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Executive Secretary, Federal Financial Institutions Examination Council
L. William Seidman Center
Mailstop: E-2035-c
3501 Fairfax Drive, Arlington, VA 22226-3550

Via Federal eRulemaking Portal—Regulations.gov

Re: FFIEC Proposed Revisions to the Uniform Financial Institutions Rating System (CAMELS Framework); Docket ID OCC-2026-0562

To the Members of the Council:

On behalf of banks across Texas and the communities that depend on those banks, the Independent Bankers Association of Texas (“IBAT”) appreciates the opportunity to comment on the FFIEC’s proposed revisions to the Uniform Financial Institutions Rating System (CAMELS). We support the Council’s initiative to modernize the CAMELS framework by aligning component and composite ratings with material financial risk, improving transparency, and restoring objective financial condition as the central foundation of safety and soundness evaluations. At the same time, IBAT recognizes—as FFIEC State Liaison Committee Chairman and Texas Banking Commissioner Charles G. Cooper stated—that the final framework should preserve appropriate accountability for legal and regulatory compliance obligations and effective risk management practices when material weaknesses in those areas can undermine an institution’s safety and soundness.

Refocusing the Management (M) Rating on Material Financial Risk

For decades, Texas community banks have faced escalating supervisory pressure from process-oriented examination findings such as documentation style, minor audit recommendations, or succession plan formatting that carried disproportionate weight under the Management rating despite limited or no demonstrated impact on bank solvency, capital, or overall risk profile. The revised framework should distinguish those immaterial process concerns from genuine material weaknesses in governance, compliance, cyber, information technology, operational risk, or other risk management disciplines that could affect safety and soundness.

- **Eliminating Overly Subjective Factors:** We support removing open-ended factors like *"management depth and succession"* and *"responsiveness to recommendations from auditors and supervisory authorities"* where they invite subjective examiner discretion unrelated to material financial risk.

This does not mean that governance, responsiveness, or oversight should be disregarded; rather, they should affect a CAMELS rating only when deficiencies are significant enough to create material financial risk or otherwise threaten safety and soundness.

- **Material Financial Risk Threshold:** Establishing a clear threshold requiring a finding of **material financial risk** or significant noncompliance before assigning a Management rating of 3 or worse provides much-needed predictability while preserving supervisory accountability for serious legal, compliance, operational, cyber, or information technology weaknesses that can impair safety and soundness.

Removing "Special Consideration" for the Management Component

We commend the FFIEC for removing the directive that gives "special consideration" to the Management rating when determining composite ratings. In the past, a downgraded Management rating was frequently used as a lever to lower a bank's composite rating, even when Capital, Asset Quality, Earnings, and Liquidity were rated strong or satisfactory (1 or 2). Eliminating this directive ensures a balanced assessment across all six components. Each component of CAMELS should be evaluated independently to ensure that the Management component does not act as an unfair multiplier.

De-coupling Specialty Reviews from Safety & Soundness Ratings

Clarifying that findings from specialty examinations—such as Consumer Compliance, BSA/AML, CRA, cyber, information technology, and operational risk reviews—should influence CAMELS safety and soundness ratings only when they create direct and material risk is a significant improvement. Specialty review matters should generally be addressed through their dedicated supervisory frameworks; however, IBAT agrees that material weaknesses in these disciplines can undermine safety and soundness, harm consumers, or contribute to distressed conditions, and therefore should be reflected in CAMELS ratings when that nexus is clearly documented.

Concerns Related to the Material Financial Risk Standard

The adoption of a yet-to-be-defined 'Material Financial Risk' standard has the potential to make a downgrade in the CAMELS rating more difficult - but only for the largest banks. What presents as a 'Material Financial Risk' for a \$250 million-dollar community bank in Texas is vastly different than what presents as a 'Material Financial Risk' for a \$50 billion-dollar SIFI. This has the potential to construct an unlevel playing field for smaller community banks.

Community Bank Recommendations for the Final Rule

To ensure the proposed revisions achieve their intended goals during examination execution, we recommend the following enhancements:

- **Field Examiner Retraining:** The primary challenge with CAMELS reforms will be implementation. The Agencies must institute rigorous, centralized retraining for field examiners to dismantle the ingrained reliance on process-oriented MRAs (Matters Requiring Attention) and subjective governance critiques. Additional guidance and training in conjunction with tailored reforms would help to preserve appropriate accountability.

- **Preserving Proportionality for Community Banks:** Texas community banks naturally maintain leaner management teams and less formalized governance structures than regional or money-center banks. The final rule should explicitly instruct examiners that a community bank's lack of complex, enterprise-level documentation does not constitute inadequate risk management if financial condition and risk controls remain sound.
- **Supervisory Appeals Oversight:** To enforce compliance with the revised framework, the Agencies should establish an objective internal review mechanism where institutions can challenge ratings that rely on process-oriented issues rather than material financial risk.
- **Clear Nexus for Nonfinancial Risks:** In keeping with the balanced approach described by Commissioner Cooper, the final framework should require examiners to explain how any cyber, information technology, legal, regulatory compliance, or operational risk weakness materially affects the institution's financial condition, risk profile, or safety and soundness before it drives a CAMELS component or composite downgrade.

The FFIEC's proposal represents a necessary and welcome shift toward supervisory transparency, objectivity, and consistency. Tying CAMELS ratings more directly to actual **material financial outcomes**—while preserving appropriate consideration of serious compliance, cyber, information technology, operational, and risk management weaknesses when they materially affect safety and soundness—will help community banks reallocate resources away from defensive compliance paperwork and back into local credit creation and community growth.

At the same time, the FFIEC should not prematurely deprioritize risk management, compliance, or operational controls, as the State Liaison Committee and other stakeholders have emphasized that material weaknesses in these areas can still undermine safety and soundness.

Thank you for considering these comments. We would welcome the opportunity to discuss these recommendations further.

Sincerely,

/s/

Christopher L. Williston VI
President and CEO
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