Upping Fed, FDIC's Insider Loan Cap May Ease Bank Burdens

By **Beau Hurtig and Scott Coleman** (August 18, 2026)

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The Federal Reserve Board and the Federal Deposit Insurance Corp. have issued substantially identical notices of proposed rulemaking to modernize the regulations governing extensions of credit by banks to their executive officers, directors, principal shareholders and their related interests.[1] Because the agencies supervise different categories of insured depository institutions, each is proposing amendments to its own regulations, although the proposals are virtually identical in substance.

The proposals, released July 31, represent another step in the federal banking agencies' broader effort to eliminate outdated regulatory requirements that have not kept pace with inflation, economic growth and the evolution of the banking industry.

The Covered Institutions

The Federal Reserve Board's proposal would amend Regulation O, which applies directly to state-chartered banks that are members of the Federal Reserve System. Regulation O is incorporated by reference in the OCC's regulations governing insider lending by national banks, federal savings associations, and federal branches and agencies of foreign banks.

The FDIC's proposal would apply to state-chartered nonmember banks, foreign banks having an insured branch and state savings associations.

Together, the separate proposals cover the entire banking industry.

The Statutory Framework

The restrictions on insider lending originate in Sections 22(g) and 22(h) of the Federal Reserve Act. Those provisions were enacted to prevent preferential lending and conflicts of interest involving bank insiders.

Importantly, Congress did not establish the applicable dollar thresholds in the statute itself. Instead, Sections 22(g) and 22(h) expressly authorize the appropriate federal banking agencies to prescribe those thresholds by regulation. However, the agencies have not amended their respective rules since 1979.

Not All Insider Loans Subject to the Same Restrictions

Although Regulation O is often described broadly as governing loans to bank insiders, it does not treat every type of extension of credit the same.

The statute generally prohibits banks from extending credit to their executive officers except in limited circumstances expressly authorized by Congress. Among the principal statutory exceptions are:

- Certain residential mortgage loans;
- Educational loans; and
- Loans subject to the regulatory dollar amount limit.

Under the agencies' proposals, that dollar amount limit would increase from $100,000 to $400,000 while continuing to be subject to the applicable percentage-of-capital limitation.

The proposals notably preserve, however, long-standing exceptions for certain extensions of credit fully secured by U.S. government obligations, unconditional guarantees or takeout commitments of the U.S., or a perfected security interest in a segregated deposit account maintained at the lending institution.

Why the Agencies Are Acting Now

The agencies observe that the principal dollar thresholds have remained largely unchanged since 1979 despite dramatic increases in inflation, economic growth, bank capital and loan sizes.

According to the agencies, the existing thresholds no longer reflect current economic realities and require board approval for many relatively routine insider loans that do not present the level of risk Congress originally contemplated.

The agencies also note that community banks may be disproportionately affected because insiders in smaller communities often have fewer alternative sources of credit.

Principal Changes

The proposals would substantially increase the maximum dollar thresholds.

For extensions of credit to executive officers that are not otherwise specifically authorized by Section 22(g) of the Federal Reserve Act, such as most consumer-purpose loans, including automobile loans and unsecured personal loans, the maximum amount would increase from $100,000 to $400,000.

Similarly, the maximum aggregate amount of credit that may be extended to an insider before prior approval of the bank's board of directors becomes necessary would increase from $500,000 to $2 million.

Rather than allowing the thresholds to become outdated again, the agencies propose to adjust them automatically every five years using changes in nominal U.S. gross domestic product.

If adopted, prior board approval generally would be required whenever aggregate extensions of credit to an insider exceed the lower of 5% of the institution's unimpaired capital and unimpaired surplus or $2 million.

Similarly, loans to executive officers for purposes not otherwise authorized by statute generally would be limited to the lower of 2.5% of unimpaired capital and unimpaired surplus or $400,000.

Expected Impact

The agencies characterize the proposals as burden reduction measures rather than substantive changes in insider lending policy.

According to the FDIC, increasing the thresholds should reduce unnecessary board approvals, lessen administrative burdens, and improve the ability of community institutions to recruit and retain qualified directors and executive officers, particularly in rural markets where alternative sources of credit may be limited.

In practical terms, these changes would allow covered banks to extend routine credit to insiders without convening special board meetings, thus streamlining operations while preserving appropriate oversight for larger or more complex loans.

The FDIC also concludes that the proposals should not materially increase safety-and-soundness risks because insider loans generally represent only a small percentage of a bank's total loan portfolio and remain subject to the substantive restrictions contained in the Federal Reserve Act, supervisory oversight and banks' internal controls.

Takeaways

We believe these coordinated proposals represent a sensible modernization of regulations that have remained largely unchanged for more than four decades. Rather than relaxing the statutory restrictions enacted by Congress, the Federal Reserve Board and the FDIC are exercising the authority Congress expressly delegated to them to update the regulatory thresholds implementing those statutory provisions.

More specifically, the proposals preserve the core policy objectives underlying Sections 22(g) and 22(h) of the Federal Reserve Act.

Insider lending transactions would remain subject to the statute's substantive limitations, existing prudential safeguards, supervisory examination, and the requirement that credit be extended on terms consistent with safe and sound banking practices. As a result, the proposals would recalibrate compliance obligations to reflect contemporary direction and conditions without diminishing the protections designed to prevent preferential treatment, conflicts of interest, and unsafe concentrations of credit involving bank insiders and their related interests.

If adopted substantially as proposed, the amendments would provide meaningful regulatory relief by reducing unnecessary board approvals, simplifying compliance, updating long-outdated dollar thresholds to reflect current economic conditions and establishing an automatic mechanism to keep those thresholds current in the future — avoiding inadvertent violations that do not have an impact on an institution's safety and soundness.

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[1] https://www.federalreserve.gov/newsevents/pressreleases/bcreg20260731a.htm;

https://www.fdic.gov/news/financial-institution-letters/2026/notice-proposed-rulemaking-extensions-credit-insiders.