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# Regulatory Alert

Regulatory Insights for Financial Services

December 2025

## Community Banking: Regulatory Tailoring Actions and Proposals

***KPMG Regulatory Insights:***

- ***Ongoing Regulatory Adjustments:*** *Federal agencies continue to seek opportunities to amend regulations and guidance oriented toward community banks in an effort to ease regulatory burden and reflect the business models and risk profiles of community banks.*
- ***Policy Agenda:*** *Changes in community bank supervision and regulation align with the Administration's policy to drive a "community bank comeback," including a renewed push for regulatory tailoring, a review of core platform providers, friendlier capital requirements, and revised requirements for BSA/AML/CFT programs.*

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The federal bank regulatory agencies (Federal Reserve Board, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation) have taken actions to recalibrate supervision and regulation of community banking for the stated purpose of "reducing regulatory burden" and reflecting the "unique business models, risk profiles, and operational realities" of community banks. Recent actions include:

1. Interagency Proposed Rule to Amend the Community Bank Leverage Ratio
2. OCC Request for Information on Third-Party Service Providers
3. OCC Guidance Related to Bank Secrecy Act/Anti-Money Laundering, including examination procedures and data collection requirements

The actions follow numerous speeches and, most recently, remarks provided by regulators at the Community Bank Conference hosted by the Federal Reserve Board in October 2025.

### 1. Interagency Proposed Rule to Amend the Community Bank Leverage Ratio

The federal banking agencies jointly issued a proposed rule to revise the community bank leverage ratio (CBLR) framework. The proposed changes would:

- **Lower Minimum Ratio**: The required minimum CBLR would be lowered from 9 percent to 8 percent. The agencies estimate this change would make about 475 more community banking organizations eligible for the CBLR framework and give banks a larger buffer above the requirement.
- **Extended Grace Period:** Banks falling below the 8 percent threshold would be allowed to remain in the CBLR framework for up to four consecutive quarters (from the current two quarters), provided the ratio stays above 7 percent. If the ratio drops to 7 percent or below, the bank must revert to risk-based capital requirements. The extension is intended to reduce unnecessary exits and give banks more time to address capital shortfalls.
- **Grace Period Cap:** Use of the extended grace period would be permitted no more than eight quarters within any five-year period. The stated intent is to prevent banks from relying on the grace period as a substitute for

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meeting capital requirements and to encourage long-term capital planning.

- **Applicability**: The CBLR framework would continue to apply to banks and holding companies with total consolidated assets under $10 billion that opt into the CBLR and meet specified prudential criteria. Eligibility also requires limited off-balance-sheet exposures and low trading activity, and it excludes institutions subject to the advanced approaches capital framework.

Comments on the proposed rule must be received within 60 days of its publication in the *Federal Register*.

## 2. OCC Request for Information on Third-Party Service Providers

The OCC has issued a formal Request for Information (RFI) (see Bulletin 2025-39) seeking input to better understand challenges faced by community banks in their relationships with core service providers and other "essential" third parties. The stated goal is to gather information on how these relationships affect a community bank's ability to compete and to help the agency develop a roadmap for potential future actions. Key areas for comment include:

- Identified Challenges and Barriers, including:
  - **Innovation and Technology:** The ability to implement innovative solutions, respond to developments in artificial intelligence or crypto-asset markets, and integrate new technology with legacy platforms.
  - **Contracts and Costs:** Issues related to contract negotiations, termination costs, the scope of applicable fees, and the bundling of supplemental services.
  - **Data and Operations:** Limitations on accessing and leveraging bank-owned data, the interoperability between different provider systems, and challenges in performing core conversions.
  - **Oversight and Transparency:** The effectiveness of bank oversight of service providers, concerns regarding complex billing practices, and the use of non-disclosure agreements that may affect the flow of information on pricing and services.

- Potential Agency Actions, including:
  - **Guidance and Supervisory Practices:** Adjustments to supervisory expectations or guidance, including the Third-Party Risk Management (TPRM) Guidance.
  - **Information Sharing and Transparency:** The feasibility of the OCC proactively sharing certain information on service providers, such as developing a "registry" system or making reports of examination accessible to banks for purposes of due diligence.
  - **Facilitating Dialogue:** The potential benefits of reviving annual meetings between the OCC and service provider executives, or of establishing standing groups for dialogue between banks and providers.

Comments on the RFI must be received within 60 days of its publication in the *Federal Register*.

## 3. OCC Guidance Related to Bank Secrecy Act/Anti-Money Laundering

The OCC has released separate guidance related to BSA/AML requirements, one covering examination procedures and the other covering certain data collection requirements. Highlights include:

***Examination Procedures***: In Bulletin 2025-37, the OCC provides supplementary guidance that tailors the application of the FFIEC BSA/AML Examination Manual for community banks. Effective for examinations beginning February 1, 2026, the new Community Bank Procedures emphasize examiner discretion. Key changes include:

- **Flexibility in Transaction Testing:** The procedures emphasize examiner discretion to determine the extent of transaction testing, including limiting testing to analytical or other reviews, considering:
  - the institution's risk profile, and any recent changes to it
  - new products or services
  - changes in staffing or operations
  - findings from independent testing
  - prior cycle examination findings

- **Reliance on Independent Testing:** Examiners are encouraged to place reliance on "satisfactory" independent testing to form conclusions for specific examination procedures, reviewing and determining "which aspects of independent testing documents reviewed are adequate and may be leveraged for use in assessing the bank's BSA/AML compliance program, the bank's compliance with BSA regulatory requirements, or specific areas of the bank's BSA program."
- **Carry-Forward of Conclusions:** Examiners are allowed to carry forward conclusions from a prior examination cycle for the Training and BSA Compliance Officer pillars, provided there have been no "significant" changes to the bank's risk profile.

***Data Collection - MLR System:*** In Bulletin 2025-38, the OCC announces that, effective immediately, it is discontinuing the annual collection of information from community banks through the Money Laundering Risk (MLR) System. The OCC states:

— **Alternative Assessment Methods:** Alternative means are available to assess community banks' money laundering and terrorist financing risks, so that the MLR System is no longer necessary for community banks.
— **Harmonization:** The MLR System "is unique to the OCC's supervision of community banks," and its discontinuation furthers the goal of harmonizing BSA-related data collection processes across the federal banking agencies.

**Note:** In October, the Federal Reserve Board hosted a community banking conference to discuss tailoring the supervision and regulation of community banks and their "unique" business models and operational challenges, with the stated intent of reducing regulatory burden.

Similarly, at that time the OCC announced a variety of actions intended to tailor the agency's supervisory and regulatory frameworks for community banks. These actions include:

— Bulletin 2025-24, "Examinations: Frequency and Scope"
— Bulletin 2025-25, "Retail Nondeposit Investment Products"
— Bulletin 2025-26, "Model Risk Management: Clarification for Community Banks"
— Bulletin 2025-27, "Notice of Proposed Rulemaking: Fair Housing Home Loan Data System"
— Bulletin 2025-28, "Notice of Proposed Rulemaking: Community Bank Licensing Amendments"

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