

the sub bank News Brief

Issue 1

February 2026

Dear Members,

I am pleased to introduce the first installment of our monthly brief, a new initiative of the Subchapter S Bank Association designed to enhance member engagement and provide timely, valuable information to our community. This monthly brief represents our continued commitment to supporting your success and keeping you informed of critical developments in our industry.

These monthly briefs have been carefully designed to be accessible and practical, focusing on fundamental Subchapter S concepts, industry best practices, and essential refreshers on key topics. You can think of this as “Subchapter S 101”—a resource that will help both new members get up to speed, and experienced members stay current with foundational principles.

Beyond educational content, these monthly briefs will serve as a source for time-sensitive updates on legislative developments affecting Subchapter S banks. We will keep you informed of proposed regulatory changes, Congressional activities relevant to our sector, advocacy efforts underway on your behalf, and significant industry announcements that may impact your institution.

In addition to these monthly briefs, we are re-establishing a regular publication schedule for our quarterly newsletter. These will provide in depth articles, highlight relevant industry research, and provide data driven indicators for the Subchapter S banking sector.

We are also expanding our digital presence and member communication channels. The Association will be posting more frequently on our X account @subsbanks and LinkedIn page (Subchapter S Bank Association) sharing updates, industry news, and opportunities for member engagement. I encourage all members who have not already done so to follow our social media channels to stay connected with the Association.

This comprehensive communication strategy represents a significant commitment to enhanced member engagement and reflects the Association’s dedication to delivering exceptional value to our members. My primary objective as we move forward is to continuously improve the services, resources, and support we provide to you and your institutions.

Thank you for your continued membership, participation, and support of the Subchapter S Bank Association. Your engagement strengthens our community and enables us to better advocate for the interests of Subchapter S banks nationwide. I look forward to serving you through these new communication initiatives and welcome your feedback as we work together to advance our shared goals.

Sincerely,



Andrew Craig
Chief Executive Officer
Subchapter S Bank Association
acraig@subsbanks.org



Legislative Update

This past Monday, the House passed HR 6644 – the Housing for the 21st Century Act. This comprehensive housing legislation includes significant provisions benefiting community banks and small financial institutions. Title VI of the bill provides: significant deposit flexibility through custodial and reciprocal deposit relief, reduces the examination burden for institutions under \$6 billion, support for de novo bank formation by reducing regulatory burdens, and mandates a study on improving rural bank growth, capital, and profitability. Last week, the Subchapter S Bank Association sent a letter of support for the bill to House Financial Services Committee Chairman French Hill. The letter can be found on **page 4**.

Last month Pat Kennedy Jr. and Dub Sutherland were in D.C. representing the Subchapter S Bank Association at an important event hosted by the Leadership of the House Financial Services Committee on the occasion of the introduction of Main Street Capital Access Act. They met with leadership of the Committee as well as the President of the ABA, ICBA, CSBS, TBA and numerous other government and industry leaders including Jonathan McErnan, Assistant

Secretary of the Treasury (Domestic Financial Institutions).

Pat attended the American Bar Association’s Banking Law Committee Meeting in DC, attended by banking lawyers from across the country who hosted two days of meetings with industry leaders including Brandon Milhorn (President of the Conference of State Bank Supervisors), Jonathan Gould (U.S. Comptroller of the Currency), General Counsel from FDIC, OCC, the Fed and numerous other officials and industry leaders including several State Banking Commissioners. These meetings and engagements are important to promote Subchapter S Bank knowledge and understanding among members of Congress and the Administration and position the Association to continue its leadership role in promoting community Banking.

Pat also held meetings with House Leadership and Committee staff regarding key legislative strategies, including repealing section 619 of the Dodd-Frank Act – which would allow Trust Preferred Securities to be re-established as a viable source for community bank capital.

Understanding Subchapter S Banking: A Primer

What is a Subchapter S Bank?

A Subchapter S bank is an insured depository institution that has elected to be taxed under Subchapter S of the Internal Revenue Code, similar to S corporations in other industries. This election allows the bank to operate as a pass-through entity for federal income tax purposes, meaning the bank itself generally does not pay corporate income taxes. Instead, income, deductions, and credits flow through to shareholders, who report these items on their individual tax returns.

Basic Qualification Requirements

To qualify for Subchapter S status, a bank must meet several strict criteria. The institution must be a domes-

tic corporation with no more than 100 shareholders, all of whom must be U.S. citizens or residents. Eligible shareholders are limited to individuals, certain trusts, and estates—partnerships, corporations, and non-resident aliens cannot hold shares in an S bank. For purposes of the 100-shareholder rule, shareholder can be members of a family, including spouses, reaching back up to six generations. Additionally, the bank can have only one class of stock, though differences in voting rights are permitted. The bank must file Form 2553 with the IRS, and all shareholders must consent to the election.

Why Banks Choose Subchapter S Status

Banks primarily elect Subchapter S status to eliminate double taxation. Traditional C corporations pay corpo-



rate income tax on earnings, and shareholders then pay personal income tax on dividends received—taxation at both the corporate and individual levels. With S status, income is taxed only once at the shareholder level, potentially resulting in significant tax savings. This structure is particularly attractive to community banks with closely held ownership, where shareholders are actively involved in the institution and prefer direct pass-through of earnings. The tax savings can enhance shareholder returns and make the bank more competitive in attracting and retaining investor-owners.

Impact on Shareholder Returns

The elimination of corporate-level taxation directly enhances shareholder returns and can significantly affect a bank's competitive position in attracting investor capital. For closely held community banks, where shareholders are often local investors seeking both financial returns and community impact, the pass-through structure means more earnings flow through to owners. This can translate to higher effective yields on their investment, making S bank ownership more attractive than comparable C corporation bank investments.

Important Considerations

Before electing Subchapter S status, banks should carefully evaluate their shareholder base and future capital needs. The restriction to 100 shareholders and limitations on shareholder types can constrain growth strategies and complicate capital raising. Banks plan-

ning to go public or attract institutional investors may find S status incompatible with their goals. Additionally, state tax treatment of S corporations varies, and some states do not recognize the election or impose entity-level taxes regardless of federal status.

The Qualified Business Income Deduction (Section 199A), introduced in the Tax Cuts and Jobs Act of 2017 and made permanent under the One Big Beautiful Bill Act of 2025, adds another layer of tax advantage for S corporation bank shareholders. This provision generally allows eligible taxpayers to deduct up to 20% (23% for taxable years starting 12/31/2025) of qualified business income from pass-through entities, subject to various limitations based on taxable income levels, W-2 wages paid by the business, and the unadjusted basis of qualified property. For S bank shareholders, this deduction can reduce the effective federal tax rate on bank income, representing a meaningful enhancement to the single-taxation advantage of S status.

After making the election, banks must maintain ongoing compliance with all S corporation requirements. Inadvertent termination of S status—through exceeding the shareholder limit, issuing a second class of stock, or admitting an ineligible shareholder—can have severe tax consequences. Banks should establish robust governance procedures to monitor compliance, screen potential shareholders, and educate existing shareholders about transfer restrictions. Regular consultation with tax and legal advisors is essential to navigate the complex rules and maximize the benefits of Subchapter S status while avoiding costly pitfalls.



February 6, 2026

The Honorable French Hill
Chairman, House Financial Services Committee
U.S. House of Representatives
Washington, DC 20515

RE: Letter of Support – The Housing for the 21st Century Act

I am writing on behalf of the Subchapter S Bank Association to express our strong support for the Housing for the 21st Century Act. There are 1,450 Subchapter S Banks in the United States of which the vast majority are located in rural communities.

The Housing for the 21st Century Act takes a practical approach by streamlining outdated federal processes, expanding access to housing finance, and strengthening the ability of community-based financial institutions to deliver capital where it is needed most.

We appreciate the legislation's focus on increasing housing supply, reducing unnecessary regulatory barriers, and expanding affordable housing finance tools. Provisions that improve access to small-dollar mortgages and strengthen coordination among federal housing programs will help address persistent housing shortages in many communities.

Title VI appropriately recognizes the critical role of community banks. Regulatory relief, improved deposit treatment, and streamlined examinations will allow well-managed institutions to deploy more capital into residential lending while maintaining strong safety and soundness standards.

Subchapter S banks remain deeply committed to serving local communities. By strengthening the role of community banks and expanding housing finance tools, this legislation will help increase housing supply, promote affordability, and support sustainable economic growth nationwide.

Sincerely,

A handwritten signature in blue ink that reads "Patrick J. Kennedy, Jr." in a cursive style.

Patrick J. Kennedy, Jr.
President
Subchapter S Bank Association



SAVE THE DATE FOR THE **2026 ANNUAL CONFERENCE!**



Join us for the only conference built exclusively for S Corp banks with S corp professionals who will share their experiences & knowledge on not just the “what” and the “why,” but the “how.”

Date: **October 22-23, 2026**

Location: **San Antonio Marriot Rivercenter**

For More Information:

contact Amy Willcox at awillcox@subsbanks.org