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Banking Agencies Propose Revisions to CAMELS Rating System

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This week, the Federal Financial Institutions Examination Council (the "FFIEC") released a **notice of proposed rulemaking** (the "NPR") to revise the Uniform Financial Institutions Rating System (more commonly referred to as CAMELS, for each of its components: Capital, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to risk). Comments on the NPR are due August 17, 2026.

The NPR would retain the basic framework of the existing CAMELS rating system, with modifications aimed at focusing the component and composite ratings on factors that "materially affect an institution's financial condition and risk profile" and at "improv[ing] [the] transparency" of the ratings "by more clearly articulating expectations for financial institutions." In particular, the proposed revisions would decrease the prominence of the Management component in CAMELS ratings, both by reducing the emphasis on the Management component in the composite rating and as a consideration that is currently woven into the other non-Management components.

The FFIEC's proposed overhaul of the CAMELS framework is consistent with the federal banking agencies focus on material financial risks, as opposed to process. Most notably, the proposal would eliminate the long-standing instruction that the "Management" component receive "special consideration" in determining a bank's composite CAMELS rating. The agencies acknowledge what the industry has argued for years: that Management ratings have become disproportionately influential, particularly in recent years.

Under the revised framework, a Management downgrade to a "3" or worse generally would require risk management weaknesses that actually result in "material financial risk" to the institution. That is a substantially narrower formulation than many institutions believe exists in practice today.

The agencies also propose to narrow the Management component itself by removing several evaluation factors, including management succession planning, responsiveness to supervisory recommendations, and willingness to serve community banking needs.

Likewise, specialty review findings — including compliance-related findings — would only meaningfully influence CAMELS ratings where they impact overall financial condition, create material financial risk, or reflect significant legal noncompliance.

For banks, the proposal could represent a meaningful recalibration of supervisory leverage. In practice, a Management "3" can have enormous consequences well beyond examination optics because CAMELS ratings directly affect "well managed" status under multiple banking rules (e.g., financial holding company status).

As noted in the **FDIC's summary** of the proposal the revisions being proposed would:

- Remove "Special Consideration" Given to the Management Component Rating when Assigning the Composite Rating;
- Update the Definition and Evaluation Factors for the Management Component Rating;
- Change the Treatment of Specialty Review Findings;
- Revise Composite Rating Definitions;
- Clarify Language on Risk Management;
- Clarify Evaluation Factors;
- Improve Consistency, Structure, and Approach to Ratings Definitions; and

- Modernize and Conform CAMELS Framework Language.

The NPR also continues the broader regulatory retreat from “reputation risk” as a supervisory concept. Consistent with recent OCC, FDIC, Federal Reserve, and NCUA actions, all references to reputation risk would be removed from the CAMELS framework.

The agencies also modernize the framework by updating terminology to reflect current expected credit losses (“CECL”) accounting standards and expanding discussion of interest-rate risk, net interest income sensitivity, contingent liabilities, and funding costs.

FDIC Chairman Travis Hill, who serves as the current Vice-chair of the FFIEC stated that “[t]he proposal is intended to modify how the overall composite and individual component ratings are described to shift the emphasis away from a bank’s process for managing risks and towards factors and risks that materially impact a bank’s financial condition.” Similarly, FRB Vice Chair of Supervision Michelle Bowman, who serves as the current Chair of the FFIEC stated in the **FFIEC’s news release** that “[t]he revised CAMELS framework marks a decisive shift toward transparency, quantitative factors, and predictability of supervisory oversight.”

Even with revised definitions, examiners will still exercise substantial judgment in determining whether a weakness creates “material financial risk.”

As noted above, the comment period runs through August 17, 2026.

[1] (The FFIEC is made up of the Federal Reserve Board (“FRB”), including the Consumer Financial Protection Bureau (“CFPB”), the Federal Deposit Insurance Corporation (“FDIC”), the Office of the Comptroller of the Currency (“OCC”), the National Credit Union Administration (“NCUA”), and a state liaison.