Monthly News Brief

SUBCHAPTER S BANK ASSOCIATION, INC.

July 2026

This month's Subchapter S Bank Association News Brief covers enactment of the 21st Century ROAD to Housing Act, House passage of the Main Street Capital Access Act, a proposed CRA overhaul from the OCC and FDIC, the new Community Bank Leverage Ratio calibration, midyear merger and acquisition activity, and features on what the housing statute means for your bank and on building shareholder wealth through Subchapter S banking.

Federal Legislation

21st Century ROAD to Housing Act Now Law

The 21st Century ROAD to Housing Act became law on July 11, 2026. Title IX of the statute carries the community banking provisions the Association supported throughout the legislative process, including brokered deposit relief for custodial and reciprocal deposits, an increase in the extended examination cycle asset threshold from $3 billion to $6 billion, de novo formation and capital phase-in measures, and a codified Treasury mentor-protégé program. A related provision raises the cap on bank public welfare investments from 15 percent to 20 percent of capital. A full discussion of the community banking related sections can be found in the article below.

House Passes Main Street Capital Access Act

The House passed H.R. 6955, the Main Street Capital Access Act, on July 21 by a vote of 270-155-1. The bill is sponsored by House Financial Services Committee Chairman French Hill and Financial Institutions Subcommittee Chairman Andy Barr.

Principal provisions include a three-year phase-in period for de novo institutions to meet federal capital requirements, a ninety-day deadline for agencies to decide bank merger and acquisition applications, and a new requirement that agencies consider an institution's risk profile and business model when issuing regulations and supervisory decisions. The bill also adjusts financial thresholds, raising one applicability threshold from $250 billion to $370 billion. Additional provisions prohibit the use of reputational risk in examinations and index various asset-based regulatory thresholds. The Keeping Deposits Local Act was included in the final package.

The legislation also extends the CDFI Bond Guarantee program through December 31, 2028, lowers the program's minimum loan size from $100 million to $25 million, removes the annual limit on guarantees, and requires the Treasury Secretary to testify annually before the Senate Banking and House Financial Services Committees on CDFI Fund operations.

The bill now moves to the Senate, where it would need sixty votes on a compressed calendar ahead of the November elections. Senate Banking Committee ranking member Elizabeth Warren opposes the package. The bipartisan House margin, however, suggests individual provisions may resurface as riders to must-pass legislation.

Members should note that the Main Street Act's three-year de novo capital phase-in differs from the two-year phase-in authorized under the ROAD to Housing Act. Reconciliation of the two frameworks will be a matter to watch.

Sources: House Financial Services Committee release · Section-by-section · One-pager · ABA Banking Journal · CDFI provisions · American Banker

Regulatory Developments

OCC and FDIC Propose Targeted CRA Amendments

On July 31, the OCC and the FDIC jointly proposed targeted amendments to their rules implementing the Community Reinvestment Act. The proposal would retain the key elements of the framework the agencies have generally applied since 1995 while making substantive, technical, and process-oriented changes intended to align the rules more closely with the statutory mandate, ensure community development grants reach their intended communities, reduce burden particularly for community banks, and clarify how activities qualify for CRA consideration.

The most consequential provision for members: banks with $10 billion or less in total assets would not be subject to data collection, maintenance, and reporting requirements and would receive more flexible supervision. Under the framework currently in effect, the large-bank reporting threshold sits near $1.6 billion, so the change would remove reporting obligations from an entire tier of institutions. The proposal would also increase the focus on lending, seek to prevent community development grants and donations from being diverted to other activities or excessive operating costs, and narrow the range of retail banking services considered to focus on credit services, thereby excluding deposit services.

The proposal follows the October 2023 CRA final rule, which the U.S. District Court for the Northern District of Texas enjoined before it took effect, and the July 2025 interagency proposal to rescind that rule and restore the 1995 regulations. Comments are due 60 days after publication in the Federal Register. The OCC news release can be found **HERE**.

Members should note that the Federal Reserve did not join this proposal. Recent CRA rulemakings, including the 2023 final rule and the 2025 rescission proposal, were issued by all three banking agencies. Because the Federal Reserve administers CRA for state member banks, an OCC and FDIC rulemaking that proceeds without the Board would leave state member banks outside the revised framework and create charter-based differences in CRA obligations. The Association is reviewing the proposal and will keep members apprised.

Community Bank Leverage Ratio Change Effective July 1

The final interagency rule revising the CBLR framework took effect July 1, 2026. The rule lowers the CBLR requirement from 9 percent to 8 percent, consistent with the lower bound in Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. It also extends the period during which a qualifying institution may remain in the framework while out of compliance from two consecutive quarters to four, subject to a limit of eight quarters in any five-year period. The framework applies to qualifying community banks under $10 billion in total consolidated assets that meet the other prudential criteria and opt in.

On July 30, the OCC issued a revised CBLR Framework Community Bank Compliance Guide to help community banking organizations understand the changes. In announcing the guide, the agency stated that approximately 95 percent of community banks could benefit from the framework and estimated that the revisions will free up roughly $64 billion that could support additional lending. Comptroller Jonathan V. Gould described the action as part of a broader effort to reduce regulatory burden on community banks.

The announcement also catalogued the OCC's other community bank measures over the past year, including creation of a distinct community bank line of supervision, removal of previously required examination activities in favor of risk-based scoping, an increase in the upper asset range of the community bank supervision portfolio, tailored model risk management expectations, expanded access to expedited licensing procedures, minimum Bank Secrecy Act examination procedures for community banks, elimination of Money Laundering Risk System data collection, and proposed guidance for a simplified Community Reinvestment Act strategic plan process.

Institutions that had previously declined to opt into the framework may wish to revisit that analysis in light of the lower calibration and expanded grace period. The $64 billion figure is an OCC estimate of potential lending capacity rather than capital released.

Sources: Federal Register final rule · OCC Bulletin 2026-15 · FDIC release · OCC News Release 2026-62 (revised compliance guide)

FDIC Rulemaking Package Open for Comment

Three notices of proposed rulemaking approved by the FDIC Board on June 25 remain open. Collectively, the proposals would revise deposit insurance assessment thresholds and rate schedules, raise the applicability threshold for resolution submissions from $50 billion to $100 billion while streamlining filing requirements, and amend Part 309 governing disclosure of confidential supervisory information. Comments are due August 31, 2026. The resolution planning and disclosure proposals are directed principally at larger institutions; the assessment proposal warrants review by all insured institutions.

Sources: Deposit insurance assessments · Resolution submissions · Disclosure of information

Merger and Acquisition Activity

PwC's midyear analysis found the pace of merger and acquisition announcements slowed during the first half of 2026 despite greater certainty around regulatory approvals, with broader economic uncertainty cited as the driver. Median deal closing times fell to 132 days from 187 days the prior year. More than 130 bank-to-bank transactions and approximately 100 credit union mergers were completed over the most recent four-quarter period.

Deal activity announced in the final week of July included First Financial Bancorp's agreement to acquire Finward Bancorp in Indiana for $208 million in stock, and Northrim BanCorp's agreement to acquire PBCO Financial in Oregon for $167.3 million in stock.

Sources: PwC midyear analysis · July transactions

The 21st Century ROAD to Housing Act Is Now Law

What the New Housing Statute Means for Subchapter S Community Banks · July 2026

The 21st Century ROAD to Housing Act — the most significant federal housing legislation in decades — became law on July 11, 2026. For Subchapter S community banks, the headline is a good one: the law's community banking title, which the Association followed and supported through a long legislative back-and-forth, made it into the final statute intact. Here is how the bill came together, how the Association covered it, and what the enacted community banking provisions actually do.

A Bill Two Years in the Making

The bill combined two efforts: the House's Housing for the 21st Century Act (H.R. 6644), which passed February 9, 2026 with a community banking title (Title VI), and the Senate's ROAD to Housing Act. Merged into the 21st Century ROAD to Housing Act, the community banking title was stripped out in the Senate, then restored by the House — renumbered Title IX — in an amended bill passed 396–13 on May 20.

The chambers reached final agreement in June: the Senate passed the bill 85–5 on June 22 and the House 358–32 on June 23. It became law without the President's signature on July 11, 2026.

The Association's Coverage and Support

On February 6, 2026, ahead of the House floor vote, the Association sent a letter of support for the bill to House Financial Services Committee Chairman French Hill, noting that the community banking title (then Title VI) would give well-managed community institutions regulatory relief, improved deposit treatment, and streamlined examinations. The February News Brief reported the bill's House passage and included the letter.

The Association followed the bill through its later 2026 updates — backing the title's reinstatement in March after the Senate dropped it, reiterating support in May once the House restored it as Title IX, and reporting final passage in June.

What the Statute Does

The 21st Century ROAD to Housing Act is a comprehensive housing package spanning twelve titles — addressing housing supply, manufactured housing, homeownership access, program reform, veterans housing, and oversight, among other areas. Two features drew national attention: a new restriction on large institutional investors buying single-family homes, and a temporary bar on a Federal Reserve digital dollar. For community banks, the center of gravity is Title IX, the community banking title, along with a handful of related provisions elsewhere in the bill.

The Community Banking Provisions, in Plain English

Title IX — Strengthening Community Banks' Role in Housing

- **Community bank deposit access (§ 901):** Custodial deposits at smaller banks won't be treated as "brokered" deposits — removing a regulatory tag that can raise costs and complicate funding.
- **Keeping deposits local (§ 902):** Banks can exclude more of their reciprocal deposits from the "brokered" label, and the FDIC is directed to study reciprocal deposits.
- **Longer exam cycle for more banks (§ 903):** The asset ceiling to qualify for the extended 18-month examination cycle rises from $3 billion to $6 billion, easing exam frequency for more community banks.
- **Credit union board flexibility (§ 904):** Well-run federal credit unions may meet as few as six times a year instead of monthly.
- **Systemic-risk transparency (§ 905):** The GAO and regulators must report to Congress on what caused any failure serious enough to trigger the FDIC's systemic-risk exception.
- **Mentor-protégé program (§ 906):** A Treasury program pairing large institutions with small rural banks and minority depository institutions is written into law.

- **Easier de novo formation (§ 907):** Regulators are directed to make it easier to charter new community banks and credit unions — including rural and minority institutions — by streamlining applications and coordination.
- **New-bank capital phase-in (§ 908):** New (de novo) banks get a pilot two-year phase-in of capital requirements and more flexibility to adjust approved business plans.
- **Rural depositories study (§ 909):** Regulators and the NCUA must study how to support rural banks and credit unions and identify rules that hold them back.

Related provisions elsewhere in the law

- **Higher public welfare investment cap (§ 203):** The ceiling on bank public welfare investments — the affordable-housing and community-development kind — rises from 15% to 20% of capital, giving banks more room to invest in these projects.
- **Institutional-investor limit (§ 1001):** Large investors owning 350 or more single-family homes are barred from buying additional new single-family homes, with exemptions (including build-to-rent).
- **No Fed digital dollar for now (§ 1101):** The Federal Reserve is barred from creating a central bank digital currency through 2030.

What This Means for Your Bank

For most member banks, the immediate wins are on the funding and supervision side. The deposit provisions (§§ 901–902) reduce the risk that custodial and reciprocal deposits get swept into brokered-deposit treatment, and the higher exam-cycle threshold (§ 903) means more banks qualify for a lighter examination schedule. Banks weighing de novo participation or charter strategy should note the new-formation provisions (§§ 907–908). And banks active in affordable-housing finance gain headroom from the higher public welfare investment cap (§ 203). As always, the specifics will be shaped by how the agencies implement the law.

The full text of the enacted law is available **HERE** (H.R. 6644, 119th Congress).

Building Shareholder Wealth Through Subchapter S Banking

Enhancing Return on Equity Through Tax Efficiency

Return on equity is among the most closely watched measures of bank performance, but for C corporation banks the reported figure overstates what shareholders keep. It reflects the corporate tax and not the second layer shareholders pay when earnings are distributed.

Subchapter S status removes the entity-level layer. Consider two community banks, each earning a 12 percent pre-tax return on equity. The C corporation pays 21 percent at the entity level, leaving roughly 9.5 percent. When shareholders receive that as a dividend and pay 23.8 percent — the 20 percent qualified dividend rate plus the 3.8 percent net investment income tax — their return falls to 7.22 percent. The S corporation shareholder is taxed once, at the top ordinary rate of 37 percent, and keeps 7.56 percent.

The comparison assumes full distribution of earnings and excludes state taxes. It also assumes S corporation shareholders materially participate and therefore owe no net investment income tax; passive shareholders would owe it, narrowing the advantage. The Section 199A deduction, where available, widens it: a shareholder claiming the full 20 percent deduction faces an effective rate near 29.6 percent and keeps roughly 8.4 percent.

Long-Term Compounding of Shareholder Wealth

That annual difference compounds. Because the S corporation shareholder keeps more of each year's earnings, reinvested proceeds grow from a larger base every year, and the advantage widens with the length of the holding period. The effect is modest over a few years and meaningful over decades.

This matters most to shareholders who treat the bank as a long-term family asset. Undistributed earnings increase a shareholder's basis in S corporation stock each year, reducing the taxable gain on an eventual sale — a benefit C corporation shareholders do not receive. For families committed to maintaining ownership across generations, the structure compounds both wealth and control.

The S election lowers the combined tax on bank earnings across the entity and its owners. Because S bank shareholders are typically local — business owners, professionals, and civic leaders in the towns the bank serves — more of that capital stays in the community rather than leaving as federal tax.

As shareholder wealth grows, it tends to be reinvested locally: new businesses, property purchases, charitable giving, support for community institutions. The advantages of Subchapter S banking extend well beyond the shareholders who hold the stock.

The illustrations above are general and are provided for informational purposes only. They do not constitute tax or legal advice. Members should consult their own advisors regarding their institution's and shareholders' particular circumstances.

Subchapter S Bank Association 29th Annual Conference

Join us for the Subchapter S Bank Association's 29th Annual Conference on October 22nd and 23rd, 2026 at San Antonio Marriott Rivercenter on the River Walk in beautiful downtown San Antonio! Listen to the latest in strategies and tactics to improve bank performance and ensure ongoing compliance from the leading professionals in the industry!

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