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February 21, 2026

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

Re: Enhanced Transparency and Public Accountability of the Supervisory Stress Test Models and Scenarios; Modifications to the Capital Planning and Stress Capital Buffer Requirement Rule, Enhanced Prudential Standards Rule, and Regulation LL (Docket No. R-1873, RIN 7100-AH05)

Dear Mr. McDonough,

The Independent Community Bankers of America (ICBA)<sup>1</sup> appreciates the opportunity to comment on the Notice of Proposed Rulemaking entitled *Enhanced Transparency and Public Accountability of the Supervisory Stress Test Models and Scenarios; Modifications to the Capital Planning and Stress Capital Buffer Requirement Rule, Enhanced Prudential Standards Rule, and Regulation LL* (proposal).<sup>2</sup>

Per the proposal, the Board of Governors of the Federal Reserve System (Board) would codify an enhanced disclosure process under which it would annually publish comprehensive documentation on the stress test models, invite public comment on any material changes that the Board seeks to make to those models, and annually publish the stress test scenarios for comment.

ICBA cautions the Board against making changes that would transform stress testing into a mere compliance exercise that can be manipulated. This would have significant negative implications for the safety and soundness of the banking system, as stress testing is a critical forward-looking supervision tool.

History shows that overly restricting supervisors' ability to implement a meaningful stress testing regime can have negative consequences. Specifically, the experiences of static,

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<sup>1</sup> 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 [icba.org](http://icba.org).

<sup>2</sup> 90 FR 51856 (Nov. 18, 2025).

procedure-bound stress testing at Fannie Mae and Freddie Mac are instructive. The Office of Federal Housing Enterprise Oversight (OFHEO) was tasked with safety and soundness-related supervision of the GSEs. This included implementing a stress test to inform risk-based capital requirements for Fannie Mae and Freddie Mac.<sup>3</sup> Although mortgage underwriting practices were changing significantly during the early to mid-2000s when the stress test was in effect, OFHEO failed to re-estimate key aspects of its stress test model or introduce new variables. Instead, they retained parameters established using data from 1979 to 1997.<sup>4</sup> As a result, the stress test was not effective and failed to identify the challenges that the GSEs experienced before ultimately being placed in conservatorship in 2008.

The Board takes from the OFHEO model the lesson that stress tests must be sufficiently severe.<sup>5</sup> While this is true, researchers have also concluded that the rigidity of the framework contributed to its ineffectiveness:

One potential reason for this static approach was that OFHEO was required by law to fully disclose the stress test model and went so far as to publish all stress scenarios, empirical specifications, and parameter estimates in the Federal Register. Hence, it would have been administratively cumbersome to make any material changes to the underlying models.<sup>6</sup>

While the Board's commitment to accountability is appreciated, encasing the stress test in amber will impede its ability to serve as a meaningful tool. As an experienced supervisor noted, "the more stress test models are 'hard coded' in regulation, the more difficult it is to change them as modeling practices improve or as new risks emerge."<sup>7</sup>

Similarly, while the impulse to bring greater transparency to the realm of banking supervision is appreciated, it will do a disservice in this specific context. There is a significant risk that "disseminating specific model equations or parameters would substantially reduce the regulatory value of stress tests and impede their dynamism."<sup>8</sup>

The Board acknowledges these risks itself, as it explains the priorities it seeks to balance (emphasis added):

The comprehensive model documentation that the Board is publishing on its website, as well as the proposed enhanced disclosure process for the models and scenarios, provides several benefits, including improved credibility of the stress test, improvement in feedback regarding the modeling process, better informed investors, and improved market discipline. *However, the enhanced disclosure comes with costs as well,*

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<sup>3</sup> W. Scott Frame, Kristopher Gerardi, and Paul S. Willen, The Failure of Supervisory Stress Testing: Fannie Mae, Freddie Mac, and OFHEO, Federal Reserve Bank of Boston Working Paper No. 15-4 (2015) at 5-6.

<sup>4</sup> *Id.* at 3.

<sup>5</sup> 90 FR 51856, 51880.

<sup>6</sup> Frame at 3.

<sup>7</sup> Beverly Hirtle, Structural and cyclical macroprudential objectives in supervisory stress testing (June 22, 2018), <https://www.bis.org/review/r180718d.htm>.

<sup>8</sup> Mark Flannery, Transparency and Model Evolution in Stress Testing (2019), at 12.

*including reduced model dynamism, and increased systemic reliance on a single model, that is, “model monoculture.”<sup>9</sup>*

The Board’s proposal has overstated the possible benefits and significantly underweighted the substantial risks. The stress testing regime ensures that the largest banking organization maintain a sufficient capital buffer to weather a significant downturn. This is not an academic exercise – it is a requirement born out of the extraordinary measures required to stabilize the economy and undercapitalized too-big-to-fail banks following the financial crisis of 2008. ICBA urges the Board to reconsider the proposal and to take a more measured approach that does not codify a rigid process that prizes transparency over effectiveness. The thousands of community banks that do not enjoy the implicit guarantees given to the largest banking organization cannot afford for the Board to turn the stress test into a mere check-the-box exercise for the largest institutions that pose the greatest risk to the financial system.

While ICBA appreciates the Board’s work to reconsider regulatory and supervisory burden, these efforts should be directed towards the undue burdens imposed on smaller institutions that pose little risk to the banking system. Implementing a true short form call report for the nation’s community banks would be a meaningful way to rightsize compliance burden without substantially increasing systemic risk. In the first and third quarters, community banks should be permitted to report a balance sheet, income statement, and statement of changes in shareholders’ equity in a concise set of limited schedules. A full call report would then be filed at mid-year and year end. This approach to reporting would materially reduce burden on community banks that are small, straightforward lenders that rely on tailored underwriting and a local presence to provide quality banking services. Community banks stimulate growth in every corner of the country without incurring the potentially catastrophic systemic risks to the financial system posed by the too-big-to-fail banks, and ICBA would welcome additional efforts by the Board to address the undue compliance burdens imposed on the nation’s smallest banks.

Thank you for the opportunity to comment on this proposal. We respectfully ask the Board to reconsider and to take an approach that will not substantially increase systemic risk by weakening the stress test regime. Should you wish to discuss our positions in further detail, please contact the undersigned at [amy.ledig@icba.org](mailto:amy.ledig@icba.org).

Sincerely,

/s/

Amy Ledig  
Vice President, Safety and Soundness Regulatory Counsel  
Independent Community Bankers of America

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<sup>9</sup> 90 FR 51856, 51931.