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Fed rethinking $10B community bank threshold, overhauling supervision model

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The Federal Reserve plans to rethink the $10 billion community bank cutoff in a move that would keep more traditional banks from facing tougher regulatory supervision as their balance sheets grow.

Later this year, the Fed will consider broader structural reforms to supervision as defined by asset size, including the long-standing $10 billion community bank threshold, as part of a broader effort to tailor supervision to institutions' business models, complexity and risk profiles, Vice Chair for Supervision Michelle Bowman said in an Oct. 6 speech.

"Fixed asset thresholds can push a smaller noncomplex bank into a higher supervisory tier with standards designed for more complex institutions and stronger supervisory scrutiny," Bowman said, according to prepared remarks. "This approach is not appropriate for firms with straightforward business models that should be subject to the risk tier appropriate for their risk profile."

Under the approach outlined in the speech, asset size would remain relevant, but regulators would give greater weight to factors such as a bank's activities, organizational complexity, business model and risk profile. Some banks above $10 billion could receive more proportionate treatment, while smaller institutions with unusually complex or risky operations could still face heightened supervision.

Bowman also confirmed the agency's plans to consider updates to large bank thresholds later this year, as previously reported by news outlets. The upcoming proposals would also include a requirement to raise those thresholds automatically every five years to account for inflation and economic growth.

"This regulatory housekeeping should not require comprehensively and routinely revisiting our regulations to update thresholds so that they remain appropriate for future economic conditions, so we have included mechanisms that will allow this adjustment on a regular cadence," Bowman said.

Bank equity analysts expect the changes to accelerate M&A and boost regional bank valuations.

Separately, Bowman also discussed changes the agency is making in light of a recent report on the failure of Silicon Valley Bank, which identified staff timidity as a contributing factor in the bank's demise.

The Fed will reorganize its supervision operations into five regions that more closely follow state boundaries. The change is intended to improve coordination with state banking regulators and make it clearer who is responsible for supervisory decisions, Bowman said.

The reorganization will largely preserve existing examination offices and staff at Reserve Banks. However, regional leaders will oversee supervisory activity across groups of states, rather than relying primarily on the Federal Reserve's existing district structure.

"By following state lines rather than Reserve Bank District boundaries, we can coordinate more effectively and efficiently with our state and federal regulatory partners," Bowman said. "This approach clarifies accountability and decision-making and enables a consistent application of supervision."

Bowman also expressed interest in updating the Fed's bank merger competitive analyses to include nonbank competitors like credit unions, nonbank lenders, farm credit lenders and branchless banks, but she did not provide specifics or a timeline. The Federal Deposit Insurance Corp. recently issued a proposal that would add credit unions and thrifts to M&A analyses.

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