

The

Subchapter S Bank Report

Quarterly Update · September 2026 · Federal & industry developments for S-corporation community banks

SAVE THE DATE

29th Annual Conference

October 22–23, 2026 · San Antonio Marriott Rivercenter

Comptroller of the Currency Jonathan Gould will address us over lunch on Day 1. House Financial Services Chairman French Hill and Ways and Means Chairman Jason Smith will also join the Legislative Update. Registration is now open.

[Register for the Conference »](#)

For more information, contact Amy Willcox at awillcox@subsbanks.org.

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INDUSTRY DATA

Second-Quarter 2026 Subchapter S Bank Statistics

The Subchapter S bank count closed the second quarter at **1,377** — down 18 from the first quarter (14 banks lost to M&A and 5 S-to-C terminations, offset by 1 C-to-S conversion) and 75 from a year ago. Even with the smaller population, S-corp banks posted quarterly net income of **\$3.22 billion, up 10.7% year over year**, with equity capital up 6.8%.

Metric	2026 Q2	2026 Q1	2025 Q2	QoQ Δ	YoY Δ
Count					
Number of Subchapter S Banks	1,377	1,395	1,452	–1.3%	–5.2%
FDIC-Insured Institutions	4,238	4,278	4,421	–0.9%	–4.1%
S-Corp Share of All Banks	32.5%	32.6%	32.8%	–0.1 pp	–0.4 pp
Balance Sheet (\$000s, period-end)					
Total S-Corp Assets	\$724,425,054	\$728,653,937	\$716,673,454	–0.6%	+1.1%
— % of industry	2.7%	2.8%	2.8%	–0.1 pp	–0.1 pp

Metric	2026 Q2	2026 Q1	2025 Q2	QoQ Δ	YoY Δ
Total S-Corp Deposits	\$607,755,929	\$614,498,244	\$605,418,544	−1.1%	+0.4%
— % of industry	2.9%	3.0%	3.1%	−0.1 pp	−0.1 pp
Total S-Corp Loans & Leases	\$488,139,753	\$487,246,763	\$484,151,715	+0.2%	+0.8%
— % of industry	3.5%	3.6%	3.7%	−0.1 pp	−0.2 pp
Total S-Corp Equity Capital	\$73,496,325	\$72,858,760	\$68,794,518	+0.9%	+6.8%
— % of industry	2.8%	2.8%	2.7%	+0.0 pp	+0.1 pp
Income Statement (\$000s, quarterly)					
S-Corp Net Income	\$3,224,429	\$3,062,993	\$2,914,022	+5.3%	+10.7%
— % of industry	3.5%	3.8%	4.1%	−0.2 pp	−0.6 pp
S-Corp Interest Income	\$9,928,796	\$9,749,944	\$9,819,538	+1.8%	+1.1%
S-Corp Interest Expense	\$3,090,428	\$3,104,807	\$3,357,190	−0.5%	−7.9%
S-Corp Noninterest Income	\$1,854,739	\$1,849,055	\$1,833,226	+0.3%	+1.2%
S-Corp Noninterest Expense	\$5,110,354	\$5,074,961	\$4,975,155	+0.7%	+2.7%
Employees					
Total S-Corp Employees	104,628	105,143	107,451	−0.5%	−2.6%
— % of industry	5.1%	5.1%	5.2%	−0.0 pp	−0.1 pp

Source: FDIC BankFind Suite API; FDIC-insured institution counts are from the FDIC Quarterly Banking Profile. Comparison: 2026 Q2 vs. 2026 Q1 (prior quarter) vs. 2025 Q2 (year ago). Income-statement figures are discrete-quarter (YTD differenced); balance-sheet figures are period-end. First-quarter figures may differ from those in the June issue because of revised FDIC data and the switch to the FDIC-insured institution count. Generated October 1, 2026.

POLICY

Legislative & Regulatory Update

A busy month on Capitol Hill and at the banking agencies, which began carrying out the community bank provisions of the 21st Century ROAD to Housing Act, which became law July 11. Below are the federal items most relevant to our members, with sources and links for each.

FEDERAL LEGISLATION — S CORPORATIONS

House Bill Would Raise the S Corporation Shareholder Limit to 250 and Allow IRA Ownership

Rep. Mike Carey (R-OH) introduced H.R. 9840, the S Corporation Modernization Act of 2026, on July 22; it was referred to the Ways and Means Committee. The House bill joins S. 2017, the Senate version covered in the June issue. It would raise the shareholder limit from 100 to 250 and allow IRAs, including Roth IRAs, to own S corporation stock. Of particular interest to banks, it would also raise the Section 1375 passive investment income threshold from 25% to 60% and eliminate excessive passive investment income as an event that can terminate an S election, while keeping current law's exclusion of interest income and dividends on required holdings, such as Federal Reserve and Federal Home Loan Bank stock, from passive investment income for banks and their holding companies. Other provisions would permit nonresident alien shareholders subject to new withholding rules, treat employees of the S corporation and its QSubs as a single shareholder for the shareholder-limit test, and provide additional succession-related relief. Under current law, an IRA can hold S corporation bank stock only to the extent it held that stock on Oct. 22, 2004.

Sources: [H.R. 9840 \(Congress.gov\)](#) · [Rep. Carey release](#)

TAX — TREASURY / IRS**S Corporation Projects Make the 2026–27 Priority Guidance Plan**

On Sept. 29, Treasury and the IRS released the 2026–27 Priority Guidance Plan. For S corporation banks, the guidance plan highlights regulations under Sections 139L and 199A; broader Subchapter S guidance under Section 1361; a revenue procedure under Section 1362(f) addressing the validity or continuation of S corporation and QSub elections; and guidance on EIN assignments in F reorganizations involving S corporations. The plan identifies projects Treasury and the IRS intend to prioritize for the coming fiscal year (beginning Oct. 1, 2026), but no publication dates have been set for these items.

Sources: [2026–27 Priority Guidance Plan](#)

FEDERAL LEGISLATION — COMMUNITY BANKS**Main Street Capital Access Act Passes the House**

H.R. 6955, the Main Street Capital Access Act, passed the House 270–155 on July 21 and is pending in Senate Banking. The package from House Financial Services Chairman French Hill would raise the asset limit for the community bank leverage ratio framework from \$10 billion to \$15 billion, raise the Small Bank Holding Company Policy Statement threshold from \$3 billion to \$6 billion, give new banks three years to phase in capital requirements, and ease some merger reviews.

Sources: [H.R. 6955 \(Congress.gov\)](#) · [House Financial Services release](#)

FEDERAL LEGISLATION — DIGITAL ASSETS**Crypto Market-Structure Bill Stalls, and the Stablecoin-Yield Fight Stays Open**

The Senate failed to invoke cloture on the CLARITY Act, 49–50, on Sept. 15. Community-bank pressure over stablecoin yield was among the sticking points flagged before the vote. For banks, the result means another chance at a yield ban in a future bill, but no near-term permissibility wins from this one.

Sources: [Senate roll call vote](#) · [American Banker](#) · [ABA Banking Journal](#)

FEDERAL LEGISLATION — CFPB**CFPB Funding and Leadership Both Advance**

House Financial Services approved H.R. 10184, 28–21, on Sept. 16. The bill would move the Bureau from Federal Reserve funding to annual congressional appropriations. The next day, Senate Banking advanced Brian Johnson's nomination as director, 13–11 along party lines. No floor vote had been scheduled before the Oct. 5 recess.

Sources: [Consumer Finance Monitor](#) · [American Banker](#)

REGULATORY — OCC / FDIC / FEDERAL RESERVE**18-Month Exam Cycle Now Reaches Banks Under \$6 Billion**

On Sept. 10 the three agencies issued an interim final rule carrying out the ROAD to Housing Act's increase in the threshold from \$3 billion to \$6 billion. Offsite monitoring between exams continues. To qualify, a bank must be 1- or 2-rated, well capitalized, not under a formal enforcement action, and without a change in control in the prior 12 months. The rule took effect Sept. 14. The agencies estimate about 188 more banks now qualify (95 FDIC, 50 OCC, 43 Fed).

Sources: [Joint release](#) · [OCC Bulletin 2026-45](#) · [FDIC FIL](#)

REGULATORY — FDIC**Reciprocal Deposits: The Larger Brokered-Deposit Carve-Out Is Live**

The FDIC approved an interim final rule on Aug. 27 implementing Section 902 of the housing law, and it took effect Sept. 1. Agent institutions can now exclude more reciprocal deposits from brokered treatment, under a tiered, liability-based cap of up to \$30 billion. The rule also counts 3-rated, well-capitalized banks as agent institutions. The FFIEC is issuing supplemental instructions so the Sept. 30 Call Report, due at the end of October, reflects the change.

Sources: [Federal Register](#) · [FDIC press release](#) · [FDIC FIL](#)

REGULATORY — OCC / FDIC**OCC and FDIC Finalize a Narrower “Unsafe or Unsound” Standard and New MRA Rules**

The rule was adopted Aug. 27 and takes effect Nov. 2. It defines “unsafe or unsound practice” and resets how matters requiring attention (MRAs) are issued; the Fed did not join. The FDIC is ending its use of Matters Requiring Board Attention and Supervisory Recommendations. FDIC Chairman Travis Hill said an agency lookback found most outstanding supervisory criticisms don’t meet the new standard, and they are being closed out. On Sept. 17 the FDIC board also rescinded its 2016 statement on supervisory recommendations.

Sources: [Federal Register](#) · [Chairman Hill statement](#) · [FDIC FIL on the rescission](#)

REGULATORY — FDIC**FDIC Proposes Faster, More Predictable Merger Review**

The Sept. 17 proposal would count credit unions and centrally booked deposits in the competitive analysis, add a letter filing with deemed approval for de minimis deals, tailor other filing requirements, and limit the FDIC’s discretion to pull filings out of expedited processing. It directly affects only deals that need FDIC approval under the Bank Merger Act. For context, 14 of the 19 S-corp banks lost in the second quarter were due to M&A.

Sources: [FDIC press release](#) · [FDIC FIL](#) · [Chairman Hill statement](#)

REGULATORY — FDIC**FDIC Proposes Interstate Parity for State-Chartered Banks**

Also on Sept. 17, the FDIC proposed a parity rule for out-of-state state banks. If a host state’s laws don’t apply to an out-of-state national bank, they also wouldn’t apply to an out-of-state state bank serving that state, with or without a branch. The chartering state’s law would govern, and loan-rate authority is unaffected. The staff memo points to Illinois’s Interchange Fee Prohibition Act and similar bills in other states as the source of the legal uncertainty. The Conference of State Bank Supervisors (CSBS) strongly supports the proposal.

Sources: [FDIC press release](#) · [Federal Register](#) · [CSBS](#)

REGULATORY — FEDERAL RESERVE**Fed Issues Its GENIUS Act Proposals**

On Sept. 24 the Fed proposed full reserve backing with short-term Treasury bills and other high-quality liquid assets, standardized capital and risk-management requirements, rules for firms that hold the reserve assets, clearer limits on which stablecoin activities its banks may conduct, and an application process for banks seeking a stablecoin-issuing subsidiary. As the statute requires, issuers couldn’t pay interest or yield just for holding the coins. The Act takes effect on the earlier of Jan. 18, 2027, or 120 days after final rules are issued. With the rules still only proposed, Jan. 18 is the date that applies.

Sources: [Fed release](#)

Prepared for our members. Items reflect federal developments as of Sept. 30, 2026; legislative and regulatory specifics will continue to evolve as bills advance and agency proposals are finalized.

TAX

Why the Ag Real Estate Lending Exclusion Can Be Worth More to S Corporation Banks

In brief: why the new 25% interest exclusion can be worth more in an S corporation than in a C corporation — and the distribution rule that can blunt it.

Section 139L, added by the One Big Beautiful Bill Act, lets FDIC-insured banks and other qualified lenders exclude 25% of the interest they receive on qualifying loans secured by rural or agricultural real estate from gross income. The exclusion applies to taxable years ending after July 4, 2025, so 2025 was the first year it applied for calendar-year banks, and the extended deadline for 2025 Forms 1120-S passed on September 15. With the 2026 tax year closing in three months, it is a good time to look at how the exclusion works inside an S corporation. In short, it can be worth more in an S corporation than in a C corporation, and a bank's distribution plans determine whether the excluded income can be paid out tax-free.

What Qualifies

Despite the “rural” label, location alone does not qualify a loan. The collateral must be real property substantially used to produce agricultural products, real property substantially used in fishing or seafood processing, or an aquaculture facility. A residence on the property does not disqualify it, but minimal or hobby-scale activity, such as a backyard garden or a few chickens kept for household eggs, generally does not count. The loan must be made after July 4, 2025. When a new loan refinances debt made on or before that date, only the new money above the old balance can qualify, and a significant modification of an older loan is treated as a refinancing. Otherwise, what the borrower does with the proceeds does not matter; qualification turns on the collateral. The bank claiming the exclusion also does not need to be the original lender, so purchased loans can qualify.

After initially determining a loan qualifies, a lender may rely on a reasonable, good-faith belief that the security interest remains in place and the property continues to be used for a qualifying purpose. If the lender later learns or has reason to believe the loan is no longer properly secured by qualifying property, Notice 2025-71 provides a 90-day period to cure the problem.

How Much of a Loan Qualifies

The qualifying amount is generally limited to the fair market value of the qualifying property on the date the loan is made. Treasury's interim guidance in Notice 2025-71 adds a safe harbor: if the property is worth at least 80% of the loan's issue price, the entire loan qualifies. Below that threshold, only the portion of the loan up to the property's value qualifies. Banks may count farm equipment, machinery, or livestock toward that value if they hold a lien on that property and the loan is secured to a substantial extent by the real estate.

A bank that later purchases a loan may apply these tests using either the original issue-date values or the property value and adjusted issue price when it acquires the loan. No subsequent fair market value testing is required unless the loan is significantly modified, so long as it continues to be secured by the qualifying property. Banks can rely on the interim guidance for loans made through 30 days after the forthcoming proposed regulations are published.

Why It Can Be Worth More in an S Corporation

For a C corporation bank, each excluded dollar saves 21 cents of federal corporate tax, and shareholders may still owe dividend tax when those earnings are later distributed. In an S corporation, the excluded amount is not included in shareholders' federal taxable income and generally increases shareholder stock basis. A shareholder in the top individual bracket who receives the full 20% Section 199A deduction pays an effective federal income tax rate of 29.6% on ordinary S corporation income, so each excluded dollar saves that shareholder 29.6 cents. The advantage may be largest for shareholders in the top bracket, but the actual benefit depends on the shareholder's circumstances, and state treatment may differ.

The Interest Expense Offset

The exclusion comes with a cost. Section 139L(d) applies the Section 265 rules that disallow interest expense allocable to tax-exempt income, using the same pro rata method that applies to municipal bonds that are not bank-qualified. Twenty-five percent of each qualifying loan's adjusted basis is treated as a tax-exempt obligation, so a share of the bank's total interest expense becomes nondeductible.

An Illustration

Consider a newly originated \$2 million farmland loan at 7%, held by a bank whose total interest expense equals 2% of its average assets.

Worked example	Amount
First-year interest on the loan	about \$140,000
Interest excluded from income (25%)	\$35,000
Loan balance treated as a tax-exempt obligation (25% of \$2 million)	\$500,000
Interest expense disallowed (2% of \$500,000)	\$10,000
Net reduction in taxable income	\$25,000
Federal tax saved by top-bracket S corporation shareholders (29.6%)	\$7,400
Tax saved by a C corporation bank (21%), before shareholder dividend tax	\$5,250

These figures are illustrative. Results depend on each bank's interest expense, its loan balances during the year, and each shareholder's tax situation.

The Catch: Accumulated Earnings and Profits

Tax-exempt income increases shareholders' stock basis, but it does not increase the accumulated adjustments account (AAA). Banks could not elect S corporation status until 1997, so many members converted from C corporation status and still carry accumulated earnings and profits (E&P) from those years. For those banks, distributions come first from AAA, then from accumulated E&P as taxable dividends, and only after that from remaining basis. A bank that distributes more than its AAA balance will therefore pay taxable dividends before any of the excluded income can reach shareholders tax-free.

The exclusion still lowers shareholders' taxable income each year, whatever the bank distributes. Banks that distribute enough to cover shareholder taxes and retain the rest as capital will usually stay within AAA. For them, the net basis increase from the excluded income (after related nondeductible expense) generally reduces gain on a later sale of the shares, subject to the usual stock basis rules. **Reporting Note:** The 2025 Form 1120-S instructions direct S corporations to use Schedule K-1, box 17, code ZZ to provide shareholders their distributable share of Section 139L information.

CAPITAL

Who Qualifies for the Lower Leverage Ratio?

The July 1 change brings nearly every S corporation bank under \$10 billion within reach of the simplified capital framework — here's who gained, who's already in, and what the agencies found.

On July 1, the leverage ratio a community bank needs to use the simplified capital framework dropped from 9% to 8%. That sounds like a technical change. But for a bank with \$500 million in average assets, one percentage point of leverage is \$5 million of Tier 1 capital. For S corporation banks, which build capital almost entirely by retaining earnings, that's real room.

What Changed

The community bank leverage ratio (CBLR) framework lets a qualifying bank skip risk-based capital calculations entirely. A bank that elects it and stays above the threshold is treated as meeting the risk-based requirements and as well capitalized for prompt corrective action purposes. The ratio itself is the familiar Tier 1 leverage ratio, Tier 1 capital divided by average total consolidated assets.

The final rule also lengthened the grace period for a bank that slips out of compliance, from two quarters to four. A bank can't spend more than eight quarters in a grace period over any five-year stretch, though. During a grace period, the leverage ratio has to stay above 7%. At 7% or below, a bank has to comply fully with the risk-based rules.

Who Qualifies

A bank or holding company is eligible if it has total consolidated assets under \$10 billion, off-balance-sheet exposures of no more than 25% of assets, trading assets and liabilities of no more than 5% of assets, and a leverage ratio above 8%. It also can't be an advanced approaches institution.

A bank and its holding company can make different elections. A holding company can also keep operating under the Small Bank Holding Company Policy Statement if it meets that statement's requirements. Using June 30, 2025 Call Reports, the agencies counted 480 banks with leverage ratios between 8% and 9% that meet the other criteria, which works out to a 13% increase in the number of eligible banks. They estimate that 95% of community banking organizations now qualify.

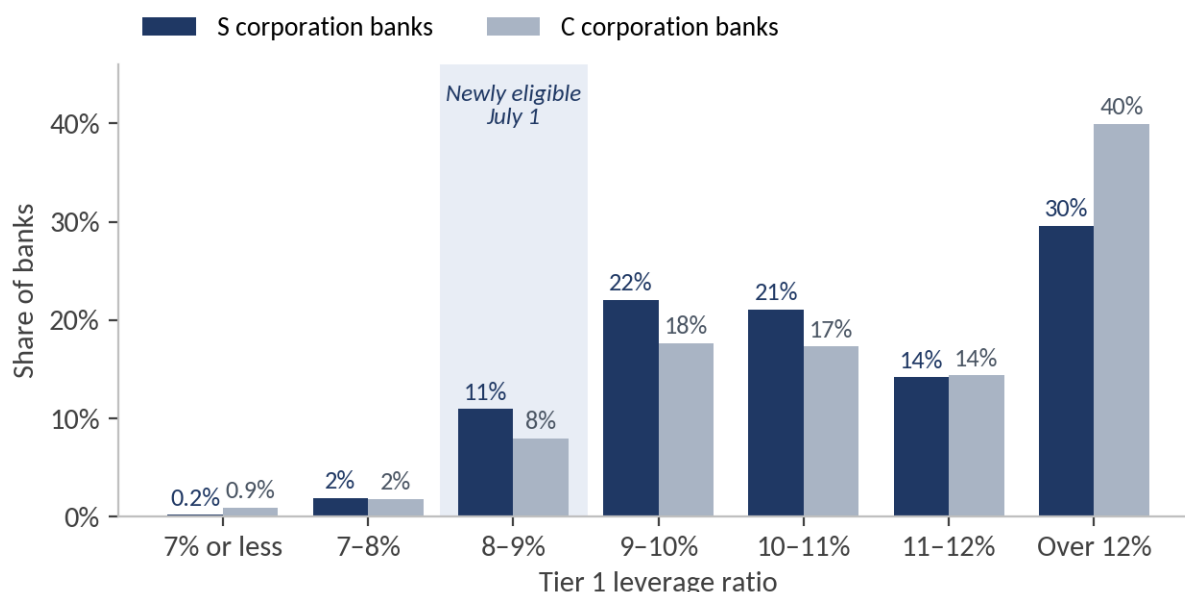
Where S Corporation Banks Stand

The lower threshold helps S corporation banks more than most. As of June 30, 151 of the 1,375 S corporation banks under \$10 billion had leverage ratios between 8% and 9%, placing them newly within the CBLR leverage threshold on July 1. That's 11% of S corporation banks, compared with 8% of C corporation banks the same size. S corporations make up about a third of banks under \$10 billion, but 41% of the 372 banks in that band.

The new threshold erases a gap. Under the old 9% rule, 87% of S corporation banks under \$10 billion had a high enough leverage ratio to qualify, compared with 89% of C corporation banks. At 8%, those figures are 98% and 97%.

Figure 1. S corporation banks cluster closer to the 8% line

Banks under \$10 billion by Tier 1 leverage ratio, June 30, 2026, percent of each group



Source: FDIC BankFind Suite API, June 30, 2026 Call Reports. 1,375 S corporation banks and 2,773 C corporation banks under \$10 billion in total assets.

S corporation banks also run closer to the line in general. More than half have leverage ratios between 8% and 11%, compared with 43% of C corporation banks. Only 30% of S corporation banks are above 12%, compared with 40% of C corporation banks. The median S corporation bank's ratio falls between 10% and 11%, while the median C corporation bank's falls between 11% and 12%. That's consistent with banks that distribute enough each year to cover their shareholders' taxes. Even so, S corporation banks have been adding capital faster than they've grown. In the year ending June 30, their total equity rose 6.8% to \$73.5 billion, while their total assets grew 1.1%.

S Corporation Banks Were Already Ahead on Adoption

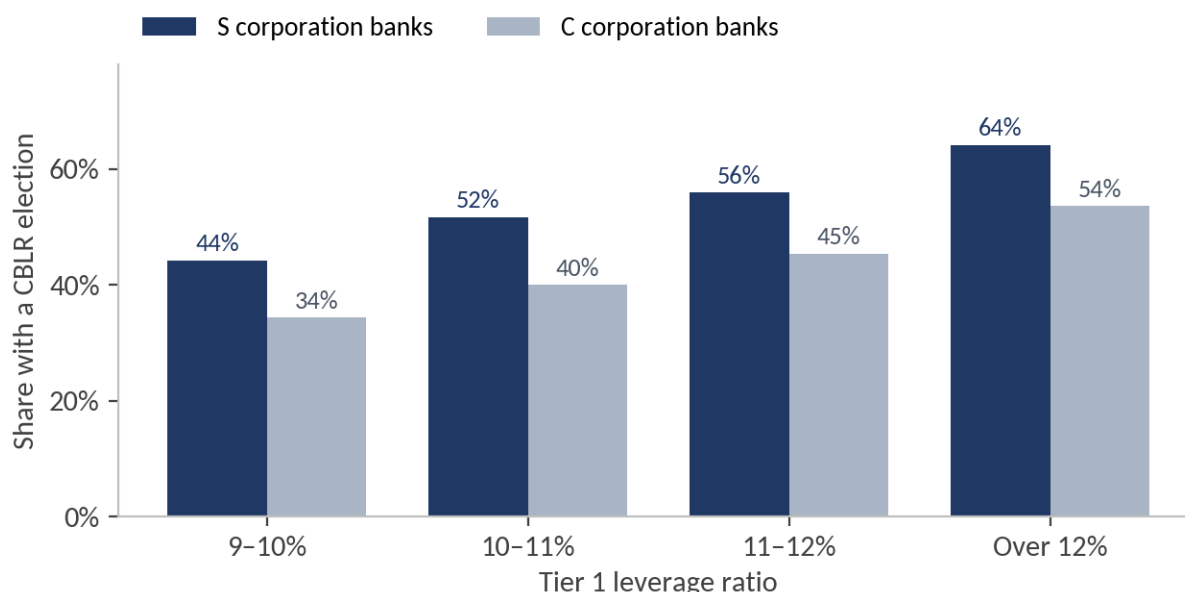
As of June 30, still under the 9% rule, 55% of qualifying S corporation banks had elected the framework, compared with 46% of qualifying C corporation banks. The gap holds at every level of capital. Among banks with leverage ratios between 9% and 10%, 44% of S corporations had opted in, compared with 34% of C corporations. Among banks above 12%, it was 64% compared with 54%.

Part of that likely reflects size. The agencies found that 53% of qualifying organizations under \$1 billion use the framework, compared with 28% of those above \$1 billion, and most S corporation banks are small. Among qualifying S corporation banks, 57% of those under \$1 billion have opted in, compared with 34% of those between \$1 billion and \$10 billion.

More are likely to follow. The agencies estimated future adoption by assuming a bank's likelihood of opting in depends mainly on how much capital it holds above the requirement. Applied to S corporation banks, that method suggests roughly 110 more could opt in, which would bring S corporation participation to about 57% of eligible banks.

Figure 2. S corporation banks elect the CBLR more often at every capital level

Share of qualifying banks under \$10 billion with a CBLR election in effect, June 30, 2026



Source: FDIC BankFind Suite API, June 30, 2026 Call Reports. Qualifying banks are those with leverage ratios above 9%, the threshold in effect on June 30.

About the data: Figures are from FDIC BankFind, June 30, 2026 Call Reports, for banks under \$10 billion in total assets. Eligibility figures apply the asset and leverage ratio tests only. They don't apply the off-balance-sheet and trading tests, so they may slightly overstate eligibility. Participation is the share of banks with leverage ratios above 9% that reported a CBLR election.

Why It Matters More for S Corporation Banks

The agencies' own reasoning for the longer grace period applies to us more than anyone. Community banks rely more heavily on retained earnings for capital, partly because they have less access to capital markets, and they can struggle to raise capital quickly when profits are squeezed. S corporation banks face a tighter version of the same problem. The 100-shareholder limit and the one-class-of-stock rule make outside equity hard to raise; H.R. 9840, covered in the Legislative Update, would raise the limit to 250 and allow IRA ownership. Most S corporation banks also distribute enough each year to cover their shareholders' taxes on the bank's income. Commenters told the agencies that a four-quarter grace period fits banks that rebuild capital through earnings.

There's a second benefit S corporation banks have wanted for years. Banks in the CBLR framework aren't subject to the capital conservation buffer's limits on distributions and bonuses, because they don't have to comply with the risk-based rules. When the current capital rules were proposed, S corporation bankers warned regulators that the buffer could block the distributions shareholders need to pay taxes on the bank's income. For an electing bank above 8%, that concern goes away. That may be one reason S corporation banks have been quicker to adopt the framework.

What the Agencies Found

The framework is simpler, but it doesn't always mean less capital. For nearly all eligible banks that don't use it today, the agencies found that the 8% CBLR is more demanding than the 8% Tier 1 risk-based requirement to be well capitalized, and they describe a trade-off between lower required capital under the risk-based rules and simpler reporting under the CBLR. They also noted that pending proposals to lower risk-based requirements could lead fewer banks to opt in. For banks already in the framework, the agencies estimate the lower requirement creates room to expand balance sheets by \$64 billion in total, an 8.1% increase in those banks' assets.

The September 30 Call Reports, due at the end of October, will be the first to show who opted in under the new threshold. We'll report those numbers as soon as data is available.

Sources: [Federal Register — CBLR final rule, 91 FR 22973](#) · [FDIC BankFind Suite API](#)

SUBCHAPTER S BANK ASSOCIATION

Questions or feedback on this newsletter? Contact the Association office. subsbanks.org

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