

Michelle W Bowman: Opening remarks - Federal Reserve Bank of Kansas City 2026 Future of Banking Conference

Speech (via pre-recorded video) by Ms Michelle W Bowman, Vice Chair for Supervision of the Board of Governors of the Federal Reserve System, at the Federal Reserve Bank of Kansas City 2026 Future of Banking Conference "Powering progress, protecting trust", Kansas City, Missouri, 14 May 2026.

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Introduction

Thank you, President Schmid, for the invitation to join you today, and thanks also to the Federal Reserve Bank of Kansas City for hosting this conference for community bankers on the future of banking. While I am not able to be with you in person today, I appreciate being able to join you virtually.

As many of you know, this is my hometown Reserve Bank. Visiting the KC Fed is a little bit of a homecoming for me because Kansas is where I began my banking career at my family's rural community bank, and where I learned the lessons as a banker and as a state bank commissioner that continue to shape my perspective as a Governor and now as the Vice Chair for Supervision.

Personal connections in the community create deep local knowledge, enabling lending decisions based not solely on credit scores, but on relationships, history, and character-elements that no algorithm can replicate.

While my regulatory perspective has broadened over the years, the fundamental lessons from community banking-relationship focus, community stewardship, and practical risk management-remain central to how I approach supervision and regulation. They also fundamentally inform how I think about tailoring.

Six hundred thirty-nine community banks call the 10th District home. Not only does it have the second-largest geographic area under Fed supervision, but more than half of the District's banks are headquartered in rural areas. Its area is significant-and it is a microcosm for understanding the future of community banking across America.

In this District, banks serve distant rural communities alongside concentrated urban centers. They navigate commodity price volatility that can transform local economies in a single growing season. They compete against financial institutions that are well-funded but have no physical branches.

Yet these community banks are remarkably resilient. They have developed specialized lending expertise that larger institutions simply cannot replicate. They create deep customer relationships that transcend transactional banking.

Many have partnered strategically with fintechs rather than viewing them solely as competitors and have continued to profitably serve communities providing essential financial services. The business model works when it is executed with skill and commitment.

Innovations created in this District often become standard practice nationwide. Many agriculture banks created mobile banking solutions to serve their customers, many of whom are farmers, spread across large geographic areas making accessing brick-and-mortar locations significantly challenging while tending to their daily operations. Similarly, an Oklahoma bank created a mobile banking application focused on the financial well-being of our military service members. This bank has demonstrated commitment toward modernizing the banking experience for members of the U.S. military, offering checking, savings, and mortgage products. That's why the theme of this conference, the "Future of Banking," is particularly fitting. In so many ways, 10th District banks are already building that future.

Our renewed regulatory and supervisory approach implementing tailored requirements and expectations focused on material financial risks is designed to support that future.

The Challenge: One-Size-Fits-All

Since the global financial crisis, the regulatory and supervisory approaches designed for large institutions have often been pushed down to community banks.

That one-size-fits-all approach creates an unlevel playing field for community banks in an increasingly competitive environment with evolving customer needs.

While there are many examples, I will focus on two that will clearly explain the one-size-fits-all problem. The current expected credit loss (CECL) accounting framework requires sophisticated modeling that is more appropriate for large complex institutions. The resources, specialized staff, extensive data sets, and auditing associated with complex lifetime loss forecasting creates an ongoing cost and compliance burden that provides no meaningful benefit for community banks that rely on straightforward lending practices and close relationships with borrowers.

Similarly, Regulation O, while important for preventing conflicts of interest, imposes disproportionate burdens on community banks where local board members often have the deepest understanding of local credit conditions. In some rural communities, local business leaders are not willing to serve on a community bank board because they would lose the ability to obtain credit cards or lines of credit from the bank or be forced to bank outside the local rural community. The supervisory approach to Regulation O compliance appears to have evolved in a manner that can treat minor technical violations and inadvertent errors with a degree of severity more comparable to substantive violations. In some cases, examiners have issued matters requiring attention and other supervisory criticisms, including enforcement actions for menial, unintentional Regulation O issues that do not trigger the rule's concern about preferential treatment.

As a result, a significant number of banks have determined that the compliance risk associated with extending credit to their officers and directors exceeds any business justification for doing so. These banks have adopted blanket policies prohibiting all extensions of credit to insiders, including routine consumer products like credit cards, overdraft facilities, and residential mortgage loans. Consequently, senior officers and directors cannot rely solely on their local bank but must establish banking relationships with another bank.

The same principle of appropriate tailoring that applies to regulations must also include supervision. Traditional supervisory approaches often ask, "Why should we allow this?" rather than "Why shouldn't we?"-a posture that disadvantages banks seeking to adapt to market changes and customer needs.

To address this, we published supervisory operating principles to govern our supervisory activities. These principles appropriately focus our supervision on material financial risks. This isn't about lowering standards; it's about focusing supervisory attention on what matters most-what leads a bank to fail-and identifying as early as possible significant threats to safety and soundness.

Clarifying standards for issuing Matters Requiring Attention (MRAs) supports this approach. In the past, banks received MRAs for procedural matters or for deviating from best practices-an approach that inherently favored established processes over innovation and focused examiner attention on form over substance.

Our new approach establishes a clear standard for MRAs and Matters Requiring Immediate Attention (MRIAs) to be issued to address deficiencies that could lead to a material impact on a bank's financial condition-not procedural or documentation shortcoming that poses no genuine threat to safety and soundness. Under this approach, an MRA or MRIA will be issued for an unsafe or unsound condition when a deficiency, if left unaddressed, would create a significant probability of significant harm to the bank's financial condition, or has already caused significant actual harm.

To be clear, prioritizing material risks does not mean overlooking threats to critical operations. Cybersecurity and operational resilience remain essential supervisory concerns. Banks must maintain robust defenses against these evolving threats. Preserving safety and soundness remains a priority. But our framework should distinguish between material risks that genuinely threaten bank safety and soundness and procedural variations that are effective, but that simply differ from convention or supervisory expectations.

Additionally, together, the federal banking agencies finalized an update to the community bank leverage ratio. These changes offer enhanced flexibility without compromising robust capital standards, better positioning community banks to focus on their primary mission to serve the businesses and families in their communities.

An effective regulatory framework should enable well-managed institutions to grow, reach underserved markets, and adapt to changing conditions-all while preserving the safety and soundness that protects depositors and maintains public confidence in our banking system.

Turning to emerging challenges like artificial intelligence, custody of digital assets, and evolving payment systems, the Fed's role is to understand and encourage risk management of the use of these technologies. Genuine collaboration is critically important-where supervisors bring risk-management perspective and regulatory expertise, and bankers bring market knowledge and a deep understanding of customer needs.

This conference, and events like it, are essential to this process. They enable us to hear directly from you, understand the realities you face, and adjust our approach accordingly.

Closing Thoughts

The future of community banking relies on each of the banks participating in this conference.

Demand for local knowledge, a trusted relationship focus, creative problem-solving, and an unwavering commitment to your community are what will enable your success in evolving markets. Regulatory frameworks that support rather than constrain your efforts are also required. The past 15 years have demanded your remarkable resilience and adaptability. Thank you for thriving in the face of adversity.

As a former banker, state bank regulator, governor and now Vice Chair for Supervision, I am committed to ensuring that both regulation and supervision are appropriately tailored to bank size, complexity, risk and business model while encouraging responsible innovation and strategic adaptation to meet the expectations of the evolving financial market.

President Schmid, thank you for hosting this event, and for your leadership of the 10th District.

I look forward to seeing you again soon.