

Banking

Easing the burden: a year of community bank reform

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US policymakers are easing rules to better reflect community banks' size, scope, and risk

Nearly one year after Representative for Arkansas French Hill introduced the "Make Community Banking Great Again" [initiative](#), the US Congress and the federal banking agencies have taken significant steps to ease regulatory burdens on smaller financial institutions.

This article explores recent efforts to adjust regulation to reflect community banks' size, complexity, and risk profile and enhance their competitiveness. Together, the actions seek to address concerns that these banks face disproportionately high compliance costs compared to their larger counterparts. Looking ahead, the future of community banking will depend on how these institutions use their time and resources to adapt to an evolving financial and economic landscape.

Community banks and the need for reform

Community banks are typically defined by asset thresholds, often under \$10 billion, although the Office of Comptroller of the Currency (OCC) has recently introduced a \$30 billion [benchmark](#). These institutions generally focus on deposit-taking and lending to individuals and small businesses within a limited geographic footprint.

The push to "make community banking great again" stems from concerns that post-financial crisis regulations, initially geared to addressing the risks posed by the largest institutions, have gradually been applied to banks of all sizes. Reform efforts seek to restore balance by "tailoring" regulation – meaning designing or modifying requirements to reflect the lower risk and simpler operations of community banks.

Tailoring regulation to risk and complexity

In Congress, two tailoring bills ([H.R. 3380](#) and [H.R. 4478](#)) are pending in the House, and one ([S. 427](#)) in the senate. These would require agencies to tailor regulations (both prospectively and retroactively, up to 15 years in the House version) based on the business model and risk profile of impacted institutions. Agencies would also be required to report specific tailoring actions to Congress, and raise the asset threshold for qualifying for an 18-month, instead of a 12-month, examination cycle.

On the agency side, the Federal Deposit Insurance Corporation (FDIC)'s July 2025 [proposed rule](#) would update static thresholds in specific FDIC regulations to reflect historical inflation and introduce periodic indexing going forward. The OCC and FDIC's October 2025 [joint proposed rule](#) includes requirements that supervisory and enforcement actions and Matters Requiring Attention be tailored to a bank's riskiness, activities, and other financial risk-related factors. The OCC also issued [bulletins](#) in October directing examiners to base exam activities and expectations for community banks' model risk management practices on their complexity and risk profile, as discussed in a prior [article](#).

Simplifying capital requirements

Community banks with less than \$10 billion in assets are eligible to use a simplified capital measure, the [Community Bank Leverage Ratio](#) (CBLR), instead of risk-based capital ratios. However, adoption of the CBLR has been limited, in part due to the current 9% threshold set by regulators, which may result in higher capital requirements than use of the ratios.

The Federal Reserve is expected soon to propose lowering the CBLR to its statutory minimum of 8%, making its use more accessible. Additionally, proposed House legislation, [H.R. 5276](#), would raise the eligibility threshold to \$15 billion and adjust the statutory range for the CBLR from 8–10% to 6–8%.

Expanding Funding Options

Community banks rely heavily on deposits for funding, but digital banking and the 2023 regional bank failures have intensified competition. Customers with deposits exceeding FDIC insurance limits may be incentivised to move to banks perceived as safer, such as those deemed “too big to fail.”

To help community banks retain these customers, proposed House legislation would expand the use of reciprocal and custodial deposits – allowing qualifying banks to offer broader FDIC insurance coverage without triggering brokered deposit restrictions. [H.R. 3234](#) proposes a sliding scale for the cap on reciprocal deposits, based on the size of the institution placing the deposits. [H.R. 5317](#) would create a limited exception for certain custodial deposits not exceeding 20% of an eligible community bank’s total liabilities.

In the Senate, proposed legislation, [S. 2999](#), would raise the FDIC insurance limit to \$10 million for noninterest-bearing transaction accounts, excluding those held at subsidiaries of Global Systemically Important Bank holding companies (GSIBs). Banks with less than \$10 billion in assets would be exempt from funding the increased insurance coverage through assessments for the first ten years.

Promoting competitiveness and growth

Several tailoring efforts are focused on reducing licensing burdens on community banks’ growth initiatives. The OCC’s October 2025 [proposed rule](#) would allow certain well-capitalised community banks to use expedited or streamlined filing procedures, including to establish new branches, acquire an operating subsidiary, or complete a merger resulting in a national bank with less than \$30 billion in assets.

Complementary proposed legislation in the House, [H.R. 5262](#), would exempt mergers resulting in institutions with less than \$10 billion in assets from certain Department of Justice and Federal Reserve competition analyses.

Challenges beyond regulation

While regulatory reform is a critical step, community banks face broader challenges. The competitive landscape continues to shift as large banks grow larger and digital banking expands their reach. Concerns over the stability of non-GSIB institutions persist given recent regional bank credit concerns and corresponding market volatility.

Further complicating matters, the government shutdown led to the firing of all employees at the Community Development Financial Institutions (CDFI) Fund, a Treasury Department programme that supports CDFIs, many of which are community banks, serving distressed and underserved areas. While the CDFI Fund has broad bipartisan support, its status is now uncertain. The loss of this support could hinder community banks' ability to meet credit needs and foster economic development.

The path forward

At the Federal Reserve's recent conference, the focus extended beyond regulation to innovation. Panels featuring community bank CEOs and financial industry leaders emphasised technology adoption and collaboration – both among banks and with fintech firms. While challenges were acknowledged, the tone was optimistic. The message was that community banks remain essential to the financial ecosystem, offering personalised service and local expertise that larger institutions often cannot match.

As regulatory reforms advance, the next chapter for community banks will depend on their ability to innovate, collaborate, and adapt to a rapidly changing environment while staying true to their core mission of supporting individuals and small businesses in their communities.

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