

5 Takeaways From Capital Proposals For Community Banks

By **Randy Benjenk, Meghann Donahue and Samantha Kirby** (April 13, 2026, 3:11 PM EDT)

On March 19, the federal banking agencies — the Federal Reserve Board, Federal Deposit Insurance Corp. and Office of the Comptroller of the Currency — issued proposed rules to revise the U.S. regulatory capital framework.[1]

The proposals would update the capital treatment of certain exposure categories under the standardized approach to calculating capital, implement Basel III requirements for larger banks and banking organizations with significant trading activity, and change capital surcharges for U.S. global systemically important banks, or GSIBs.

While much attention has been and will be paid to the proposals' impacts on the largest banks, particularly GSIBs, this article summarizes key takeaways for regional banks — which we define as Category III and IV firms, i.e., banks with total consolidated assets between \$100 billion and \$700 billion — and for midsized and community banks with assets under \$100 billion.[2]

Comments on the proposals are due June 18.

1. The standardized approach proposal is expected to meaningfully reduce aggregate capital requirements for regional, midsized and community banks.

The agencies estimate that the standardized approach proposal would decrease aggregate common equity Tier 1, or CET1, capital requirements for Category III and IV holding companies by about 3%, and, together with changes to the stress test framework proposed in October 2025, by a total of more than 5%. The agencies' estimated reductions to the capital requirements for bank subsidiaries of Category III and IV holding companies are slightly larger, at 4.7%.

For smaller banking organizations, expected reductions to CET1 capital requirements under the proposal are between 7.5% and 7.9%, for holding companies, and 7.7% and 8.3%, for bank subsidiaries, depending on asset size, according to agency estimates.

These reductions in capital may enable banking organizations to expand lending and other business activities, as well as return excess capital to shareholders through dividends and/or share buybacks.

2. The standardized approach proposal would generally reduce capital requirements for mortgage



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origination and servicing activities, as well as other lending activities.

The standardized approach proposal would change risk weights in the standardized approach across multiple exposure categories.

Most significantly, banking organizations would assign a risk weight to a residential real estate exposure based on the exposure's loan-to-value ratio, without considering private mortgage insurance, and based on whether the exposure is dependent on the cash flows generated by the real estate.

Risk weights for eligible exposures would decrease over the life of the loan, as obligors make payments. The table below outlines the proposed risk weights for mortgage exposures that are not dependent on cash flows as well as those that are.

Proposed Risk Weights for Residential Mortgage Exposures That Are Not Dependent on the Cash Flows of the Real Estate

	LTV Ratio ≤50%	50% < LTV Ratio ≤ 60%	60% < LTV Ratio ≤ 80%	80% < LTV Ratio ≤ 90%	90% < LTV Ratio ≤ 100%	LTV Ratio > 100%
Risk Weight	25%	30%	35%	45%	55%	75%

Proposed Risk Weights for Residential Mortgage Exposures That Are Dependent on the Cash Flows of the Real Estate

	LTV Ratio ≤50%	50% < LTV Ratio ≤ 60%	60% < LTV Ratio ≤ 80%	80% < LTV Ratio ≤ 90%	90% < LTV Ratio ≤ 100%	LTV Ratio > 100%
Risk Weight	35%	40%	50%	65%	80%	110%

This framework for calculating risk-weighted assets from mortgages is more risk-sensitive, but also more complex, than the regulatory capital rules' current approach of assigning a 50% risk weight to most first-lien mortgages that are not 90% or more past due.

Additionally, the standardized approach proposal would eliminate the deduction from capital for mortgage servicing assets. Currently, most banking organizations must deduct from CET1 amounts of mortgage servicing assets that exceed 25% of the organization's CET1.

Going forward, mortgage servicing assets would no longer need to be deducted from capital, and instead would receive a 250% risk weight, consistent with the current capital treatment for these assets that do not exceed the 25% deduction threshold.

Collectively, these changes are seemingly intended to eliminate perceived capital-based disincentives for banking organizations to engage in mortgage origination and servicing.

The extent to which these changes will actually spur increased mortgage lending and servicing by banks, however, is unclear. In addition to capital constraints, compliance and staffing costs may continue to disincentivize banks from engaging in these activities.

The standardized approach proposal would also slightly reduce the risk weights associated with corporate exposures, from 100% to 95%, and for other exposures not specifically assigned a different

risk weight under the capital rules (such as unsecured personal loans, auto loans, home equity lines of credit and credit cards) from 100% to 90%.

Other proposed revisions to the standardized approach include changes to the definitions and calculation of certain off-balance sheet exposures such as commitments and derivatives, securitizations, and credit risk mitigants.

The proposal would also index for inflation various dollar-based thresholds used in the standardized approach, including the \$1 million threshold for determining whether a mortgage on a property that is not a one-to-four family property is a residential mortgage exposure, and the \$50 billion threshold for applicability of Pillar 3 disclosure requirements.

3. The standardized approach proposal would require regional banks to include elements of AOCI in CET1 capital.

Consistent with earlier capital reform proposals that followed the regional bank failures of 2023, the standardized approach proposal would eliminate the accumulated other comprehensive income, or AOCI, filter for Category III and IV firms.

AOCI generally includes accumulated unrealized gains and losses on certain assets and liabilities, such as securities designated available-for-sale, that have not been included in net income but are included in equity under U.S. accounting rules.

Under the current capital regime, banking organizations with more than \$700 billion in total assets must include most elements of AOCI in regulatory capital, but other organizations were given a one-time option to exclude them.

The standardized approach proposal would require all banking organizations with \$100 billion or more in total consolidated assets to include these AOCI components in CET1 capital.

Inclusion of AOCI would cause all net unrealized gains and losses on available-for-sale debt securities from changes in fair value — including those resulting from interest rate changes — to flow through to CET1, increasing the volatility of these firms' capital requirements.

The preamble to the standardized approach proposal states that Category III and IV banking organizations "have the tools and access to capital markets" to manage the volatility, and that recognizing elements of AOCI better aligns regulatory capital with a banking organization's "point-in-time loss absorbing capacity."

The proposal would establish a five-year phase-in period for an organization's AOCI adjustment amount to avoid an immediate material increase in capital requirements. The five-year phase-in is notably longer than the three-year transition period initially proposed in 2023.

4. The Basel III endgame proposal would allow regional, midsized and community banks to opt into ERBA, which could reduce capital requirements for some smaller banks, at the cost of more complexity.

A central feature of the so-called Basel III endgame proposal is its elimination of the existing requirement that U.S. GSIBs and Category II firms calculate risk-based capital ratios under two regimes:

the U.S. standardized approach and advanced approaches, which rely on firms' internal models.

Under the proposal, these firms would calculate risk-weighted assets under only one formula — expanded risk-based approach, or ERBA — which largely standardizes risk-weighting methodologies but is much more granular than the standardized approach.

ERBA includes a risk-weighting framework not only for credit risk, but also operational risk and market risk.[3]

All banking organizations subject to the regulatory capital rules would be permitted to adopt ERBA. The election would become effective 12 months after the date on which the organization provides notice to its primary federal supervisor.

Firms opting into the regime would be subject to ERBA's risk weighting requirements for credit, operational and market risk as well as the definition of capital that applies to U.S. GSIBs and Category II firms, including the requirement to reflect AOCI in regulatory capital. These firms would also need to apply the more stringent capital deduction framework that applies to those entities.

While most banking organizations would experience an increase in capital requirements from opting in to ERBA, some would experience a decrease.

The agencies estimate that about a third of banking organizations with less than \$100 billion in assets would see reductions in capital requirements between 5% and 10% if they opted into ERBA, with just a few seeing reductions greater than 10%.

Three Category III or IV holding companies would see a reduction in capital requirements (of 3% to 7%) if they elect into ERBA.

Nevertheless, aspects of ERBA — including the requirement to include AOCI in capital, and the need to comply with more complex calculation methodologies — may dissuade many smaller banking organizations from voluntarily opting in.

5. The proposals would have a limited, but potentially positive, impact on capital requirements for banks using the community bank leverage ratio.

The agencies' proposals largely do not apply to community banks that have elected to comply with the community bank leverage ratio in lieu of risk-based capital requirements.

However, the standardized approach proposal would remove the threshold-based deduction for mortgage servicing assets for all banking organizations and replace it with the 250% risk weight, and this change could increase the amount of some community banks' Tier 1 capital, which is the numerator of the community bank leverage ratio.

The agencies separately proposed in November 2025 to decrease the community bank leverage ratio requirement from 9% to 8%.

That change, coupled with the greater complexity of calculating standardized approach risk-weighted assets under the standardized approach proposal, could make the community bank leverage ratio an increasingly attractive option for banks with less than \$10 billion in assets.

Conclusion

As discussed above, the proposals introduce several opportunities for regional, midsized and community banks to optimize their regulatory capital positions.

As the rulemakings proceed, regional banks and larger midsized banks should carefully assess the potential benefits of opting into ERBA for their institutions, and whether those benefits outweigh costs associated with the complexity of ERBA and the volatility associated with the recognition of AOCI in regulatory capital.

Finally, institutions of all sizes should evaluate the standardized approach proposal's impacts on business lines such as residential mortgage lending and services, and prepare to make changes to internal systems, controls and models to implement the proposed changes to the risk-weighted assets framework.

For banks with less than \$10 billion in assets, the proposed revisions to the standardized approach also will affect the decision of whether to opt in to, or maintain, the community bank leverage ratio in lieu of risk-based capital requirements.

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[1] See Department of the Treasury, Office of the Comptroller of the Currency; Federal Reserve System; Federal Deposit Insurance Corporation, Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets, 91 Fed. Reg. 15332 (Mar. 27, 2026); Department of the Treasury, Office of the Comptroller of the Currency; Federal Reserve System; Federal Deposit Insurance Corporation, Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations with Significant Trading Activity, and Optional Adoption for Other Banking Organizations, 91 Fed. Reg. 14952 (Mar. 27, 2026); Federal Reserve System, Regulatory Capital Rule (Regulation Q): Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15), 91 Fed. Reg. 14908 (Mar. 27, 2026).

[2] The agencies have established four categories of capital standards for U.S. banking organizations with more than \$100 billion in assets. Category I institutions are designated U.S. G-SIBs; Category II institutions have \$700 billion or more in total assets or \$75 billion or more in cross-jurisdictional activity. Category III institutions are those with assets of \$250 billion or more but less than \$700 billion, as well as those with \$75 billion or more in weighted short-term wholesale funding, nonbank assets, or off-balance sheet exposure. Category IV institutions have \$100 billion or more in assets and do not qualify for the other categories.

[3] The market risk framework would apply to any banking organization with significant trading activity, regardless of whether the organization is a Category I or II firm. Significant trading activity would be defined to mean (1) more than \$5 billion in trading activity or (2) trading activity equal to or higher than 10 percent of the banking organization's total assets.