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July 21, 2025

Vice Chair for Supervision Michelle Bowman
Board of Governors of the Federal Reserve System
20th St and Constitution Ave NW
Washington, DC 20551

Dear Vice Chair Bowman:

On behalf of the Independent Community Bankers of America (“ICBA”)¹ and community banks with nearly 45,000 locations across the country, I once again congratulate you on your confirmation as Vice Chair for Supervision of the Board of Governors of the Federal Reserve System (“the Board”).

We have been so pleased to see you hit the ground running by making important policy speeches, including June 6’s “Taking a Fresh Look at Supervision and Regulation,” which recognized how important it is to tailor the Board’s supervisory approach. Similarly, we were encouraged by the interagency request for information on payments fraud and your explicit acknowledgement that community banks have been disproportionately impacted by check fraud.

We look forward to collaborating with you and your staff on much-needed reforms that address key challenges facing community banks and support their ability to serve local communities, consistent with the directive and spirit of President Trump’s executive orders seeking to right-size regulatory burden. Top priorities for near term reform include:

Fixing Broken Regulations Harming Communities

- *Rescind the existing call report requirements and provide a true short-form call report containing only the bank’s financial statements and key capital metrics in a concise set of limited schedules*

The current rule fails to fulfill both the statutory mandate and congressional intent to provide meaningful regulatory relief for community banks. Rescinding the current rule would reduce burdens on community banks by limiting unnecessary compliance costs.

- *Reduce the community bank leverage ratio (CBLR) and exempt non-systemically important financial institutions from Basel III capital requirements*

ICBA supports strong capital requirements for all banks and their respective holding companies.

¹ The Independent Community Bankers of America® has one mission: to create and promote an environment where community banks flourish. We power the potential of the nation’s community banks through effective advocacy, education, and innovation. As local and trusted sources of credit, America’s community banks leverage their relationship-based business model and innovative offerings to channel deposits into the neighborhoods they serve, creating jobs, fostering economic prosperity, and fueling their customers’ financial goals and dreams. For more information, visit ICBA’s website at www.icba.org.

However, the current capital rule inhibits lending for community banks that do not elect or do not qualify for the CBLR, and ICBA therefore supports a full exemption from Basel III for non-systemically important financial institutions. While ICBA supports the CBLR, the Board should work with the other banking regulators to adjust the CBLR to 8 percent as a more practical alternative for community banks that execute a straightforward lending business model.

Additionally, the thresholds and risk weights in the capital rule should be reevaluated and amended to avoid overly restrictive limits that fail to improve financial stability, such as raising mortgage servicing assets from 25 percent of common equity tier 1 capital to at least 50 percent of tier 1 capital, and revising the risk weight for mortgage servicing assets that are not deducted from 250 percent to 100 percent.

- *Ensure that requirements for large bank capital planning and stress testing maintain financial stability*

Proposed modifications to capital requirements should bolster, not weaken, the safety and soundness of large, too big to fail institutions. Appropriate capital requirements for the largest banks protect taxpayers from the heightened risk of failure. The same is true of the stress testing framework, as discussed in our comment letter on the stress capital buffer proposal. We will discuss these concerns further in our comment letter regarding the enhanced supplemental leverage ratio proposal.

- *Withdraw the Regulation II proposed rule*

The proposed rule would leave one-third of covered issuers not covering their cost, is based on 2021 data, and does not incorporate the Board's recent July 2023 online routing changes to Regulation II. Withdrawing the proposed rule would limit the adverse effects Regulation II imposes on the community banking sector.

- *Appropriately tailor supervision to avoid imposing a "one size fits all" approach on community banks*

Tailored supervision for community banks should be applied to current and new standards to ensure community banks are not unfairly examined under requirements designed for significantly larger banks. The Board's regulation and supervision should reflect the significant differences between community banks and large, complex institutions in terms of the risks they pose to consumers and to the financial system. Specifically, we sometimes hear that examination findings are focused on technical compliance issues rather than safety and soundness fundamentals. Examiners should be trained to understand community bank business models and local market dynamics to target issues that meaningfully reduce risk without placing disproportionate burden on community banks.

- *Update regulatory thresholds*

In many cases, existing regulatory thresholds place disproportionate burdens on community banks. Updating these thresholds would ensure they are appropriately tailored to institution sizes and risk profiles while considering systemic and consumer risk. For example, raising the Home Mortgage Disclosure Act (HMDA) threshold to exempt institutions with assets under \$500 million, or those that originate fewer than 100 closed-end mortgages or 500 open-end lines of

credit annually, would substantially reduce the regulatory burden on community banks. Please see the Appendix for an illustrative list of suggested thresholds.

- *Rescind the recent CRA rule and reinstate the prior version*

The new rule creates overly complicated metrics that are unworkable for community banks and not based on the best reading of the underlying statute. Rescinding the rule and reinstating the previous version—as recently proposed—will enhance clarity and reduce unnecessary compliance costs, allowing community banks to focus more on meeting the credit needs of their communities.

Unleashing the Power of Locally Based Banking

- *Revise bank merger policies*

Current bank merger policies threaten community banks' critical role in the banking system and as drivers of local and regional economies. The Board should revise its bank merger policies to reduce existing burdens on small bank mergers and expedite small bank merger applications by creating a small bank *de minimus* exception to all proposed mergers whereby merger transactions would be subject to faster agency review timeframes and be presumed to not create monopolies or anticompetitive effects if both the acquiring and acquired bank have \$1 billion or less in assets. Additionally, the Board should include credit unions as "other institutions" in the Herfindahl-Hirschman Index ("HHI") calculations for Screen A and Screen B and ensure credit unions are assigned a 100% weighting as bank competitors.

- *Expedite the process of publishing routing numbers for de novo banks and improve the de novo bank application process and de novo bank supervision*

The Board's process for publishing ABA routing numbers for de novo banks takes a minimum of three months and requires an unduly burdensome application process. This impairs their ability to operate and forces them to expend capital because many third-party providers will not move forward with onboarding until the ABA number is published. The Board should simplify and expedite the process of publishing routing numbers. In addition, ICBA's de novo working group, a group of de novo bank leaders, would appreciate an opportunity to meet with Vice Chair Bowman to discuss improvements to the de novo application process and de novo supervision.

Fueling the Future of Community Banking

- *Support payments policies that reduce the risks of community bank disintermediation*

Policies that would expand master account access or provide direct payment system access to non-federally regulated financial institutions would introduce significant risk and threaten banks' position as the primary payments providers. Supporting policies that reduce the risks of community bank disintermediation would maintain the safety and soundness of the banking system and support continued customer trust in community banks.

- *Continue to address fraud and scams impacting banks and their customers*

Until recently, regulators had not acted together to reduce the threat of fraud and scams,

especially check fraud. Moving forward with next steps, including Regulation CC amendments, following industry responses to the joint request for information on payments fraud and scams would help to mitigate a very real, immediate threat to community banks and their customers.

- *Continue to support community banks with the Cybersecurity Assessment Tool (CAT) transition*

Cyber resilience is especially important for community banks because they play a critical role in supporting small businesses, local communities, and rural economies. Continued support like listing the Finosec Cybersecurity Assessment Tool in the community bank cybersecurity resource guide provides valuable, concrete assistance to community banks.

- *Leverage your position as Chair of the Federal Financial Institutions Examination Council to support community banks*

The FFIEC could help preserve and protect the role of community banks by addressing structural issues with agencies. Promoting formal community bank representation in leadership and interagency collaboration, as well as encouraging consistency and transparency across regulators, would help ensure a level playing field for community banks.

We remain at your disposal if we can offer more information, answer any questions, or serve as a resource as you consider your near-term priorities. Together, we can ensure that community banks build stronger, more resilient communities across America in line with the Federal Reserve's dual mandate.

Sincerely,

/s/

Rebeca Romero Rainey
President and CEO

Appendix: Illustrative Regulatory Threshold Update Suggestions

Methodology for Increasing Thresholds

- In 2010, \$10b asset threshold covered nearly 80 banks, representing the top 1% of the industry (78 of 6,520).
- In order to capture the top 80 banks of the industry today, the asset threshold would be approximately \$25 billion.
- In the list below that 2x increase is attributed to other regulations, rounded where appropriate.

Mortgage escrow (12 CFR 1026.35)

- Current threshold: \$2.717b for HPML; \$10b and 1,000 first lien mortgages for all others
- Change to: \$5b for HPML; \$25b and 2,000 first lien mortgages for all others
- How many banks might be impacted: More than 150 banks between \$2.64b and \$5b; 81 banks between \$10b and \$25b
- Why this helps: Establishing escrow accounts is costly and complex, especially for small banks or those in rural areas that do not originate many mortgages.

Qualified mortgage (12 CFR 1026.35, 12 CFR Part 1026 Supplement I)

- Current threshold: \$2.717b for HPML; \$10b and 1,000 first lien mortgages for all others
- Change to: \$25b
- How many banks might be impacted: More than 80 banks between \$10b and \$25b
- Why this helps: More banks would have automatic “qualified mortgage” status for certain mortgages they originate and hold in portfolio, allowing them to tailor the loan to the individual borrower instead of adhering to a ‘one-size-fits all’ approach.

Home Mortgage Disclosure Act (12 CFR 1003.2.)

- Current threshold: \$56m or fewer than 25 closed-end mortgages or 200 open-end lines are exempt.
- Change to: \$500MM or fewer than 100 closed-end mortgages or 500 open-end lines.
- How many banks might be impacted: Approx. 1,500 banks; undetermined for loan volume
- Why this helps: HMDA collection and reporting is very time intensive with examiners scrutinizing for technical compliance rather than substantive.

Risk-Based Capital (12 CFR 225)

- Current threshold: \$10b
- Change to: \$25b
- How many banks might be impacted: More than 80 banks between \$10b and \$25b.
- Why this helps: Would exempt “well capitalized” banks from mandatory and prescriptive risk-based capital requirements, including Basel III and its predecessors.

Interlock Rule (12 CFR 212)

- Current threshold: \$10b
- Change to: \$25b
- How many banks might be impacted: More than 80 banks between \$10b and \$25b.
- Why this helps: Additional banks could share management officials, thereby enabling them to find better talent and expertise, which would help with succession troubles