

Regulatory Relief for Community Banks: OCC's Strategic Shift Toward Tailored Supervision

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The Office of the Comptroller of the Currency (OCC) recently unveiled a series of regulatory reforms designed to reduce compliance burdens on community banks. These changes reflect a strategic pivot toward risk-based supervision and away from one-size-fits-all regulatory approaches, acknowledging the crucial role that community banks play in local economies and national economic growth.

Risk-Based Examination Framework

Departing from previous practices, the OCC has eliminated fixed examination requirements for community banks in favor of a more flexible, risk-based approach. This change allows for:

- **Customized examination schedules** tailored to each bank's specific risk profile
- **Variable examination scopes** that focus on material areas of concern
- **Reduced operational disruption** during examination periods

Streamlined Investment Product Oversight

The OCC has streamlined its examination procedures for retail nondeposit investment products, announcing that examiners will utilize only the core assessment standards from the *Community Bank Supervision* booklet of the *Comptroller's Handbook*. This focused approach removes extraneous requirements while maintaining essential prudential oversight.

Flexible Model Risk Management

Perhaps most significantly for operational efficiency, the OCC has clarified that community banks should tailor their model risk management practices to align with their specific risk exposures, business activities, and the complexity and frequency of their model use.

The OCC characterized the flexible model as a “first step in refining model risk management guidance” for all OCC-regulated institutions and suggested further flexibility may be forthcoming.

On the Horizon: Future Community Bank Relief

The OCC has indicated that these changes are part of an ongoing initiative specifically aimed at community banks. Bank leaders should anticipate additional reforms, including:

- Adjustments to the community bank leverage ratio framework
- A simplified strategic plan process for Community Reinvestment Act compliance

The agency has explicitly stated that it “will continue to prioritize reforms targeted to community banks ahead of broader reforms for the industry,” signaling its commitment to right-sizing regulation for smaller institutions.

Strategic Considerations for Bank Leadership

The OCC’s shift should prompt community banks to review examination preparation protocols to ensure alignment with the new risk-based approach. This will help identify opportunities for right-sizing based on the OCC’s clarification.

Long-term planning should incorporate these regulatory changes into strategic objectives, maximizing opportunities for growth and community service. Community bank leaders should maintain open communication with OCC supervisors about these changes and their impact on institutional performance and community engagement.

Conclusion

The OCC’s recent actions represent a meaningful shift toward more tailored supervision of community banks—an acknowledgment of their unique business models and impact on local economies. As Comptroller Gould noted, these changes are designed to position community banks

“to support their communities and drive economic growth.”

By strategically adapting to these regulatory developments, community bank leaders can reduce compliance costs, streamline operations, and strengthen their capacity to fulfill their core mission of community service and economic development. As the regulatory landscape continues to evolve, staying informed and proactive will be essential for maximizing the benefits of these reforms.

“Community banks have an outsized impact on lending and are vital to the strength of the U.S. economy. Today’s actions relieve these banks of regulatory burden and unproductive reporting requirements, so they are better positioned to support their communities and drive economic growth,” said Comptroller of the Currency Jonathan V. Gould. “The OCC will continue to tailor our risk-based supervision to focus on material financial risk.”

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