AMERICA'S MUTUAL BANKS
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MUTUAL ALERT

FDIC Moves to Ease Leverage & Raise Regulatory Thresholds for Community Banks

Community Bank Leverage Ratio (CBLR) Requirements Lowered

In what many consider an early Christmas present, the FDIC Board unanimously approved a proposal that will make it easier for community banks, including mutual institutions, to qualify for and remain under the CBLR capital framework.

What's changing:

- The CBLR requirement will be reduced to 8%, down from the current 9%. This is 1 point higher than the proposed reduction in the LIFT Act H.R. 5276. However, it is unclear whether the FDIC action will co-opt that Bill.
- Banks that fall out of compliance will have four quarters (instead of two) to regain compliance as long as the leverage ratio stays above 7%.
- Banks using the CBLR will not be required to calculate or report risk-based capital ratios, reducing reporting burden.

Eligibility remains limited to banks with:

- Less than $10 billion in total consolidated assets (which is practically all mutuals).
- Off-balance sheet exposure ≤ 25% of assets.
- Trading assets/liabilities ≤ 5% of assets.

Applicability to mutuals:

Only 40% of qualifying community banks currently use CBLR. This lower threshold and added flexibility could make adoption more attractive for mutual banks seeking reduced regulatory complexity. While AMB continues to seek regulatory relief with Tier I alternative capital instruments the FDIC's action is a significant step in reducing capital requirements for mutuals seeking growth.

Capital Relief for Large Banks (Indirect Competitive Impact)

Regulators also approved changes to the Enhanced Supplementary Leverage Ratio (eSLR), primarily affecting global systemically important banks (G-SIBs):

- eSLR will be lowered from 6% to no more than 4% (but above 3%).
- The 2% TLAC buffer will be replaced with one equal to the new eSLR buffer.
- Effective date: April 1, 2026.
- Optional early adoption: January 1, 2026.

Practical effect on mutuals:

Most mutual banks will experience an immediate reduction in capital requirements. However, most small mutuals are already above the threshold. Unless they are inclined to leverage their capital more, they will not be able to realize a direct benefit. It may impact competitive pricing and balance sheet strategies by the largest institutions.

Major Increases to Regulatory Thresholds for Audits & Controls

In closed session, the FDIC approved a final rule that will increase several key asset thresholds and index them for inflation:

Key changes:

- Internal Control over Financial Reporting:
- Increased from $1B → $5B

Audit committee composition requirements:

- Increased from $500M → $1B.
- Other thresholds increase from $1B / $3B → $5B.

Effective dates:

- Rule takes effect: January 1, 2026.
- Future inflation adjustments start: October 1 (annually).

Mutuals obtain long requested relief:

This removes significant compliance costs and creates more runway for asset growth before enhanced governance requirements are triggered.

Deposit Insurance Fund Target & Signage Rule Update

- FDIC voted to maintain the Deposit Insurance Fund reserve ratio at 2% for 2026.

- Compliance for the updated FDIC signage rule is delayed to January 1, 2027 (from March 1, 2026).

Bottom Line for Mutual Banks

- Lower capital requirements for CBLR banks.
- More time to fix compliance issues.
- Higher asset thresholds for costly regulations.
- Regulatory relief supports growth and expansion.
- Monitor competitive impact from changes to large-bank capital rules.

Action Recommended:

Mutual banks should reassess whether the updated CBLR framework and new thresholds improve strategic flexibility for growth, branching or M&A planning.

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