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November 4, 2026

Submitted via email

Benjamin W. McDonough, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

RE: Notice of Proposed Rulemaking - Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks; Bank Holding Companies (Docket No. R-1896;RIN 7100-AH27)

To Whom It May Concern:

The Independent Community Bankers of America[1] ("ICBA") appreciates the opportunity to comment on the notice of proposed rulemaking issued by the Board of Governors of the Federal Reserve System ("Board") to update and modernize Regulation O, which governs extensions of credit by member banks to their insiders and insiders of their affiliates ("Proposal").[2]

The Proposal would meaningfully reduce unnecessary regulatory burden on community banks without compromising safety and soundness. In smaller and rural communities, where alternative credit providers may be limited, unnecessarily restrictive insider lending requirements can discourage qualified local business owners and other community leaders from serving on bank boards. ICBA strongly supports the proposal and offers several targeted suggestions to further the agency's goals of reducing unnecessary burdens on community banks. ICBA recommends that the Board:

1. Promptly finalize and implement the Proposal's dollar threshold increases and indexing mechanism;

[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.

[2] Board of Governors of the Federal Reserve System, Notice of Proposed Rulemaking: Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks; Bank Holding Companies, 91 FR 49526 (Aug. 4, 2026), https://www.federalregister.gov/documents/2026/08/04/2026-15777/loans-to-executive-officers-directors-and-principal-shareholders-of-member-banks-bank-holding.

2. Provide targeted relief for well-capitalized, well-managed community banks;
3. Preserve sensible treatment of overdrafts, modifications, and workouts;
4. Modernize the residence exception;
5. Provide certainty in determining who is an insider;
6. Adopt a good faith reliance safe harbor; and
7. Provide transition relief and interagency coordination.

These targeted revisions would preserve the Proposal's meaningful burden relief, and ICBA encourages the Board to incorporate these recommendations and promptly finalize the proposed rule.

ICBA Supports the Board's Long-Overdue Modernization of Regulation O

Key aspects of Regulation O have not been revised in over 40 years and no longer reflect current market realities. As a result, community banks have faced unnecessary burdens as routine, well-underwritten insider loans increasingly trigger approval and compliance requirements that were intended for materially larger transactions. Each unnecessary approval requires procedural steps that consume board and staff resources and divert time and attention from important risk management and operational responsibilities, without a commensurate safety and soundness benefit.

ICBA strongly supports the proposed updates to outdated dollar thresholds. In particular, ICBA supports increasing the executive officer "other purpose" limit from $100,000 to $400,000, the board prior-approval threshold from $500,000 to $2 million, and the credit card threshold from $15,000 to $60,000. As bank capital and inflation have grown, these fixed dollar caps, rather than the percentage-of-capital limits, have become the binding constraint for many community banks.

ICBA appreciates the addition of a much-needed periodic indexing mechanism so that the thresholds do not quickly become outdated again.

The modernization of the definition of "executive officer" is also welcome. Eliminating the automatic presumption for every vice president, cashier, and secretary is a practical improvement that focuses on insiders who have significant participation in setting policy at a bank. This is particularly appropriate for community banks, where titles frequently do not correspond neatly to policymaking authority.

ICBA supports the Board's proposed revisions related to undrawn lines of credit. Eliminating collateral requirements for the unused portion where the bank has no obligation to advance additional funds before the necessary collateral is provided is a sensible alignment of Regulation O requirements with actual credit exposure.

The proposed transition loan relief is another important and necessary revision, as it clarifies that a loan does not become immediately noncompliant merely because the borrower

subsequently becomes an insider. This is especially important for community banks recruiting local directors who already have legitimate banking relationships.

ICBA also supports the Board's creation of clearer recordkeeping safe harbors and appreciates the effort to provide prescribed methods that give banks greater certainty concerning compliance.

These changes appropriately refocus Regulation O on its fundamental purpose: preventing preferential lending and insider abuse rather than unnecessarily restricting ordinary, arm's-length credit.

Recommendations for Additional Revisions

ICBA strongly supports these important modernizations. However, several aspects of the Proposal would impose new restrictions, uncertainty, or compliance burdens that could offset some of the Proposal's intended relief for community banks. We therefore recommend that the Board make the following revisions before finalizing the rule.

Ensure the Final Rule Provides Meaningful Community Bank Relief

The Board itself recognizes the particular burden that Regulation O can impose in smaller and rural markets and expressly seeks comment on additional relief for well-capitalized, well-managed community banks. ICBA recommends the following targeted relief to community banks.

Tailor correspondent recordkeeping requirements for community banks

The Proposal would codify existing statutory restrictions on lending to insiders of correspondent and respondent banks and establish new recordkeeping requirements for demonstrating compliance. Under the Proposal, a bank could satisfy these requirements by annually surveying each correspondent and respondent bank, requiring borrowers to identify whether they are insiders of such banks, or obtaining regulatory approval to use an alternative method that is at least as effective.

While appropriate recordkeeping requirements to demonstrate compliance with statutory restrictions are prudent, the proposed framework could impose disproportionate burdens on community banks. Unlike a bank's own insiders, insiders of unaffiliated correspondent institutions are outside the bank's control and may be difficult to identify and monitor.

ICBA recommends that the Board preserve risk-based flexibility for community banks. Well-capitalized, well-managed community banks should be permitted to use reasonable recordkeeping procedures tailored to the nature and scope of their correspondent relationships without obtaining case-by-case regulatory approval. This could include allowing reliance on existing loan applications, borrower certifications, correspondent information, and other records maintained in the ordinary course.

The final rule should also provide a clear safe harbor for reasonable reliance: a community bank that follows reasonable procedures and relies in good faith on facially credible information from a borrower or correspondent institution should be deemed to have satisfied its recordkeeping obligation unless the bank knows or has reason to believe that the information is materially inaccurate. The bank should not be required to independently verify information about insiders of unaffiliated institutions absent red flags suggesting the information is unreliable.

Preserve and modernize minimum dollar floors

The Board should retain an indexed minimum dollar floor for insider lending restrictions rather than eliminating it entirely as suggested in the Proposal. The current $25,000 minimum threshold for the executive officer "other purpose" exception and for board approval ensures that even the smallest institutions may extend a modest amount of credit before insider lending restrictions are triggered. Complete elimination of the minimum threshold could unintentionally reduce the minimum threshold applicable to some smaller community banks.

Accordingly, ICBA recommends retaining these minimum dollar-based thresholds, making one-time adjustments by the same multiplier used elsewhere in the Proposal, and ensuring future updates using the same indexing methodology applicable to the Proposal's other dollar thresholds. At a minimum, the existing floors should not be eliminated unless the Board demonstrates that doing so would not lower the applicable threshold for small institutions. Either approach would preserve the goal of regulatory simplification while ensuring that the smallest community banks are not disadvantaged by the transition to revised regulations.

Preserve sensible treatment of inadvertent overdrafts, routine modifications, and workouts

Ordinary account administration should not necessarily result in a new insider loan. Regulation O should distinguish transactions that meaningfully increase a bank's credit exposure or provide a meaningful new benefit to an insider from inadvertent or administrative events that do neither.

Inadvertent overdrafts.

We recommend that the Board increase the threshold from $1,000 to $5,000 rather than the $4,000 set forth in the Proposal, and include the threshold in the Proposal's automatic indexing framework. Additionally, the Board should not incorporate inadvertent overdrafts into the definition of "extension of credit." A small, unintentional, promptly cured overdraft does not present the same insider-abuse concerns as an affirmative lending decision.

Modifications and workouts

The Board should exclude routine modifications and prudent workouts from treatment as new extensions of credit. A modification should not be deemed a new extension simply because a contractual term changes. The test should be whether the modification materially increases the bank's credit exposure or confers a new economic benefit on the insider.

The final rule should make clear that the following generally do not constitute new extensions of credit:

- automatic or scheduled interest-rate adjustments made pursuant to terms established and approved at origination;
- changes expressly contemplated by the original loan documents;
- administrative or ministerial amendments;
- extensions or modifications that improve the bank's collateral position;
- changes that reduce the bank's credit risk; and
- prudent workouts or restructurings that do not advance additional funds or materially increase the bank's exposure.

This clarification would promote, rather than undermine, safety and soundness. Regulation O should not discourage a bank from taking action to protect the institution should an insider loan become troubled.

Modernize the residence exception using a product-neutral, risk-based approach

The residence exception should turn primarily on the economic substance and safeguards surrounding the transaction rather than the form of the credit product. Additionally, the Board should confirm that a refinancing of a qualifying residential loan that does not advance new funds remains within the residence exception. To the fullest extent consistent with section 22(g), the final rule should:

- eliminate the proposed three-month occupancy requirement and instead apply a reasonable bona fide residence standard;
- permit reasonable incidental rental activity that does not transform an otherwise bona fide residence into a principally commercial or investment property;
- permit cash-out refinancing without requiring proceeds to be used exclusively for acquiring, constructing, maintaining, or improving the residence;
- permit qualifying HELOCs and home-equity loans where the bank retains an appropriate first-priority or effectively first-priority collateral position; and
- focus on whether the credit receives ordinary underwriting, is adequately secured, and is provided on market terms.

Regulation O's generally applicable requirements would continue to apply to these loans, preserving the safeguards against preferential treatment. As a result, these changes would give executive officers access to the same home financing options routinely available to other customers while appropriately focusing attention on transactions that pose greater risk of insider abuse.

Provide Certainty in Determining Who Is an Insider

Nearly every Regulation O requirement turns on a threshold question: is the borrower an insider or a related interest of an insider? ICBA supports the Board's shift toward functional standards that focus on actual authority and control rather than titles or formal relationships. However, functional standards require judgment, and community banks need clear, workable

criteria to apply them consistently, along with assurance that reasonable, documented determinations will not later be second-guessed and treated as violations. ICBA recommends the following refinements to provide that certainty.

Preserve a functional executive officer standard

ICBA strongly supports the proposed move away from outdated title-based presumptions, as actual participation in major policymaking should be the controlling consideration. It would not be reasonable to automatically treat broad categories such as all senior vice presidents or all individuals holding a "chief" title as executive officers. Particularly at smaller community banks, titles may reflect organizational structure, professional expertise, or customer-facing responsibilities without conferring actual authority to participate in major policymaking.

Clarify treatment of independent, nonemployee board chairs

Many community banks have an independent, nonemployee board chair, a structure that strengthens governance by separating bank management and board oversight. However, community bankers may face uncertainty regarding the interaction between insider lending regulations and other regulatory requirements applicable to independent directors and audit committee service. Pursuant to § 363.5(a) of the FDIC's rules and regulations, the audit committee of an insured depository institution with $1 billion or more in total assets must be made up of outside directors. For this purpose, an "outside director" is defined as "a director who is not, and within the preceding fiscal year has not been, an officer or employee of the institution or any affiliate of the institution." An independent, nonemployee chair would appear to satisfy that definition. However, Regulation O's title-based presumptions classify the board chair as an executive officer unless that individual is excluded from major policymaking functions and does not actually participate in them.

Consistent with the distinction between independent board oversight and executive management reflected in other federal banking regulations, the Board should clarify that an independent, nonemployee board chair is not an executive officer solely because the individual serves as chair or performs customary governance and oversight functions. This would avoid a situation that could inadvertently discourage sound governance structures.

Prevent retroactive examiner reclassification

The functional executive officer test cannot operate fairly if a bank makes a reasonable determination that an individual is not an executive officer, only to have an examiner subsequently reach the opposite conclusion and apply that determination retroactively to existing loans. When finalizing the Proposal, the Board should ensure that:

- banks receive written notice of an examiner determination that an individual participates in major policymaking, and that the notice identifies the facts and authority supporting the determination;
- reasonable, documented bank determinations receive appropriate weight;
- a changed determination applies prospectively unless the prior treatment involved evasion, bad faith, material omissions, or was materially unreasonable;

- banks are given a reasonable period to update policies, records, approvals, and lending arrangements; and
- loans made while a bank reasonably classified the individual as a non-executive officer do not become retroactive violations.

Spouse attribution

The Proposal would codify previous Board interpretations by treating extensions of credit to the spouse of an insider or to the related interest of a spouse of the insider as having been made to the insider, unless the extension of credit meets certain conditions. The final rule should provide a clear safe harbor for credit prudently and independently underwritten to an insider's spouse where:

- the spouse independently qualifies for the credit;
- the spouse possesses sufficient independently attributable income, assets, cash flow, or other repayment capacity;
- the transaction occurs on ordinary market terms; and
- the transaction is not structured to evade Regulation O.

The Board should specifically address marital- and community-property states. The existence of joint or marital property should not, standing alone, prevent a bank from establishing the spouse's independent creditworthiness.

Trust, estate, and related interest presumptions

The Proposal would codify a number of Board interpretations regarding the application of Regulation O to trusts and estates. Formal fiduciary relationships should not substitute for an analysis of actual control. The Board should not presume control of a trust solely because an individual serves as trustee, but rather should give appropriate weight to limitations contained in governing instruments, including constraints arising from co-trustee or independent-fiduciary arrangements, unless other facts demonstrate that the insider nevertheless possesses actual control.

ICBA supports the proposed 25% threshold for attributing an extension of credit to a trust or estate based on an insider's beneficial interest and opposes adopting a lower threshold. A lower threshold would sweep more attenuated beneficial interests into Regulation O without necessarily identifying circumstances in which the insider controls or meaningfully benefits from the credit.

Regulation Y presumptions

The Proposal would import Regulation Y's definition of "acting in concert" and related rebuttable presumptions into Regulation O, potentially extending presumptions developed for bank control and ownership determinations to insider-lending relationships that may present different risks. The Board should incorporate a Regulation Y presumption only where it determines that the presumption appropriately identifies the types of control and economic relationships relevant to Regulation O.

Establish a general good faith reliance safe harbor

Many Regulation O determinations depend upon information a bank cannot independently observe and that may change without the bank's knowledge. The Board should adopt a generally applicable good-faith reliance standard. A bank should not be deemed in violation where it:

- maintains reasonable policies and procedures;
- seeks the relevant information through reasonable means;
- relies in good faith on facially credible information;
- lacks actual knowledge that the information is materially inaccurate or incomplete; and
- takes reasonable steps to correct its treatment after learning that circumstances have changed.

The safe harbor should encompass reasonable reliance on borrower certifications, spouse information, trust and estate documents, beneficial ownership information, related interest information, and correspondent and respondent bank information.

Additionally, insider or related interest status can change without affirmative action by the bank. The Board should provide a cure period of at least 90 days following discovery for a bank to address a status change outside its control, provided that the bank did not cause or knowingly facilitate the change; there is no evidence of evasion or bad faith; the original transaction was not preferential; and the bank stops engaging in new nonconforming transactions after becoming aware of the problem. This would substantially reduce technical violations without protecting preferential insider transactions.

Transition Relief for Community Banks

The Proposal includes both substantial burden-reducing reforms as well as new definitions, presumptions, attribution standards, and recordkeeping requirements. As the latter require operational changes, ICBA recommends the following adjustments.

Provide legacy treatment for existing transactions

Credit and other transactions that complied with Regulation O when entered into should not become violations merely because the final rule changes a definition; adopts a new control or attribution presumption; changes the treatment of a particular transaction; or supersedes an existing staff interpretation. Existing transactions should generally remain compliant until a subsequent event that appropriately warrants application of the new rule, such as renewal, refinancing, or a material modification that increases the bank's exposure or confers a new benefit on the insider.

Phased effective dates

The Board's timeline should distinguish provisions that provide immediate relief from those that require implementation work on the part of community banks. Burden-reducing provisions should become effective as soon as practicable. However, to ease the burden on community

banks, new compliance requirements should receive a 12 month implementation period. This should include requirements such as correspondent bank recordkeeping, revised transaction classifications, new documentation requirements, and systems or monitoring changes.

Interagency coordination for final rule implementation

ICBA encourages the Board to coordinate closely with the OCC and FDIC in implementing the final rule to promote consistent treatment of insider lending across charter types and supervisory regimes. To the extent practicable, the agencies should align effective and compliance dates, and issue consistent interpretations and examination guidance addressing revised Regulation O requirements. Community banks should not face materially different compliance expectations for substantially identical insider lending activities based solely on charter type or primary federal regulator.

Conclusion

ICBA appreciates the Board's efforts to modernize Regulation O and reduce unnecessary regulatory burdens while preserving appropriate safety and soundness requirements. ICBA urges the Board to promptly finalize the Proposal, incorporating the targeted revisions addressed above to enhance the intended burden relief for community banks. If you have any questions about the recommendations in this letter, please contact the undersigned at amy.ledig@icba.org.

Sincerely,

/s/
Amy Ledig
VP, Safety & Soundness Regulatory Counsel