

# FFIEC Proposes Updates to Federal Banking Agencies' Financial Institutions Rating System

On May 19, 2026, the Federal Financial Institutions Examination Council (“FFIEC”)<sup>1</sup> released a notice of proposed rulemaking (the “Proposal”) to revise the Uniform Financial Institutions Rating System applicable to federally regulated insured depository institutions and federally insured credit unions (collectively, for ease of reference, “IDIs”). This system, commonly known as the “CAMELS rating system,” was last amended nearly 30 years ago.<sup>2</sup> The Proposal would refocus composite and component ratings on material financial risk, improve ratings transparency and significantly de-emphasize the Management component. Comments are due August 17, 2026.

## BACKGROUND

Since 1979, the CAMELS rating system has been the primary supervisory tool used by the federal banking agencies to evaluate the safety and soundness of IDIs. Each IDI receives a composite rating and six component ratings—Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity to Market Risk—on a scale of 1 (highest) to 5 (lowest). The composite rating is closely related to, but not a simple average of, the component ratings. Instead, when assigning a composite rating, examiners may use judgment to give some components more weight based on the IDI's particular circumstances. Examiners may consider any factor bearing significantly on the IDI's overall condition and soundness.<sup>3</sup>

The FFIEC last updated the CAMELS framework in 1997. Michelle Bowman, FFIEC Chair and Vice Chair for Supervision of the Board of Governors of the Federal Reserve System (the “Federal Reserve”), has prioritized a comprehensive revision, describing the proposed updated framework as “a decisive shift toward transparency, quantitative factors, and predictability of supervisory oversight.”<sup>4</sup>

The Proposal follows the Federal Reserve's November 2025 amendments to its Large Financial Institution (“LFI”) rating system, which revised the definition of “well managed” for bank holding companies with \$100 billion or more in total consolidated assets and removed the presumption of enforcement action for a single deficient LFI component rating.<sup>5</sup>

The Proposal continues this trend toward financially grounded supervision, consistent with other recent initiatives—including the Federal Reserve's Statement of Supervisory Operating Principles, the FDIC and OCC's joint proposal to define “unsafe or unsound practices” and the elimination of reputation risk from supervisory programs across the federal banking agencies.

The Proposal addresses only the CAMELS rating system for IDIs and does not affect other interagency rating systems, such as the Uniform Interagency Consumer Compliance Rating System or the Community Reinvestment Act rating system.

## SUMMARY OF KEY PROPOSED CHANGES

The Proposal would: (1) amend the composite rating definitions and remove the “special consideration” given to the Management component rating in the composite rating, (2) revise component rating definitions, and (3) modernize and conform language and terminology to current industry standards and accounting practices.

### *A. Revisions to Composite Rating Definitions*

The Proposal would revise composite rating definitions to establish clearer thresholds anchored to financial conditions. Composite ratings of 1 and 2 would require “strong” or “satisfactory” financial performance, respectively. A composite rating of 3 would reflect “less than satisfactory financial performance or inadequate risk management practices that result in material financial risk.” A composite rating of 4 or 5 would be reserved for demonstrably “deficient” or “critically deficient” financial performance, and risk management weaknesses alone, absent observable financial deterioration, would not support these most adverse ratings.

The Proposal would remove the directive for examiners to give “special consideration” to the Management component, which in recent years has been the most influential factor in determining composite ratings.

### *B. Revisions to Component Ratings*

For the non-Management components (Capital Adequacy, Asset Quality, Earnings, Liquidity and Sensitivity to Market Risk), the Proposal would replace language evaluating management’s “ability to identify, measure, monitor, and control” risks with language focused on the IDI’s “overall financial condition” and measurable outcomes.

The Proposal would also eliminate open-ended evaluation language. Currently, each component rating is “based upon, but not limited to” listed factors. The Proposal would permit additional, unenumerated factors to be considered only in “exceptional circumstances” critical to the assessment of material financial risks, and examiners would be required to document their rationale.

The Proposal would narrow the Management component’s evaluation factors, removing considerations related to management depth and

succession, responsiveness to audit recommendations and willingness to serve community banking needs. The revised definitions would provide that an IDI should generally receive a Management rating of 3 or worse only when its risk management practices “result in material financial risk” to the IDI.

In addition, specialty review findings, covering compliance, community reinvestment, information systems and trust, would no longer be folded into the Management component unless they “impact an institution’s overall financial condition, represent material financial risks, or reflect significant noncompliance with laws and regulations.”

### *C. Modernizing and Conforming Framework Language*

Finally, the Proposal would modernize and conform language throughout the framework and update terminology to reflect current industry standards and accounting practices. For example, the Proposal would replace references to “allowances for loan and lease losses” with “allowances for credit losses” to conform with the Current Expected Credit Losses accounting standard, which became effective for all IDIs under U.S. GAAP by 2023. Likewise, the Proposal would remove references to reputation risk, consistent with recent actions across the federal banking agencies.

## POTENTIAL EFFECTS

If adopted, the Proposal could shift supervisory emphasis toward quantifiable financial risk metrics, potentially increasing predictability of the ratings and decreasing the number of IDIs with less than satisfactory ratings. In proposing to remove the “special consideration” language surrounding the Management component, the banking agencies have acknowledged that the Management component historically drove composite ratings in a manner not contemplated by the framework’s design and have sought to rebalance it as one of six coequal components.<sup>6</sup>

Under the proposed framework, risk management weaknesses that do not result in observable deterioration of financial condition or material financial risk would not, standing alone, support a composite rating of 4 or 5. This elevated evidentiary threshold for composite ratings of 4 and 5 could reduce the number of IDIs carrying the most adverse ratings. This parallels the LFI framework’s

recalibration, which reduced the number of large holding companies deemed “not well managed” from 17 (out of 36 total) to an estimated 10 institutions.<sup>7</sup>

Nonetheless, the Proposal retains significant room for examiner discretion, particularly with respect to the composite “3” rating. An IDI may receive a composite rating of 3 for “less than satisfactory financial performance,” for risk management practices resulting in material financial risk or for “significant noncompliance” with laws and regulations.<sup>8</sup> The FFIEC has requested comment on the definition of “significant noncompliance,” which the Proposal does not define. In addition, while the Proposal narrows the factors that examiners may consider, the “exceptional circumstances” exception remains undefined, and the FFIEC has not proposed criteria or guardrails to limit its invocation. This vagueness could permit examiners to reintroduce considerations that the revised framework otherwise seeks to cabin, potentially undermining the transparency aims of the Proposal. For example, an IDI could receive a composite rating of 3 based on a compliance deficiency that does not necessarily implicate its financial condition, preserving supervisory leverage even in a framework otherwise centered on financial metrics.

The Proposal could indirectly affect other rating systems, such as the Federal Reserve’s RFI/C(D) rating system, which applies to bank holding companies and savings and loan holding companies with less than \$100 billion in total consolidated assets. In that rating system, the Depository Institution (D) component generally mirrors the CAMELS composite rating assigned by the subsidiary IDI’s primary supervisor.<sup>9</sup> For noncomplex holding companies with total consolidated assets of \$3 billion or less, which represent the vast majority of bank holding companies, the Federal Reserve assigns only a Risk Management (R) rating and a Composite (C) rating, with the R rating derived directly from the subsidiary bank’s Management component rating and the C rating derived from the subsidiary bank’s CAMELS composite rating. Accordingly, any shift in CAMELS composite or Management component ratings resulting from the Proposal would generally flow through to holding company ratings for these smaller organizations, potentially affecting their supervisory posture and ability to engage in expanded activities at the holding company level.

Beyond the immediate rating-level changes, the Proposal could affect the supervisory surveillance and early-warning models that the federal banking agencies use to monitor risk between examinations. For example, the Federal Reserve currently relies on the SR/HC-SABR and BETR model suites, which assign surveillance ratings and determine examination scope based in part on historical CAMELS data, to identify IDIs with emerging financial weaknesses and allocate supervisory resources.<sup>10</sup> Because these models are calibrated on historical rating distributions, a systematic shift in composite and component ratings, particularly the de-emphasis of the Management component and the heightened evidentiary threshold for composite ratings of 4 and 5, could alter the statistical relationships on which the models depend and may necessitate recalibration.

Similarly, the Proposal could prompt the FDIC to reconsider its deposit insurance assessment calculations, which incorporate CAMELS ratings as a direct input to risk-based assessment rates for both small and large IDIs. For large and small IDIs, the FDIC’s Financial Ratios Method uses a weighted average of CAMELS component ratings alongside financial data to estimate failure probability and determine assessment rates.<sup>11</sup> If the revised CAMELS framework shifts the distribution of composite and component ratings, reducing the number of IDIs rated 3 or worse and diminishing the relative influence of the Management component, the FDIC may need to revisit its pricing multipliers, component weights or the underlying statistical model to ensure that assessment rates continue to accurately reflect institutional risk and maintain adequate Deposit Insurance Fund revenue.

CAMELS ratings also play an important role in the federal banking agencies’ considerations of applications, including interstate de novo branching and bank mergers. If the revised CAMELS framework results in improved composite ratings, this may facilitate further expansionary and acquisition activities.

## CONCLUSION

The FFIEC’s proposed CAMELS revisions represent a meaningful recalibration of the supervisory rating framework toward material financial risk, consistent with the broader supervisory agenda pursued across the federal banking agencies since 2025.

If the Proposal is finalized, each member agency must independently adopt and implement the revised framework. How examiners interpret the revised definitions will determine the practical significance of these changes for IDIs.

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- 1 Established by Congress in 1979, the FFIEC is an interagency body comprising the Federal Reserve, the FDIC, the NCUA, the OCC, and the CFPB. 12 U.S.C. § 3303. The FFIEC includes representation from five state financial regulators via the State Liaison Committee, and the Chair of the State Liaison Committee serves as the sixth member of the FFIEC. *Id.*
  - 2 FFIEC, Uniform Financial Institutions Rating System, 91 Fed. Reg. 29128 (May 19, 2026).
  - 3 FFIEC, Uniform Financial Institutions Rating System, 61 Fed. Reg. 67021 (Dec. 19, 1996).
  - 4 Press Release, FFIEC, Agencies Request Comment on Financial Institutions Rating System (May 19, 2026).
  - 5 Federal Reserve, Revisions to the Large Financial Institution Rating System and Framework for the Supervision of Insurance Organizations, 90 Fed. Reg. 51329 (Nov. 17, 2025).
  - 6 OCC, Comptroller Statement on Proposed Revisions to the Uniform Financial Institutions Ratings System, News Release 2026-39 (May 19, 2026).
  - 7 Memorandum from Federal Reserve Staff to the Federal Reserve Board (Oct. 16, 2025); <https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20251105a2.pdf>.
  - 8 FFIEC, Uniform Financial Institutions Rating System, 91 Fed. Reg. 29128 (May 19, 2026).
  - 9 Federal Reserve, SR Letter 19-4 / CA Letter 19-3, Supervisory Rating System for Holding Companies with Total Consolidated Assets Less Than \$100 Billion, Attachment 2 at 8 (Feb. 26, 2019).
  - 10 Federal Reserve, Off. of Inspector Gen., The Board Can Enhance the Effectiveness of Certain Aspects of Its Model Risk Management Processes for the SR/HC-SABR and BETR Models, Report No. 2022-SR-B-016 (Dec. 7, 2022).
  - 11 Edward Garnett, LaVaughn Henry, Daniel Hoople & Ashley Mihalik, A History of Risk-Based Premiums at the FDIC, FDIC Staff Studies Report No. 2020-01 (2020).

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