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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

RE: Uniform Financial Institutions Rating System (Docket ID OCC-2026-0562)

To Whom It May Concern:

The North Carolina Bankers Association (NCBA) appreciates the opportunity to comment on the Federal Financial Institutions Examination Council's (FFIEC) proposed revisions to the Uniform Financial Institutions Rating System (CAMELS). The NCBA represents commercial banks and savings institutions across North Carolina, and our members have a strong interest in ensuring that supervisory ratings are transparent, consistent, objective, and focused on risks that are material to an institution's financial condition and safety and soundness.

NCBA strongly supports the proposal's overall direction. The proposed revisions appropriately refocus the CAMELS framework on material financial risk rather than process deficiencies, documentation issues, or subjective supervisory judgments that may have little connection to a bank's actual financial condition. We particularly support the proposal's efforts to strengthen the link between ratings and measurable safety-and-soundness concerns, reduce the disproportionate influence of the Management component, and increase transparency in the ratings process.

To further strengthen the final version, NCBA recommends four targeted enhancements:

1. Define material financial risk and account for concentration mitigating factors;

2. Explicitly prohibit multi-component "double-counting" and presumptive labeling;

3. Clarify the impact of specialty examination findings; and

4. Establish objective standards for "significant noncompliance" and require evidentiary support and supervisory review.

1. Define Material Financial Risk and Account for Concentration Mitigating Factors

NCBA believes the most important improvement to the proposal would be the adoption of a clear definition of "material financial risk." The proposal emphasizes that CAMELS ratings should focus on issues that affect an institution's financial condition and safety and soundness, but the absence of an explicit definition could lead to inconsistent supervisory application across examination teams.

The final guidance should clarify that a risk is material when it has a demonstrated or reasonably foreseeable adverse impact on a bank's financial condition, including capital, asset quality, earnings, liquidity, or sensitivity to market risk.

Importantly, this definition must address how examination teams evaluate asset concentrations.

- Avoid Presumptive "High Risk" Assumptions: Elevated concentration levels – such as Commercial Real Estate (CRE) lending – that represent an institution's core business model, are supported by historical expertise, and demonstrate satisfactory credit performance should not automatically be presumed to constitute material financial risk.

- Recognize Balance Sheet Mitigating Factors: Where an institution maintains strong capital buffers, robust Allowances for Credit Losses (ACL), and tailored underwriting controls, examiners should be instructed to recognize these as effective mitigating factors rather than penalizing the concentration itself.

- Focus on Actual Credit Metrics: A common understanding of material financial risk will ensure concentration risk is evaluated through objective financial performance rather than pre-determined supervisory assumptions.

2. Explicitly Prohibit Multi-Component "Double-Counting" and Presumptive Labeling

To ensure ratings reflect actual financial condition, the final guidance must address the recurring issue of single supervisory concerns cascading into multi-component downgrades. Too often, institutions face overlapping downgrades across multiple CAMELS components for what is essentially a single underlying risk factor.

- Prohibit Duplicate Penalization Across Components: Examination teams should be explicitly instructed not to downgrade multiple CAMELS components based on a single supervisory topic. For example, examiners should not downgrade an institution's Asset Quality rating due to CRE concentration when loan performance, underwriting, and credit quality are otherwise satisfactory – nor should that same concentration simultaneously be used to downgrade the Management component. This clear boundary is particularly vital to achieving the FFIEC's stated goal of reducing the disproportionate influence of the Management component, ensuring that Management ratings reflect governance and oversight quality rather than serving as a secondary penalty for balance sheet concentrations.

- Eliminate Pre-Examination Labeling and Sudden Shifts: Guidance should emphasize that institutions must not be pre-labeled as "high risk" – or effectively assigned lower baseline component expectations prior to exam fieldwork – based solely on their lending concentration. Furthermore, examiners should not abruptly penalize longstanding, stable business model concentrations that have been maintained and effectively managed over multiple examination cycles without a documented, empirical increase in actual financial risk.

- Require Independent Causal Links: If examiners seek to reflect risk across multiple components, Reports of Examination must demonstrate distinct, independent, and objective financial risk justifications for each individual component downgrade.

3. Clarify the Impact of Specialty Examination Findings

NCBA supports the proposal's recognition that findings from specialty examination areas should affect CAMELS ratings only when they materially affect a bank's financial condition, represent material financial risk, or involve significant noncompliance with law or regulation.

The final guidance should make clear that findings from compliance, BSA/AML, information technology, trust, or other specialty examination programs should not automatically influence CAMELS ratings simply because they are identified in those reviews. CAMELS should remain a safety-and-soundness rating system focused on financial condition and material risk.

Where a specialty examination identifies a broader risk management failure or a matter that creates a material adverse impact on the financial institution, consideration within CAMELS may be appropriate. Otherwise, those issues should be addressed through the applicable specialty supervisory framework.

4. Establish Objective Standards for "Significant Noncompliance" and Require Evidentiary Support and Supervisory Review

NCBA supports a supervisory framework that is tailored to a financial institution's size, complexity, business model, and risk profile. Community and regional banks should not be evaluated through a rigid, one-size-fits-all approach.

To promote objective support and procedural fairness:

- Define "Significant Noncompliance:" The proposal references "significant noncompliance" with laws and regulations as a factor influencing ratings, but leaves it undefined. The final guidance should clarify that significant noncompliance refers to violations that are substantial, systemic, recurring, or reasonably likely to result in meaningful harm to consumers, the financial institution, or the Deposit Insurance Fund. Technical, isolated, immaterial, or procedural violations should not be considered "significant" for CAMELS rating purposes.

- Require Direct Evidentiary Support: Reports of examination should explain the factual, objective basis for significant findings and clearly describe how those findings affected the assigned rating. Examiners should be required to demonstrate a direct relationship between identified weaknesses and actual financial risk before issuing a downgrade.

- Heightened Supervisory Review for Multi-Component Downgrades: When an institution challenges a multi-component downgrade tied to a single concentration, senior supervisory management should conduct a heightened review to confirm that distinct, independent, and empirical support exists for each downgraded component before the final Report of Examination is finalized.

NCBA appreciates the FFIEC's efforts to modernize the CAMELS framework and strongly supports the proposal's overall direction. By defining material financial risk, prohibiting multi-component double-counting, clarifying the treatment of specialty examination findings, and establishing clearer standards for noncompliance and supervisory review, the FFIEC can further strengthen the CAMELS rating system and ensure fair, consistent supervision.

We appreciate the opportunity to comment and welcome continued dialogue on these important issues.

Sincerely,

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