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How Will Banks Be Impacted by the Proposed Regulation O Amendments?

First Major Overhaul of Insider Transactions Regulation in Nearly 50 Years

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On July 31, 2026, the Federal Reserve Board and the Federal Deposit Insurance Corporation (FDIC) jointly announced proposed rules that would substantially raise the dollar thresholds governing extensions of credit by banks to their executive officers, directors, principal shareholders, and their related interests.

Because the agencies jointly administer Regulation O, the proposed amendments would, if adopted, update the standards across all categories of federally insured depository institutions.

The current thresholds have not been meaningfully updated since 1979, and during that time, inflation, economic growth, and bank capital levels have all dramatically outpaced the dollar limits that trigger board-approval requirements and cap lending to executive officers.

What Would Change?

The proposals would raise two key thresholds:

1. Executive Officer Lending Cap:

- The maximum aggregate amount a bank may lend to an executive officer for purposes not otherwise specifically authorized by the Federal Reserve Act (such as most consumer-purpose loans, auto loans, and unsecured personal credit) would increase from **$100,000 to $400,000.**

2. Board-approval Threshold for All Insiders:

- The aggregate amount of credit that may be extended to any insider before a majority of the bank's disinterested board members must approve the transaction would increase from **$500,000 to $2 million**.

In addition, the Federal Reserve's proposal would update several related thresholds, including raising:

- the exemption for certain credit card debt from **$15,000 to $60,000;**
- the exception for interest-bearing overdraft indebtedness from **$5,000 to $20,000;** and
- the inadvertent-overdraft exception from **$1,000 to $4,000.**

The threshold triggering public disclosure of loans to executive officers and principal shareholders would also increase from **$500,000 to $2 million.**

Modernized Definition of "Executive Officer"

The Federal Reserve's proposal would also update the list of titles that presumptively classify an individual as an "executive officer" under Regulation O.

Current List

- The current list, which has been unchanged since 1935, includes titles such as "every vice president," "the cashier," and "the secretary," which in many cases no longer correspond to policymaking roles at modern institutions.

Proposed Change

- The proposal would remove those outdated titles and replace them with positions that more accurately reflect today's leadership structures by adding the chief executive officer, chief financial officer, chief lending officer, and chief investment officer.
- Individuals holding those titles are likely already treated as executive officers in practice, but the proposed amendments would formalize that expectation.

Treatment of Unused Lines of Credit

The proposal would also clarify how unused portions of an insider's committed line of credit are treated for purposes of Regulation O's individual lending limits.

Current Rule

- Under the existing rules, a bank may not extend credit to an insider if the aggregate amount, when combined with all other outstanding extensions of credit to that insider and the insider's related interests, exceeds the stipulated thresholds.

Proposed Change

- Under the proposal, the undrawn portion of an insider's line of credit would be deemed fully secured for purposes of these individual limits, subject to certain conditions.

Narrower Residential Mortgage Exception for Executive Officers

Regulation O currently permits a bank to extend credit to an executive officer when the loan is secured by a first lien on a "residence" that is "owned by the executive officer."

The proposal would tighten this exception in three key ways:

1. First, it would limit the exception to a single residence.
2. Second, the executive officer must actually occupy the property for at least three months each year.
3. Third, the property may not be used for investment purposes.

These refinements are intended to ensure that the residential mortgage exception serves its original purpose of facilitating home financing.

Streamlined Calculation and Automatic Indexing

Beyond the proposed one-time increases, the agencies also propose simplifying how institutions calculate other applicable thresholds under Regulation O:

- **The existing approach would be condensed. The current approach** includes a dollar-based floor, a percentage-of-capital sliding scale, and a dollar-based ceiling.

- **The minimum dollar floor of $25,000 would be eliminated,** leaving the threshold as the *lower* of the percentage-of-capital amount or the new dollar ceiling.

Specifically:

- Extensions of credit to executive officers not otherwise authorized would be limited to the lower of **2.5 percent** of unimpaired capital and surplus, or **$400,000.**

- Extensions of credit to any insider requiring prior board approval would be limited to the lower of **5 percent** of unimpaired capital and surplus, or **$2 million.**

Notably, the agencies also propose an automatic indexing mechanism that would adjust these thresholds every five years based on changes in nominal US gross domestic product. If nominal GDP declines over the five-year period, no downward adjustment would be made. This forward-looking feature is designed to prevent the kind of prolonged obsolescence the industry has experienced under the current regime.

Investment Fund Exception

The Federal Reserve’s proposal would also establish a new exception addressing what it described as the “unintended” application of the insider lending restrictions to portfolio companies of certain investment fund complexes that own shares in a bank.

According to the Federal Reserve, the underlying insider-lending statutes were adopted before the rise of index funds and did not contemplate this particular scenario. This action was previewed by the agencies in a recently announced no-action letter.

Significance of This Action

- Regulation O requires perennial attention to ensure compliance with its substantive limitations and recordkeeping requirements.
- These increases and amendments are a meaningful step to ensure the regulation keeps pace with the times and eases regulatory burdens on institutions.
- Institutions must update their internal policies and procedures to keep pace and should also ensure that their key insiders are aware of the changes.

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