



Community Bankers of Michigan Regulatory Dispatch

November 19, 2025

Timely news and resources community bankers can use

CSBS Blog Post Too Small to Scale: What 10 Years of Data Say About Community Bank Compliance Costs

For years, community bankers have warned that the growing thicket of federal regulations is suffocating smaller institutions. The compounding effect of these rules lands hardest on the banks least able to absorb them. The refrain has become familiar: small community banks don't have armies of compliance officers or sprawling technology budgets; yet they face regulatory mandates often meant for larger institutions. Most of that argument rested on anecdotes and intuition rather than solid, quantitative evidence. But now, drawing on an unusually rich dataset—a decade's worth of information from the CSBS Annual Survey of Community Banks, covering 2015 through 2024—we have statistically significant evidence behind the claim that regulation weighs more heavily on the smallest banks. And the empirical findings are hard to ignore.

How the CSBS Community Bank Survey Measures Compliance Burden

In each annual survey, hundreds of community bankers estimate how much of their operating costs go toward compliance—broken down into categories such as personnel, data processing, legal, accounting and auditing, and consulting. Responses to the banks' financial statements were then matched to the surveyed banks and then grouped into asset-size quartiles to see how the burden scales. The research question being asked is deceptively simple: are smaller banks devoting a greater share of their resources to compliance than their larger peers? And if so, how large—and how consistent—is that gap?

Smaller Banks Consistently Spend a Higher Share on Compliance

The short answer to the first question is an emphatic yes. Across 10 years of data, four of the five expense categories show that smaller community banks shoulder a markedly higher proportion of compliance costs. The answer to the second question is that the differences are significantly large and consistent across all years for four of the five expense categories.

Which Cost Categories Show the Biggest Gaps?

As shown in **Chart 1**, for personnel costs—the largest overall expense category at most institutions—the smallest banks reported spending roughly 11% to 15.5% of their payroll on compliance tasks, compared with 6% to 10% at the largest institutions—a statistically significant gap every single year. The pattern repeats across other categories. **Chart 2** shows that data processing costs consumed 16.5% to 22% of small banks' budgets versus 10% to 14% for the largest quartile. Accounting and auditing expenses devoted to compliance ran 5 to 17 percentage points higher (see **Chart 3**). Consulting costs diverged the most, as shown in **Chart 4**: roughly 50% to 64% for the smallest banks compared with 19% to 30% for

the biggest. Only in the legal category did the differences wobble, with smaller banks still spending more—around 17% to 31% versus 14% to 21%—but without consistent statistical significance.

Comment: *In July of this year, the CFPB released a [white paper](#) entitled [Do Banking Regulations Disproportionately Impact Smaller Community Banks? Summary of Compliance Cost Results](#) - Overall, this analysis finds that smaller banks report statistically significant differences in compliance costs over those of larger banks for personnel, data processing, accounting and auditing, and consulting expenses. More specifically, self-reported regulatory compliance costs were quantified over a ten-year period and tend to show statistically valid data-driven evidence that the smallest community banks are disproportionately burdened by regulatory compliance pressures.*

CBM Insights

Q: Do you have a list of board reports that regulations require us to provide to the board?

A: While specific to national banks, the OCC's [Director's Reference Guide to Board Reports and Information](#) is an excellent source for all banks.

From a statutory perspective, there are two required compliance reports – under Minimum Bank Security Devices and Procedures and under the Identity Theft Detection, Prevention, and Mitigation Interagency Guidelines.

[Part 21—Minimum Security Devices and Procedures, Reports of Suspicious Activities, and Bank Secrecy Act Compliance Program](#)

*(d) **Annual reports.** The security officer for each member bank shall report at least annually to the bank's board of directors on the implementation, administration, and effectiveness of the security program.*

[17 CFR Appendix B to Part 162 - Interagency Guidelines on Identity Theft Detection, Prevention, and Mitigation](#)

(b) Reports.

*(1) **In general.** Staff of the financial institution or creditor responsible for development, implementation, and administration of its Identity Theft Prevention Program should report to the board of directors, an appropriate committee of the board, or a designated senior management employee, at least annually, on compliance by the financial institution or creditor with [§ 162.30](#).*

Additionally, while not technically a 'report,' under Regulation O there is a requirement for bank insiders to report credit secured by shares of the bank's stock at least annually. That is typically done by banks in an annual report.

[Part 215 Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks \(Regulation O\)](#)

§ 215.10 Reporting requirement for credit secured by certain bank stock.

Each executive officer or director of a member bank the shares of which are not publicly traded shall report annually to the board of directors of the member bank the outstanding amount of any credit that was extended to the executive officer or director and that is secured by shares of the member bank.

Bank Management

FDIC [Updates its Consumer Compliance Examination Schedule](#) (11/13/2025) – The FDIC's Consumer Compliance Examination Manual has been revised to reflect an updated examination frequency schedule whereby consumer compliance examinations and Community Reinvestment Act (CRA) evaluations will occur less frequently for most institutions.

Statement of Applicability: The contents of, and material referenced in, this FIL apply to all FDIC-supervised financial institutions.

Highlights:

Section II-12.1 of the FDIC’s Consumer Compliance Examination Manual has been revised to reflect an updated consumer compliance examination and CRA evaluation frequency schedule. The update also establishes a new compliance mid-point risk analysis for certain institutions.

Specifically, institutions will generally be on an examination cycle of 66-78 months, 54-66 months, or 24-36 months, depending on their asset size. Examination cycles are based on the date of the last joint Consumer Compliance examination/Community Reinvestment Act (CRA) evaluation. For institutions on an examination cycle of 66-78 months or 54-66 months, with no targeted Consumer Compliance examination or CRA evaluation, examiners will conduct a mid-point risk analysis of the institution and determine if an intervening supervisory activity, such as a targeted visitation, is needed. Adversely rated institutions (institutions not rated a “1” or “2” for Consumer Compliance and “Outstanding” or “Satisfactory” or CRA) will encounter more frequent supervisory activities (examination, evaluation, or visitation).

To assist readers in identifying the changes, the FDIC is providing a red-line document that identifies all changes.

FIL-52-2025

[Consumer Compliance Examination Manual](#)
[Redlined Document Identifying Changes November 7, 2025 \(PDF\)](#)

Comment: An excellent ‘explainer’ on the changes has been done by GeoDataVision entitled [FDIC Announces Big Change to Consumer Compliance Exam Frequency](#).

FRB [AI and Central Banking - Governor Michael S. Barr](#) (11/11/2025) – AI and the Financial Sector - The second key point I would like to make is that the financial sector is adopting AI quickly, and while there are many benefits to this adoption, the risks will need to be managed carefully.

So far, AI adoption in the financial sector appears to be most concentrated in areas that can enhance operational efficiency, including applications that involve text analysis, classification, and information search inside the firm, as well as customer-facing functions. These incremental improvements to common business functions are a key reason to be hopeful about AI raising labor productivity in that sector.

At the same time, there is significant investment in experimentation with AI for core functions for financial services. Data-driven financial-sector-specific tasks, including credit decision support, fraud detection, and trading are using AI-specific tools. Ensuring that AI is used appropriately for these functions faces appreciable challenges.

First, the amount of organizational change needed by financial services firms to utilize GenAI may be substantial. History suggests progress may be slow. Adoption of machine learning, an AI technology that preceded GenAI, was concentrated in firms that were highly digitized from their founding—and even in those cases, adoption was a long process. Fintech firms organized to exploit AI from their founding can play a key role in driving efficiency forward in the sector, providing services to the incumbent firms. But productivity may even decrease in the short term, as heavy investments in business-process improvements take time to play out to productivity gains.

A second challenge is the practical constraints of rushing into AI for core business activities in the financial sector, as firms need to ensure that the resulting processes and outcomes are consistent with relevant laws and appropriate risk management. Large institutions are exploring the use of GenAI, including agentic AI, in their financial models—but doing so requires care. To successfully leverage the potential of GenAI on a

	<i>sustainable basis, decisions based on those models must be well controlled, numerically and legally precise, explainable, and replicable. AI developers still struggle to some extent with all of those criteria. We need to reduce the risk that AI reinforces biases in consumer lending. And we also need to guard against the risks that could result from the use of AI in financial markets. For example, profit maximization by AI-powered trading algorithms may result in tacit collusion, market manipulation, or trading strategies that result in significant market volatility or even systemic risk.</i> <i>We will need innovation that is responsive to these risks to see additional advances in the use of AI for a broad array of core financial services functions.</i> <i>Comment: ‘At the same time, macro-economic headwinds — such as tighter net interest margins, evolving regulatory requirements and rising customer expectations shaped by digital-first fintechs — are forcing community institutions to do more with less. However, an EY survey of more than 2,000 American consumers shows that they would prefer regional banks and credit unions if they are provided a full set of products through the digital marketplace infrastructure model. AI has made this digitization more accessible than ever before.’</i>
	CFPB Notifies Court it Cannot Lawfully Draw Funds from the Federal Reserve (11/11/2025) – Washington, D.C.— The Consumer Financial Protection Bureau (CFPB) filed a notice informing the court in NTEU v. Vought that the Department of Justice’s Office of Legal Counsel (OLC) has determined that the Bureau may not legally request funds at this time from the Federal Reserve under Dodd-Frank. OLC made this conclusion on the basis that the Federal Reserve System currently lacks any “combined earnings” from which the Bureau may draw funding, as required by Dodd-Frank. OLC opinions are binding upon Executive Branch agencies, including the Bureau. The Bureau anticipates having sufficient funds to continue operations until at least December 31, 2025. <i>Comment: The move would leave the CFPB without money to operate starting next year, even to carry out its required activities, unless Congress passes fresh funding for the agency. That is unlikely, given widespread Republican opposition to the CFPB. The issue is far from resolved as several federal judges have rejected that theory when companies raised it to dismiss CFPB lawsuits.</i>

BSA / AML

	FinCEN Combats Financial Support to the Sinaloa Cartel by Finding Transactions Involving 10 Mexico-based Gambling Establishments to be of Primary Money Laundering Concern (11/13/2025) – WASHINGTON — The U.S. Department of the Treasury’s Financial Crimes Enforcement Network (FinCEN) issued a finding and notice of proposed rulemaking (NPRM) that identifies transactions involving ten identified Mexico-based gambling establishments as a class of transactions to be of primary money laundering concern. FinCEN proposes to sever these gambling establishments’ access to the U.S. financial system by imposing a special measure prohibiting covered financial institutions, as defined in the NPRM, from opening or maintaining a correspondent account for any foreign banking institution if such account is used to process transactions involving any of the following gambling establishments: (1) Emine Casino (San Luis Rio Colorado, Sonora); (2) Casino Mirage (Culiacan, Sinaloa); (3) Midas Casino (Agua Prieta, Sonora); (4) Midas Casino (Guamúchil, Sinaloa); (5) Midas Casino (Los Mochis, Sinaloa); (6) Midas Casino (Mazatlan, Sinaloa); (7) Midas Casino (Rosarito, Baja California); (8) Palermo Casino (Nogales, Sonora); (9) Skampa Casino (Ensenada, Baja California); and (10) Skampa Casino (Villahermosa, Tabasco). FinCEN assesses that these gambling establishments are ultimately controlled by a criminal group with a longstanding and transactional financial relationship in which they facilitate money laundering for the benefit of the Cartel
--	---

de Sinaloa (Sinaloa Cartel), a national security threat that undermines the stability of the U.S. financial system.

“Treasury and the Government of Mexico have been coordinating to safeguard our financial institutions from the Sinaloa Cartel and its illicit financial activities,” said FinCEN Director Andrea Gacki. “Treasury will continue working to protect the U.S. financial system from abuse by illicit actors and will use all its tools and authorities to target the financing of transnational criminal organizations.”

For years, the gambling establishments targeted today, and their senior leadership have directly and indirectly facilitated money laundering benefiting the Sinaloa Cartel, a Mexico-based drug trafficking organization (DTO). These establishments sent illicit payments to senior cartel members, and their senior leadership received detailed instructions from the Sinaloa Cartel on ways to avoid detection by financial institutions’ anti-money laundering screening systems. Pursuant to section 311 of the USA PATRIOT Act (section 311), FinCEN may impose certain measures upon finding that reasonable grounds exist for concluding that one or more classes of transactions within, or involving, a jurisdiction outside of the United States is of primary money laundering concern, and on that basis, may require covered financial institutions to take certain “special measures.” Today’s NPRM proposes a rule pursuant to section 311 prohibiting covered financial institutions from opening or maintaining a correspondent account for any foreign banking institution if such account is used to process transactions involving any of the gambling establishments.

This action was taken in coordination with the Government of Mexico and concurrently with Treasury’s Office of Foreign Assets Control, who sanctioned persons in the criminal group responsible for laundering the proceeds of narcotics trafficking in collaboration with the Sinaloa Cartel, among other activities.

Filing Suspicious Activity Reports (SARs)

The NPRM does not propose a new or amended SAR reporting obligation. However, consistent with their existing SAR reporting obligations, covered financial institutions may consider, as warranted and appropriate, FinCEN’s finding that transactions involving the gambling establishments targeted today are a class of transactions of primary money laundering concern. If a SAR is filed on transactional activity involving any of the Gambling Establishments, FinCEN requests that financial institutions enter “FIN-311-Gambling-Establishments” in Field 2 (Filing Institution Note to FinCEN) and in the narrative.

Whistleblower program

FinCEN maintains a whistleblower incentive program for violations of the BSA. Individuals located in the United States or abroad who provide information may be eligible for awards if the information they provide leads to a successful enforcement action—which may include, for example, an enforcement action related to a covered financial institution violating the special measure described herein if such measure becomes effective through the issuance of a final rule—that results in monetary penalties exceeding \$1,000,000. FinCEN is currently accepting whistleblower tips.

The NPRM as submitted to the Federal Register is currently available [here](#). Written comments on the NPRM may be submitted within 30 days of its publication in the *Federal Register*.

Comment: From the compliance vantage point, the case underscores how regulated businesses in high-risk jurisdictions, like casinos, can become nodes in organized crime money-laundering networks. Gambling operations may appear legitimate, generating large cash turnovers, but when controlled or co-opted by criminal groups they serve as laundromats for drug-trafficking proceeds. Here, the cartel’s involvement is direct: casino senior management received instructions from cartel affiliates on structuring transactions, limiting deposit sizes, avoiding consecutive-day deposits and using in-person pickup of funds — all hallmarks of structuring and layering.

Deposit / Retail Operations

FRB [Combating Fraud and Scams with Digital Defenders](#) (11/13/2025) – The payments industry is beginning to leverage broader digital risk signals to better detect and mitigate fraud and scams — even as criminals increasingly use digital tools of their own to commit these crimes.

[Explore this article](#), which outlines how financial institutions and fraud mitigation service providers are increasing their use of device-based risk signals, targeted customer interaction methods and other tactics — as well as the value of using a multi-layered approach to leverage digital risk signals.

Comment: Be sure to thoroughly review [CBM's Fraud Prevention Friday](#) publication for valuable information and the latest fraud news. In addition, a Google search for community bank fraud strategies will result in a number of resources to help your bank develop a plan to combat fraud that include technological solutions, employee training, and customer engagement.

Human Resources

No news to report this week.

Lending

CFPB [Small Business Lending Data Collection under the Equal Credit Opportunity Act \(Regulation B\)](#) (11/13/2025) – The Consumer Financial Protection Bureau (CFPB or Bureau) proposes revisions to certain provisions of Regulation B, subpart B, implementing changes to the Equal Credit Opportunity Act made by section 1071 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Bureau is reconsidering coverage of certain credit transactions and financial institutions; the small business definition; inclusion of certain data points and how others are collected; and the compliance date. The CFPB believes these proposed changes would streamline the rule, reduce complexity for lenders, and improve data quality, advancing the purposes of section 1071 and complying with recent executive directives.

PROPOSED RULE WITH REQUEST FOR PUBLIC COMMENT

[Read it in the Federal Register](#)

SUBMIT A FORMAL COMMENT

[Regulations.gov comment form for this notice](#)

RESOURCES

[Unofficial redline of the small business lending proposed reconsideration rule](#)

Comment: The rule now exempts most community banks by relieving those that make fewer than 1,000 covered small business loans from the rule. The change also broadens the definition of small business from \$5 million to \$1 million.

FFIEC [CRA Alert- Press Release Announces the Availability of the 2024 CRA Data](#). (11/13/2025) – The **[FFIEC CRA website](#)** has been recently updated.

The Press Release announcing the availability of the 2024 CRA Data has been issued on the [FFIEC CRA website](#). Included in the release of the 2024 CRA Data are the [National Aggregate Reports](#), the [Aggregate Reports](#), the [Disclosure Reports](#), and the [Data Flat Files](#).

OCC [Servicemembers Civil Relief Act: Updated Comptroller's Handbook Booklet](#) (11/13/2025) – Summary - The Office of the Comptroller of the Currency (OCC) issued version 1.1 of the “Servicemembers Civil Relief Act” booklet of the *Comptroller's Handbook*. The booklet provides information and procedures for examiners in connection with the consumer protections that servicemembers are eligible for under the Servicemembers Civil Relief Act (SCRA).

Rescissions

The updated booklet replaces version 1.0 of the booklet with the same title issued March 2021. Also rescinded is OCC Bulletin 2021-11, “Servicemembers Civil Relief Act: Revised Comptroller’s Handbook Booklet and Rescissions,” which transmitted version 1.0 of the booklet.

Note for Community Banks

The “Servicemembers Civil Relief Act” booklet applies to the OCC’s supervision of community banks.¹

Highlights

The updated booklet

- applies the OCC’s risk-based supervision approach to assessing compliance with the SCRA.
- eliminates the prior OCC policy requirement to conduct an SCRA examination that included transaction testing at least once every three supervisory cycles.
- clarifies language on servicemember verification and distribution of excess payments.
- removes references to reputation risk.²

Further Information

Please contact Consumer Compliance Policy, Office of the Chief National Bank Examiner, at (202) 649-5470.

James M. Gallagher

Senior Deputy Comptroller and Chief National Bank Examiner

Related Link

- [Servicemembers Civil Relief Act](#)

Joint [Federal Bank Regulatory Agencies Release 2024 Small Business, Small Farm, and Community Development Lending Data](#) (11/13/2025) – WASHINGTON - The federal bank regulatory agencies, as members of the Federal Financial Institutions Examination Council (FFIEC), today released data on small business, small farm, and community development lending during 2024. The Community Reinvestment Act regulations require the agencies to annually disclose these data.

The FFIEC also prepared aggregate reports of small business and small farm lending for each metropolitan statistical area and for each county in the United States and its territories. The statements are available [here](#).

[Data tables \(PDF\)](#)

[Fact sheet \(PDF\)](#)

Technology / Security

No news to report this week.

Selected federal rules – proposed

Proposed rules are included only when community banks may want to comment. Date posted may not be the same as the Federal Register Date.

- 11.13.2025 **CFPB** [Small Business Lending Under the Equal Credit Opportunity Act \(Regulation B\)](#) SUMMARY: The Consumer Financial Protection Bureau (CFPB or Bureau) proposes revisions to certain provisions of Regulation B, subpart B, implementing changes to the Equal Credit Opportunity Act made by section 1071 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Bureau is reconsidering coverage of certain credit transactions and financial institutions; the small business definition; inclusion of certain data points and how others are collected; and the compliance date. The CFPB believes these proposed changes would streamline the rule, reduce complexity for lenders, and improve data quality, advancing the purposes of section 1071 and complying with recent executive directives. **DATES: Comments must be received on or before December 15, 2025.**
- 10.06.2025 **OCC** [Fair Housing Home Loan Data System](#) SUMMARY: The Office of the Comptroller of the Currency (OCC) invites public comment on a notice of proposed rulemaking (proposed rule) to rescind its Fair Housing Home Loan Data System regulation codified at 12 CFR part 27. The OCC has determined that the regulation is obsolete and largely duplicative of and inconsistent with other legal authorities that require national banks to collect and retain certain information on applications for home loans. Moreover, part 27 imposes asymmetrical data collection requirements on national banks compared to their other depository institution counterparts, and the data collected has limited utility. For these reasons, rescinding the regulation would eliminate the regulatory burden attributable to part 27 for national banks without having a material impact on the availability of data necessary for the OCC to conduct its fair housing-related supervisory activities. **DATES: Comments must be received on or before December 5, 2025.**
- 10.05.2025 **Joint** [Unsafe or Unsound Practices, Matters Requiring Attention](#) SUMMARY: The Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) propose to define the term “unsafe or unsound practice” for purposes of section 8 of the Federal Deposit Insurance Act (12 U.S.C. 1818) and to revise the supervisory framework for the issuance of matters requiring attention and other supervisory communications. **DATES: Comments must be received by December 4, 2025.**