



# **Evaluating the Community Bank Leverage Ratio (CBLR) at 8%— Should Your Bank Adopt It?**

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## Executive Summary

- On April 23, 2026, federal banking agencies finalized a rule lowering the Community Bank Leverage Ratio (CBLR) threshold from 9% to 8%, effective July 1, 2026.
- At the same time, regulators have proposed significant Basel III changes that could reduce risk-weighted assets for many community banks, with a final rule plausible later in 2026 and an effective date that could align with the 2027 planning cycle.
- Because each bank's balance sheet, concentrations, growth profile, and supervisory posture are different, the "right" capital framework decision cannot be made from the published thresholds alone.
- This whitepaper recommends a three-step approach: (1) derive bank-specific capital requirements using stress testing, (2) make a framework decision that incorporates both written and unwritten supervisory expectations, and (3) codify results in a board-approved, living capital plan with triggers and contingency actions.
- For many banks, Basel III may remain preferable despite CBLR's simplicity, because CBLR's perceived relief can be offset by supervisory pressure to operate above 8%—especially for higher-growth or higher-concentration institutions. However, choosing Basel III alone without pairing it with robust capital planning will be insufficient if the objective is to optimize the opportunities for capital relief.

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## Background and Regulatory Context

On April 23, 2026, the federal banking agencies issued a final rule lowering the Community Bank Leverage Ratio (CBLR) threshold from 9% to 8%, effective July 1, 2026. As a result, qualifying community banks that have remained on Basel III are re-evaluating whether to transition to the CBLR framework.

At the same time, additional capital relief may be coming through Basel III. On March 19, 2026, regulators issued a notice of proposed rulemaking that would make sweeping, bank-favorable changes to how risk-weighted assets are calculated. The comment period closes in June; a final rule could follow later in 2026, with an effective date that could plausibly be January 1, 2027.

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## Recommended Decision Framework

The goal is not to pick a framework based on a single published threshold, but to align your bank's capital strategy with its risk profile, growth plan, supervisory posture, and operating model. The steps below provide a practical sequence most community banks can execute using existing data and processes.

## Step 1: Calculate bank-specific capital requirements (stress-test informed)

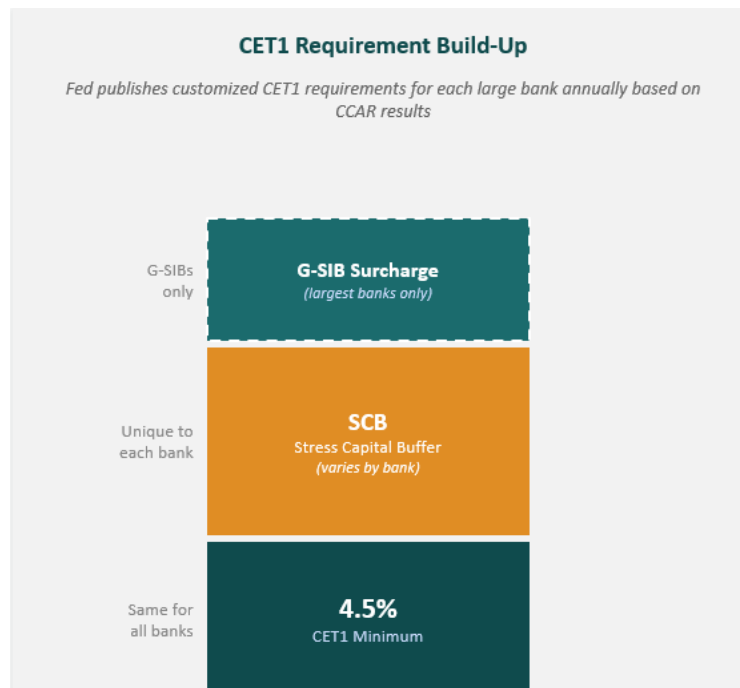
Start by estimating your bank's capital needs under Basel III across the four major regulatory capital ratios. Do this twice: once under current Basel III rules and once incorporating the proposed risk-weighting adjustments (to understand the range of outcomes if the proposal is finalized as drafted).

There is only one correct way to do this in a post-2008 world. Mirror the approach used for larger banks: stress testing. A stress test translates your specific portfolio and earnings profile into an expected capital drawdown under a severe, but plausible, downturn.

Under Dodd-Frank and the CCAR framework, the largest U.S. banks run annual stress tests using a "severely adverse" scenario published by the Federal Reserve (typically in February). While the scenario varies by year, it is often comparable in severity to the 2008–2009 crisis environment—contracting GDP, sharply higher unemployment, and significant asset price declines.

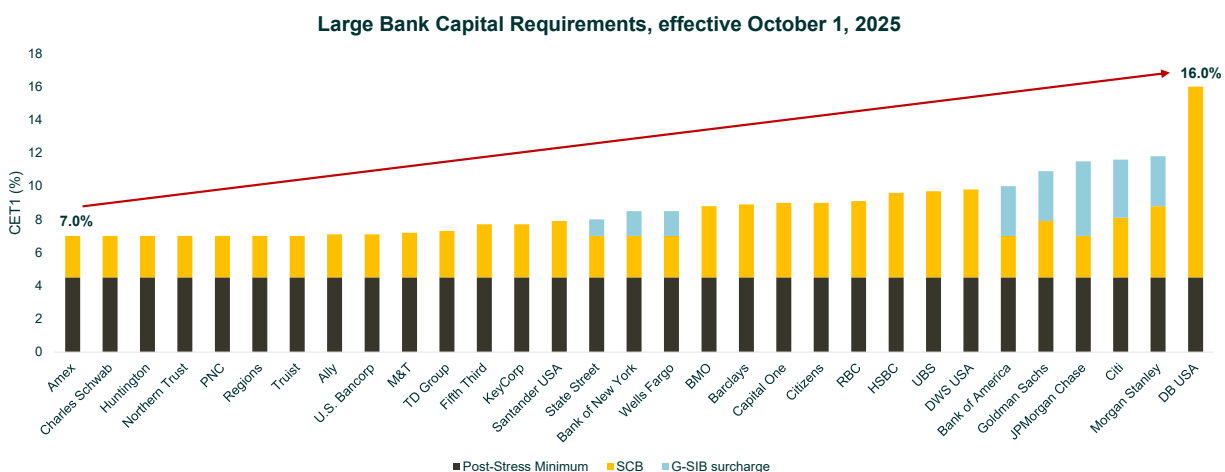
For large banks, the projected capital depletion (including planned dividends) is used to set a Stress Capital Buffer (SCB) that is added to the post-stress regulatory minimum. While the largest banks may also be subject to an additional G-SIB surcharge, community banks are not.

The following column chart articulates the build-up of the capital requirements for large banks. The SCB will vary and be based upon how well each individual bank performs in the stress test. For example, let's say that Bank A starts with a 9.0 percent Common Equity Tier 1 (CET1) Ratio<sup>1</sup> today, but it decreases by 300 basis points to 6.0 percent under stress. That decrease, or 3.0 percent, will become Bank A's SCB and will be added to the 4.5 percent minimum for the CET1 Ratio.



<sup>1</sup> The CET1 Ratio is the primary ratio utilized in the stress tests of larger banks under CCAR because the stress tests are performed at the bank holding company level, and the CET1 Ratio is typically the most constraining ratio for bank holding companies.

Regulators publish these stress-based requirements, and the dispersion is meaningful: in the most recently published cycle, the CET1 requirement (typically the most constraining ratio for large bank holding companies) ranged roughly from 7% to 16% across the largest banks. The takeaway is that “one-size-fits-all” capital thresholds mask wide differences in business models, portfolio risk and earnings capacity.



Source: [Press Release: Federal Reserve Board, August 29, 2025](#)

Your bank’s balance sheet, concentrations, business model, funding mix, and footprint are unique—so your “right” capital requirement is also unique. Community banks can run stress tests that are similar in concept (and often simpler in execution) to derive a bank-specific buffer and translate it into customized targets for the leverage ratio and risk-based ratios.

Once you complete this exercise, you will have a defensible view of the leverage ratio level your bank should operate at through a downturn. You can then compare that internal requirement to the 8% CBLR threshold and evaluate whether CBLR potentially creates real flexibility—or only apparent relief.

## Step 2: Make a data-informed framework decision (including supervisory realities)

After Step 1, it is tempting to treat the decision as purely mechanical: if your stress-informed leverage requirement is above 8%, adopt CBLR; if it is below 8%, stay on Basel III. In practice, that shortcut can lead to the wrong answer.

The reason is that written capital rules are only part of the story. Supervisory expectations—often informed by your risk profile, growth trajectory, and peer comparisons—can effectively raise the operating floor above the stated minimums.

Accordingly, evaluate CBLR vs. Basel III through both lenses: (1) what the rules permit and (2) what your supervisory team is likely to accept given your bank’s profile.

Unwritten rules matter. If your bank is perceived to carry above-average risk, you should expect higher expectations around capital regardless of the nominal framework.

Example: concentrations and rapid growth. If your bank has a CRE concentration above 300% and has grown CRE balances by more than 50% over the past 36 months, you may be checking both a “concentration” box and an elevated-risk box. In that situation, an examiner may be uncomfortable with your bank operating at (or near) an 8% leverage ratio—even if CBLR technically allows it.

Supervisors have multiple ways to communicate and enforce higher expectations, including matters requiring attention (MRAs), more formal enforcement actions, and pressure through CAMELS ratings and peer comparisons (e.g., capital levels relative to your UBPR peer group). Over time, this dynamic can create “musical chairs,” where banks in the bottom quartile work to move up—raising peer capital levels in the process.

In these cases, the perceived benefit of switching to CBLR can be largely offset by supervisory pressure to operate above 8%. Ironically, the more your internal stress test suggests you should hold well above 8%, the more likely it is that supervisors instinctively will view your bank as higher risk even without access to your calculation and therefore will also be uneasy about you managing tightly to the CBLR threshold. Conversely, if your internal requirement is close to 8%, the incremental “relief” from adopting CBLR may generate only a diminishing return.

That leaves CBLR’s primary advantage: operational simplicity (less work each quarter to complete capital calculations in the call report). But simplicity has tradeoffs—most notably, the risk of letting Basel III calculation capabilities atrophy, which can complicate a future transition back.

This is especially relevant for institutions that may seek to use holding-company double leverage. A bank charter may qualify for CBLR while the holding company does not. Proposed changes to the Small Bank Holding Company Policy Statement (including discussion of a higher asset threshold) may also affect the analysis, but the structural mismatch risk remains a consideration.

Practically, some banks that adopted CBLR and later reverted to Basel III have reported operational friction in systems, reporting processes, and governance. That “switching cost” should be part of the decision.

For many banks, Basel III remains the better long-term choice. However, CBLR can make sense in certain edge cases, for example:

- Institutions such as mutual savings banks that are comfortable operating with substantial excess capital because they do not have shareholders and have relatively low-risk balance sheets (e.g., primarily residential mortgage lending with limited commercial exposure).
- Very small banks (e.g., under \$100MM in assets) where reporting simplicity has outsized value relative to the strategic benefit of maintaining Basel III infrastructure.

### **Step 3: Build a robust capital planning framework (board-owned and actionable)**

This is the most important step. Steps 1 and 2 help you decide whether to remain under Basel III or transition to CBLR, but without a durable capital planning process, banks remain vulnerable to shifting supervisory expectations and peer-pressure dynamics.

Stress-test-informed capital targets are most valuable when they are embedded in governance. If the results are treated as an “interesting analysis” rather than an approved standard, they are unlikely to influence day-to-day decisions or supervisory outcomes.

Codify the targets from Step 1 in a formal Capital Plan that is reviewed and ratified by the board of directors. This turns the analysis into an institutional commitment that management can operate to and defend.

A strong Capital Plan typically includes:

- Preferred operating ranges and minimum limits for each regulatory capital ratio (and, if applicable, internal targets above regulatory minimums).
- Early-warning triggers that escalate governance before a limit breach occurs.
- A short set of key risk indicators (KRIs) linked to the primary drivers of capital volatility (e.g., concentration measures, criticized/classified trends, growth rates, funding stress indicators).
- A clear view of sources and uses of capital aligned to the budget and strategic plan (earnings retention, dividend policy, balance-sheet growth, planned M&A, etc.).
- A contingency capital action plan that specifies actions, owners, and timelines if triggers or limits are breached.

A Capital Plan is not a one-time document. It should be updated at least annually and ideally in tandem with budgeting and strategic planning so that growth, dividends, and portfolio strategy remain consistent with capital capacity.

Even if your bank adopts CBLR, a robust capital planning framework remains essential. Without it, supervisory expectations can drift upward over time, and the bank may not be positioned to demonstrate that its operating capital levels are appropriate for its risk profile.

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## **Key Takeaways**

- The CBLR threshold change to 8% creates a new decision point, but the correct choice depends on your bank’s specific risk and growth profile.
- Basel III capital relief may also arrive through pending rulemaking; banks should evaluate both frameworks under multiple scenarios.
- Stress testing is a practical way for community banks to translate portfolio risk into bank-specific capital requirements and a defensible leverage ratio operating target.

- Supervisory expectations can effectively raise the operating floor above the written threshold—especially for banks with concentrations, rapid growth, or other heightened-risk signals.
- The most durable “capital relief” comes from governance: a board-approved Capital Plan with clear limits, triggers, KRIs, and contingency actions.

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## Conclusion

Regardless of whether a bank chooses CBLR or Basel III, the opportunity is the same: use a data-driven view of capital needs, then formalize that view in governance so it can be maintained through changes in the regulatory cycle. Done well, this approach helps banks avoid whipsawing between frameworks and positions them to explain—credibly and consistently—why their capital levels are appropriate.