Federal Reserve Board Proposes Update to Regulation O

On July 31, 2026, the Federal Reserve Board (the "Board") requested comments on a proposed rulemaking[1] to modernize Regulation O, which establishes limits on lending by a bank to individuals and entities that can potentially influence its lending decisions, as well as related governance and recordkeeping requirements for insider lending.[2] The proposed rulemaking would be the first comprehensive update to Regulation O since its adoption in 1979. Comments are due 60 days after publication in the Federal Register.

In a parallel action, the Federal Deposit Insurance Corporation ("FDIC") requested comments on a proposed rulemaking that would raise and index the insider lending thresholds for FDIC-supervised institutions to align with the Board's Regulation O proposal.[3]

BACKGROUND ON REGULATION O

Regulation O implements Sections 22(g) and 22(h) of the Federal Reserve Act. Section 22(h) restricts the amount and terms of extensions of credit from a member bank to its executive officers, directors and principal shareholders, as well as to entities controlled by such individuals or entities, while Section 22(g) imposes other limitations on extensions of credit made by member banks to their officers.[4]

Regulation O requires, among other things, that extensions of credit to an insider (1) be made on substantially the same terms, including interest rates and collateral, that the member bank would offer to a person not affiliated with the bank, (2) be underwritten using procedures no less stringent than those applied to comparable transactions with the general public and (3) not involve more than the normal risk of repayment or other unfavorable features.[5] In addition, Regulation O imposes individual and aggregate lending limits on insider credit, requires prior board approval for extensions of credit above certain dollar thresholds and places additional restrictions on loans to executive officers.[6]

Sections 22(g) and 22(h) and Regulation O apply only to Federal Reserve member banks. Section 18 of the Federal Deposit Insurance Act extends the same requirements to nonmember insured depository institutions.[7]

NEED FOR MODERNIZATION

Regulation O's fixed, dollar-based thresholds, many of which have not been adjusted since 1979, have not kept pace with inflation and economic growth. Vice Chair for Supervision Michelle W. Bowman noted that the current framework has led to disproportionate compliance burdens, particularly for community banks, where examiners have issued supervisory criticisms for unintentional, minor violations that do not involve preferential treatment.[8]

As a result, a significant number of banks have adopted blanket prohibitions on insider lending, including with respect to routine consumer products such as credit cards, overdraft facilities and residential mortgage loans, because the compliance risk outweighs any business justification. This, in turn, has made it more difficult for community banks to recruit experienced business leaders willing to serve on bank boards or as officers.

KEY PROPOSED CHANGES

The proposed rulemaking focuses on the following areas of reform:

- *Updating and Indexing Dollar-Based Thresholds*. The Board's proposed rulemaking would update dollar-based thresholds and index them to economic growth going forward. This is intended to ensure that the thresholds remain relevant over time and do not inadvertently sweep routine, low-risk consumer lending into the prior-approval process. The FDIC's proposed rulemaking would raise and index the insider lending thresholds for FDIC-supervised institutions to align with the Board's Regulation O proposal.
- *Addressing Passive Investment Fund Interests*. The Board's proposed rulemaking would address what the Board describes as "unnecessary applications" of the rule to passive interests in companies held by investment funds. Under the current framework, fund managers and banks may inadvertently trigger Regulation O requirements based on a fund's ownership stake, even where the insider has no actual control or influence over the lending relationship. Under the proposed rule, if a fund group meets certain criteria that limit its influence over the bank's lending decisions, Regulation O would not apply to the bank's lending to the fund group's portfolio companies.
- *Codifying Statutory Requirements and Regulatory Interpretations*. The proposed rulemaking would codify certain long-standing Board regulatory interpretations that currently exist only in staff guidance, FAQs or informal rulings. This is intended to give banks greater clarity and reduce the risk of inconsistent application. The Board also proposes simplifying certain aspects of Regulation O to reduce compliance burden while preserving the core safeguard that insider lending must not involve preferential treatment or excessive risk.

CONCLUSION

Banks and bank holding companies should closely monitor the rulemaking process and evaluate whether to submit comments during the 60-day comment period or begin discussing potential updates to their Regulation O compliance programs in anticipation of a final rule.

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1 Fed. Rsrv. Bd. of Governors, *Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks; Bank Holding Companies* (July 31, 2026), https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20260731b2.pdf.

2 12 CFR Part 215.

3 FDIC, Extensions of Credit to Insiders of FDIC-supervised Institutions (July 31, 2026), https://www.fdic.gov/board/federal-register-notice-npr-extensions-credit-insiders-fdic-supervised-institutions.pdf.

4 12 U.S.C. §§ 375a, 375b.

5 12 CFR 215.4(a).

6 12 CFR 215.4(b)-(d).

7 *See, e.g.*, 12 U.S.C. § 1828(j)(2) (applying the Federal Reserve Act insider loan restrictions to non-member insured depository institutions).

8 Michelle W. Bowman, Vice Chair for Supervision, Fed. Rsrv. Bd. of Governors, *Opening Remarks at the Federal Reserve Bank of Kansas City's 2026 Future of Banking Conference: Powering Progress, Protecting Trust* (May 14, 2026), https://www.federalreserve.gov/newsevents/speech/bowman20260514a.htm.

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