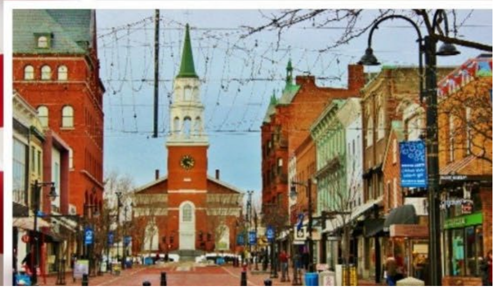
Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
Office of the Comptroller of the Currency



Community Bank Leverage Ratio Framework

Community Bank Compliance Guide

Revised July 2026

Introduction

This guide is intended to help community banking organizations understand the optional community bank leverage ratio framework adopted by the federal banking agencies.[1] The framework provides for a simple measure of capital adequacy for certain community banking organizations, consistent with section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. In 2019, the federal banking agencies issued a final rule establishing the community bank leverage ratio framework, which became effective January 1, 2020.[2] On April 29, 2026, the federal banking agencies published a final rule modifying the community bank leverage ratio framework consistent with existing statutory authority.[3] The revised community bank leverage ratio framework outlined in this guide took effect on July 1, 2026. Depository institutions and depository institution holding companies that meet qualifying criteria, including having less than $10 billion in total consolidated assets and a tier 1 leverage ratio of greater than 8 percent, are considered qualifying community banking organizations and are eligible to opt into the community bank leverage ratio framework.

This guide summarizes the community bank leverage ratio framework and therefore does not carry the effect of law or regulation. In addition to using this guide, community banking organizations should review the community bank leverage ratio framework of the capital rule.[4]

Overview of the Community Bank Leverage Ratio Framework

- The community bank leverage ratio framework is an **optional framework** that is designed to reduce burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework.
- Qualifying community banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than 8 percent are considered to have satisfied the risk-based and leverage capital requirements in the federal banking agencies' capital rule. Additionally, such insured depository institutions are considered to have met the well-capitalized ratio requirements under the federal banking agencies' prompt corrective action framework.
- The main components and requirements of the community bank leverage ratio framework are as follows:

Community Bank Leverage Ratio Framework	
Qualifying Community Banking Organization	• Leverage ratio greater than 8 percent • Less than $10 billion in average total consolidated assets • Off-balance sheet exposures of 25 percent or less of total consolidated assets • Trading assets plus trading liabilities of 5 percent or less of total consolidated assets • Not a banking organization that is, or is a subsidiary of, a GSIB or a Category II banking organization.

[1] The federal banking agencies include the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Board), and the Federal Deposit Insurance Corporation (FDIC).
[2] 84 FR 61776 (Nov. 13, 2019).
[3] 91 FR 22973 (Apr. 29, 2026).
[4] 12 CFR 3.12 (OCC); 12 CFR 217.12 (Board); 12 CFR 324.12 (FDIC).

Community Bank Leverage Ratio Framework	
Calculation of the Leverage Ratio	$\frac{\text{Tier 1 capital}}{\text{Average total consolidated assets}}$
Leverage ratio Requirement	Greater than 8 percent
Grace Period	A four-quarter grace period (which begins as of the end of the calendar quarter in which the electing banking organization ceases to satisfy any of the qualifying criteria) in which to either meet all the qualifying criteria again or to comply with the risk-based capital framework. • A banking organization that fails to maintain a leverage ratio greater than 7 percent would not be permitted to use the grace period and must comply with the risk-based capital framework and file the appropriate regulatory reports. • A banking organization that has spent eight or more of the previous twenty quarters within the grace period may not use the grace period in the current quarter. • A banking organization that no longer meets the definition of a qualifying community banking organization as a result of a merger or acquisition would not be able to use the grace period as of the quarter in which the merger or acquisition occurs.

Details of the Community Bank Leverage Ratio Framework

Calculation of the Leverage Ratio

The leverage ratio required for purposes of the community bank leverage ratio framework is calculated as tier 1 capital divided by average total consolidated assets.[5]

Qualifying Community Banking Organization

The community bank leverage ratio framework is optional for a banking organization that meets the following qualifying criteria:[6]

1) *A leverage ratio of greater than 8 percent.*

2) *Total consolidated assets of less than $10 billion:* Total consolidated assets are calculated in accordance with the reporting instructions to Schedule RC of the Call Report or Schedule HC of Form FR Y-9C, as applicable.

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[5] The capital rule requires deductions from tier 2 capital related to investments in capital instruments of unconsolidated financial institutions when such investments exceed certain limits; such deductions can affect the calculation of tier 1 capital. The community bank leverage ratio framework does not have a total capital requirement; therefore, an electing banking organization is not required to calculate tier 2 capital or make any tier 2 capital deductions under the capital rule.

[6] A subsidiary depository institution that is not a banking organization that is, or is a subsidiary of, a GSIB or a Category II banking organization may opt into the community bank leverage ratio framework if the institution meets all qualifying requirements—even if its parent holding company is not a qualifying banking organization, and vice versa.

3) Total off-balance sheet exposures (excluding derivatives other than sold credit derivatives and unconditionally cancelable commitments) of 25 percent or less of total consolidated assets: The off-balance sheet qualifying criterion incorporates off-balance sheet exposures currently required to be captured and reported by banking organizations in the Call Report or Form FR Y-9C. The following exposures are included in the calculation:
    a. The unused portions of commitments (except for unconditionally cancelable commitments);
    b. Self-liquidating, trade-related contingent items that arise from the movement of goods;
    c. Transaction-related contingent items (*i.e.*, performance bonds, bid bonds, and warranties);
    d. Sold credit protection in the form of guarantees and credit derivatives;
    e. Credit-enhancing representations and warranties;
    f. Securities lending and borrowing transactions, calculated in accordance with the reporting instructions to the Call Report or to Form FR Y-9C, as applicable;
    g. Financial standby letters of credit;
    h. Forward agreements that are not derivative contracts; and
    i. Off-balance sheet securitization exposures.

4) *Total trading assets plus trading liabilities of 5 percent or less of total consolidated assets:* Total trading assets and trading liabilities are calculated as the sum of those exposures, in accordance with the reporting instructions for these items in the Call Report or Form FR Y 9C, as applicable.

5) *Not an institution that is, or is a subsidiary of, a GSIB or a Category II banking organization:* A banking organization that is a GSIB or a Category II banking organization generally must calculate risk-based capital requirements set forth in Subpart E of the capital rule. These banking organizations, including their subsidiaries, are not eligible to use the community bank leverage ratio framework.

Opting into and out of the community bank leverage ratio framework

A qualifying community banking organization may opt into the community bank leverage ratio framework by completing the associated reporting line items that are required for such banking organizations on the Call Report or Form FR Y–9C, as applicable. A qualifying community banking organization then becomes subject to the community bank leverage ratio framework.

A banking organization may opt out of the community bank leverage ratio framework and become subject to the risk-based capital framework by completing the associated reporting requirements on its Call Report and/or Form FR Y–9C, as applicable. A banking organization can opt out of the community bank leverage ratio framework between reporting periods by providing its risk-based capital ratios under the capital rule to its appropriate regulators at that time.

A banking organization that opts out of the community bank leverage ratio framework can subsequently opt back into the community bank leverage ratio framework if it meets the qualifying criteria listed above.

Grace Period

If an electing banking organization fails to satisfy one or more of the qualifying criteria but maintains a leverage ratio of greater than 7 percent, that banking organization would have a "grace period" of up to four quarters during which it could continue to use the community bank leverage ratio framework and be deemed to meet the "well capitalized" capital ratio requirements.

A banking organization that has used the grace period in eight or more of the previous twenty quarters may not use the grace period in the current quarter. If a community banking organization had opted to not use the community bank leverage ratio framework for one or more quarters during the previous twenty quarters, any such quarters do not count toward the eight-quarter grace period limit. In addition, use of the grace period is based on the previous twenty quarters irrespective of whether the community banking organization has elected to participate in the community bank leverage ratio framework for each of those quarters.

A banking organization is required to comply with the risk-based capital requirements and file the relevant regulatory reports if the banking organization (i) is unable to restore compliance with all qualifying criteria during the grace period (including reporting a leverage ratio greater than 8 percent), (ii) has a leverage ratio of 7 percent or less, or (iii) ceases to satisfy the qualifying criteria due to consummation of a merger transaction.

Example of Four-Quarter Grace Period

Example 1: If a qualifying community banking organization that has opted into the community bank leverage ratio framework no longer meets one of the qualifying criteria as of February 15 and still does not meet the criteria as of the end of that quarter, the grace period for such a banking organization will begin as of the end of the quarter ending March 31 (grace period quarter 1), as long as the banking organization maintains a leverage ratio above 7 percent. The banking organization may continue to use the community bank leverage ratio framework in the June 30 quarter (grace period quarter 2), September 30 quarter (grace period quarter 3) and December 31 quarter (grace period quarter 4) but would need to comply fully with the risk-based capital framework (including the associated reporting requirements) as of March 31 of the following calendar year, unless by that date the banking organization once again meets all qualifying criteria of the community bank leverage ratio framework.

Examples of Grace Period Limitation

Example 2: Provided a community banking organization maintains a leverage ratio above 7 percent, if the community banking organization were to use the grace period for each quarter in calendar years 2027 and 2029 (eight total quarters in the grace period), without using the grace period in calendar year 2028, it would not be able to use the grace period during calendar years 2030 or 2031 or the first quarter of 2032. If it ceases to meet the community bank leverage ratio criteria at the end of any quarter during calendar years 2030 or 2031 or the first quarter of 2032, it would be required to comply immediately with the risk-based capital requirements. The community banking organization would, however, be able to use the grace period in the second quarter of 2032 because, in the twenty quarters prior (the second quarter of 2027 through the first quarter of 2032), it would have used the grace period for less than eight quarters (the second, third and fourth quarters of 2027 and all four quarters of 2029).

Example 3: A qualifying community banking organization opts into the community bank leverage ratio framework and utilizes the grace period for each of the four quarters in calendar year 2026. The banking organization then reverts to the risk-based capital framework in 2027 and then opts back into the community bank leverage ratio framework in 2028. The community banking organization would include the four quarters of 2026 in which it used the grace period when calculating its grace period limit in 2028. The banking organization would not be deemed to be in the grace period in 2027 even if it did not meet all the qualifying criteria for the community bank leverage ratio framework because the banking organization complied with the risk-based capital requirements during that year.