The proposal would include one technical change to remove provisions under the CBLR framework that provided temporary relief for qualifying community banking organizations during the COVID-19 outbreak, including provisions required by the Coronavirus Aid, Relief, and Economic Security Act.[6] Because this temporary burden relief expired on December 31, 2021, removal of these provisions would have no substantive impact.

CONCLUSION

Staff presents to the FDIC Board the attached Notice of Proposed Rulemaking for approval and requests authorization of its publication in the *Federal Register* with a comment period ending 60 days after publication.

STAFF CONTACTS

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[6] 12 CFR 324.12(a)(4); 12 CFR 324.303.