

May 27, 2026

LEGAL UPDATE

FFIEC Proposes Revisions to CAMELS Ratings Framework

On May 19, 2026, the Federal Financial Institutions Examination Council (the “[FFIEC](#)”) issued a [notice](#) of proposed rulemaking (the “[Proposed Rule](#)”) to revise the Uniform Financial Institutions Rating System, commonly known as the CAMELS framework. Because the FFIEC is comprised of the OCC, FRB, FDIC, NCUA, and a representative for state regulators (the “[Agencies](#)”), the proposed changes will apply to the supervision standards and procedures used for national banks, member and non-member state-chartered banks, and credit unions alike (together, “[financial institutions](#)”).

The proposed changes are the first revisions to the CAMELS framework initiated by the FFIEC since 1996. Per the Agencies, the Proposed Rule is intended to accomplish two primary goals: to (i) strengthen the link between CAMELS ratings and a financial institution’s safety and soundness by focusing component and composite ratings on factors that materially affect an institution’s financial condition and risk profile; and (ii) strengthen the transparency of CAMELS ratings. In line with proposed regulations, operating procedures, and public statements issued by the federal banking agencies’ leaders since the start of the second Trump Administration, the Proposed Rule downplays concerns related to policies, procedures, and documentation, and instead emphasizes material financial risks and impacts to safety and soundness. Through the changes, the Agencies seek to provide financial institutions with clearer supervisory expectations, which they anticipate should reduce compliance costs and uncertainty for those institutions.

The Agencies acknowledge that although it is “unlikely,” the proposed changes could “diminish the information content of ratings or miscalibrate ratings outcomes,” which could put the financial condition of institutions “at risk of future deterioration.” The Agencies noted that they found the current CAMELS ratings system to be informative, at least as to the changes for an institution’s potential failure, when compared solely to measuring against financial metrics on a balance sheet. Even with this caveat, the Agencies ultimately concluded the proposed changes would strengthen the link between ratings and safety and soundness.

Comptroller Jonathan Gould issued a concurrent [statement](#) expressing appreciation for the efforts of the member agencies in developing the proposed revisions, but noting his continued concern with certain aspects regarding the way composite ratings are reached.

This Legal Update covers the most important changes proposed by the FFIEC, and our key takeaways for financial institutions as they prepare for future examinations by their regulators that are likely to utilize this framework, at least for the next several years.

Ratings Definitions and Terminology

The Proposed Rule would provide new definitions for the composite 1 to 5 ratings to ensure the ratings focus on a financial institution’s financial condition and risk profile, with “emphasis on material financial risks.” Composite 1 and 2 ratings will indicate that financial institutions have strong or satisfactory financial performance, respectively, and only minor or moderate risk management weaknesses. A composite 3 rating will mean that a financial institution exhibits less than satisfactory financial performance or inadequate risk management practices that result in material financial risk to the institution, or “significant” noncompliance with laws and regulation. Next, a composite 4 rating will mean that a financial institution exhibits “deficient” financial performance. Importantly, a composite rating of 4 cannot be assigned for risk management weaknesses alone, unless those weaknesses result in an “observable deterioration” of financial condition or material financial risk. A composite 5 rating will mean that a financial institution exhibits “critically deficient” financial performance.

The Proposed Rule attempts to streamline the definitions and terminology for the component ratings, adopting the uniform terms “strong,” “satisfactory,” “less than satisfactory,” “deficient,” and “critically deficient” to describe financial condition, and “effective,” “adequate,” “inadequate,” and “deficient” for descriptions of risk management practices.

Management Component Rating

The Agencies’ most significant changes fall within the management component rating. Based on the Agencies’ review of CAMELS ratings from the past 25 years, they concluded that this component has been the “most influential factor” in determining a financial institution’s composite rating, especially in recent years. The Agencies acknowledged that the banking and credit union industries have criticized them for overvaluing or overweighting this component as compared to the other five components.

To address this, the Proposed Rule removes the direction that examiners give “special consideration” to the management component rating. In addition, the Proposed Rule will limit the evaluation factors within the rating to only the most material aspects of risk management. Therefore, the Proposed Rule will eliminate factors such as “management depth and succession,” “responsiveness to recommendations from auditors and supervisory authorities,” and “demonstrated willingness to serve the legitimate banking needs of the community.” The Proposed Rule also eliminates the evaluation factor related to the overall performance of the financial institution and its risk profile in order to limit redundancy, as the Agencies found these concepts are already addressed through the composite and other component ratings.



The Proposed Rule also establishes a material financial risk threshold for issuing a management rating of 3 or worse that would be based on weaknesses in risk management. The Agencies explain that examples of material financial risks that warrant a management rating of 3 or worse could include unreliable financial or regulatory reporting, failure to safeguard assets, or significant noncompliance with law or regulation.

The Proposed Rule expresses the Agencies' hope that a reduced focus on process-related issues will allow financial institutions to reallocate management resources to areas posing a material financial risk, even suggesting that such a reallocation could increase lending at certain institutions that overemphasized oversight on process issues.

Impacts from Specialty Reviews

In the Proposed Rule, the Agencies seek to clarify that “specialty review” findings—i.e., those from consumer compliance, anti-money laundering/countering the financing of terrorism, and community reinvestment reviews, as well as reviews of information systems, trust, and securities dealing—will only influence the composite rating and individual component ratings to the extent they impact a financial institution's overall financial condition, represent material financial risks, or reflect significant noncompliance with laws and regulations. By doing so, the Agencies seek to prevent specialty review findings from having an outsized influence on the management component rating or the initiation of ratings downgrades, if no material financial risk is implicated.

Evaluation of Risk Management

As part of the effort to remove broad language and adopt more specific factors that influence the component ratings, the Proposed Rule adjusts the definitions of all of the ratings components other than management to focus more acutely on relevant risk management factors. The Agencies provide a number of examples of the evaluation factors within each component that are being replaced; they note that this change should reduce the ambiguity that had been caused by more general language found in the previous versions of the component descriptions, which permitted examiners to judge the ability of management to identify, measure, monitor, and control risks in these areas.

Again, the Agencies use the revisions to the risk management evaluation factors as another opportunity to drive home that those factors must be relevant to the financial condition and risk profile of a financial institution.

Narrowing Discretion in Ratings Assignment

The Proposed Rule removes open-ended language that currently appears within each of the component ratings allowing examiners to assign ratings based on an assessment that goes beyond the listed evaluation factors. Instead, the Agencies will only allow examiners to consider additional factors if warranted by “exceptional circumstances” or by “evolving business practices.” The Proposed Rule makes clear that these additional factors must be



“critical” to a financial institution’s financial condition or to material financial risks facing the institution.

Takeaways

- The changes are a net win for financial institutions. By providing more specificity in the factors that examiners evaluate and more consistency in the terminology and standards applied, while restricting flexibility for examiners to incorporate extraneous information into their ratings decisions, financial institutions should better understand the rationale behind their ratings and what is needed for improvement. Similarly-situated financial institutions should also be treated more uniformly, and ratings should be less subject to variation based on the supervising agency or region.
- In conjunction with the federal banking agencies’ proposed changes to the definition of unsafe or unsound practices and the standard for issuing matters requiring attention (“MRAs”), the Agencies’ revamp of supervision is approaching a fully holistic effort that will emphasize material financial risks above process and documentation.
- As with nearly all of the proposed changes to examination procedures and supervisory approaches implemented by the federal banking and credit union supervisors in the past year and a half, implementation will be key. Even with an adjusted framework, the examiners on the ground will need to accept the restraints on their discretion and adjust their philosophies and approaches to align with newly-issued standards.
- Implementation of this change in approach will not be immediate. Examination teams will need to be re-trained, and it will take time for adjustments to filter all the way through the ranks of each agency. Internal guidance will need to be drafted and disseminated, which may prove more challenging with staff reductions.
- Leaning into the tacit encouragement from the Agencies for financial institutions to pressure test the support behind supervisory findings issued, financial institutions should consider utilizing all tools at their disposal—including the appeals process and discussions with regional leadership, among others—to challenge component and composite ratings that fail to meet the standards of this rule, once it has been finalized.
- Notably, the presence of a state representative on the FFIEC suggests for the first time since the start of the Trump Administration that the states, at least to some degree, are on board with a shift towards emphasizing material financial risks in supervision and de-emphasizing process and documentation concerns. The states’ participation may reduce friction that could emerge when federal and state regulators disagree as to whether a given practice at a state-chartered bank warrants the unsafe or unsound label or should prompt an MRA.



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Luse Gorman, PC regularly advises financial institutions on regulatory and compliance developments of, supervisory relationships with, enforcement actions from, and licensing applications to, the federal banking and credit union regulatory agencies. If you have any questions related to this Legal Update, please reach out to Brendan Clegg at (202) 274-2034 or bclegg@luselaw.com, or your Luse Gorman contact. To learn more about our firm and [services](#), please visit our [website](#).

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