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What Regulatory 'Reputation Risk' Purge Means For Banks

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On June 2, the Federal Deposit Insurance Corp., Office of the Comptroller of the Currency and Federal Reserve Board jointly announced[1] another step in their efforts to eliminate what is referred to as "reputation risk" from the federal banking supervisory framework, an effort prompted by 2025's Executive Order No. 14331.[2]

The agencies updated a broad set of interagency documents to remove references to "reputation risk" and, in some cases, simply "reputation," reinforcing their earlier decision to stop using reputation risk as a basis for examination findings or exerting supervisory pressure on financial institutions to avoid or exit certain banking relationships.

This action aligns with previous steps taken by the federal banking agencies to further the goals of the August 2025 executive order, such as the OCC and FDIC final rule issued on April 10.[3]

That rule formally eliminated reputation risk as a stand-alone supervisory risk category for those agencies and sharply limited their ability to criticize or pressure banks based on concerns about customers' political, religious or ideological views or lawful, but controversial, lines of business.

The Fed proposed a similar rule on Feb. 26, but the rule has not yet been finalized.[4] Assuming the Fed does finalize its proposed rule, all three prudential regulators will be in alignment at the rulemaking level.

INTERAGENCY GUIDANCE CHANGES

The June 2 announcement does not create new duties for banks or relax any existing expectations concerning safety and soundness.

Instead, the agencies describe the updates as narrow, technical revisions designed to remove references to reputation risk that could be misused as a basis to restrict access to financial services for individuals or businesses with constitutionally protected political or religious beliefs, speech, or lawful activities.

To that end, the agencies have revised a wide range of interagency guidance[5] that previously contained references to reputation risk.[6]

Such guidance includes the following topics: asset securitization activities; subprime lending programs; banks and thrifts providing financial support to affiliated funds; purchases and risk management of bank?owned life insurance; customer identification program FAQs; home equity credit risk management; remote deposit capture risk management; counterparty credit risk management; various cyber?related statements on ATM and card?authorization attacks; distributed denial-of-service cyberattacks, cyber insurance and cyber extortion; statements on operational resilience; elder financial exploitation; and sales of 100% loan participations.

CONNECTION TO THE FEDERAL BANKING AGENCIES' REPUTATIONAL RISK RULES

The OCC and FDIC final rule implementing Executive Order No. 14331 accomplishes three objectives.

First, it removes "reputation risk" as an independent supervisory risk factor, based on the agencies' own view that it has not improved safety and soundness and has introduced subjectivity and inconsistency into examinations.

As the agencies explained when releasing the final rule, traditional risk channels — such as credit, liquidity, market and operational risk — are more concrete and measurable, and the use of these factors adequately addresses real threats to institutions' financial conditions and compliance with applicable laws.

Second, it prohibits the OCC and FDIC from criticizing or taking adverse action against an institution "on the basis of reputation risk."

The rule defines adverse action broadly to include negative language in exam reports; matters requiring attention; rating downgrades (including capital, assets, management, earnings, liquidity and sensitivity to market risk, known as CAMELS; compliance; and information technology ratings), enforcement actions; conditions placed on approvals; capital requirements above minimums; and other decisions that negatively affect a bank.

The rule also adopts a catchall standard covering any action where the intent is to pressure a bank into addressing perceived reputation risk.

Third, it forbids the OCC and FDIC from requiring, instructing or encouraging institutions to close accounts, deny services, or otherwise modify or terminate relationships based on a customer's political, social, cultural, or religious views or lawful but politically disfavored activities. It also makes clear that ideological preferences anywhere within the agencies cannot be a legitimate basis for supervisory pressure.

The June 2 interagency guidance changes are designed to implement these core principles. The Fed's proposed rule is directionally similar by codifying the removal of reputation risk in the Fed's exam programs and barring the Fed from penalizing banks solely because they serve lawful customers that are engaged in controversial activities, thus aligning the Fed's formal regulatory posture with the OCC and the FDIC.[7]

IMPLICATIONS FOR FINANCIAL INSTITUTIONS

The OCC and FDIC final rule and the interagency guidance revisions are a direct response to concerns articulated in Executive Order No. 14331 regarding what it calls "politicized or unlawful debanking."

Together, these actions are another sign that reputation risk is being formally retired as a supervision and examination tool, and that examiners will be expected to ground their concerns in material financial risks and clear legal requirements rather than in subjective determinations designed to pressure financial institutions into either avoiding or exiting relationships with lawful, but disfavored, businesses or individuals based on political affiliations or religious beliefs, i.e., debanking.

Importantly, these actions only address the federal banking agencies' conduct and do not impose any affirmative obligations on supervised entities.

For example, they do not require banks to serve any particular customer or industry, nor do they restrict banks from considering reputation risk in their private business decisions, so long as those decisions are not inherently subjective or the product of improper regulatory pressure.

However, these developments should be read as a warning to financial institutions that federal regulators are closely scrutinizing activities that could qualify as politicized or unlawful debanking, and that there may be supervisory, investigative and enforcement activity to address this type of conduct, if found.

Indeed, Executive Order No. 14331 explicitly directed the federal banking regulators to review financial institutions subject to their supervision to identify any past or current policies or practices that resulted in debanking and take appropriate remedial action in response to any findings.

The executive order also directed the federal banking regulators to review their supervisory and complaint data to identify any financial institution engaged in unlawful debanking on the basis of religion and take appropriate action.

If the institution is unable to obtain compliance, then the regulatory agency is required to refer the institution to the U.S. Department of Justice.

While the OCC issued preliminary findings concerning its supervisory review in December 2025, there has been no comparable announcement by the FDIC or Fed. Nevertheless, we expect regulatory agencies to continue focusing on debanking for the remainder of the Trump administration in supervisory examinations and perhaps even in enforcement.

As such, financial institutions should expect federal regulators to scrutinize their practices for potential instances of debanking and should prepare accordingly.

For example, institutions should review all policies and procedures that affect account opening and closure, deposit account agreements and loan agreement templates for any guidance or other information that could possibly lead to allegations of debanking (e.g., generic prohibitions on conduct termed as "harmful" or "objectionable" could be applied in a manner that appears to track political or ideological fault lines).

Institutions should also ensure that decisions affecting customers are tied to "individualized, objective, and risk-based analyses, as required by Executive Order No. 14331, and are well documented.

When attempting to determine whether any "politicized or unlawful" debanking may have occurred in the past, institutions should review consumer and customer complaints for allegations of debanking, in addition to reviewing their own data to identify trends concerning denial and account closure reasons, denial rates by industry and closure rates by industry.

At the same time, financial institutions must ensure that they comply with anti?money laundering laws, sanctions regimes, fraud prevention mandates, and safety and soundness expectations, all of which legitimately influence decisions regarding whether to onboard or continue serving a customer.

Ultimately, these long-standing risk factors, combined with the reputation risk and debanking developments at the federal level, create a challenge that financial institutions will have to grapple with for the foreseeable future — distinguishing between objective, risk-based decisions that are based on clear legal, compliance or operational considerations, and potentially arbitrary or inconsistent decisions that could be perceived by federal regulators as politicized or unlawful debanking.

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[1] https://www.fdic.gov/news/press-releases/2026/agencies-remove-additional-references-reputation-risk.

[2] Press Release, FDIC, OCC & FRB, Agencies Remove Additional References to Reputation Risk (June 2, 2026),https://www.fdic.gov/news/press-releases/2026/agencies-remove-additional-references-reputation-risk; Exec. Order No. 14,331 (Guaranteeing Fair Banking for All Americans), 90 Fed. Reg. 38,925 (Aug. 12, 2025).

[3] Prohibition on the Use of Reputation Risk by Regulators, 91 Fed. Reg. 18,286 (Apr. 10, 2026) (OCC and FDIC final rule).

[4] Prohibition on Use of Reputation Risk or Other Supervisory Tools to Encourage or Compel Banking Organizations to Engage in Politicized or Unlawful Discrimination, 91 Fed. Reg. 9,499 (Feb. 26, 2026) (FRB proposed rule).

[5] https://www.fdic.gov/news/financial-institution-letters/2026/agencies-remove-references-reputation-risk-interagency.

[6] FDIC Financial Institution Letter, Agencies Remove Additional References to Reputation Risk in Interagency Documents (June 2, 2026), https://www.fdic.gov/news/financial-institution-letters/2026/agencies-remove-references-reputation-risk-interagency. [7] While the FRB has issued its own proposed rule, it is unclear why it did

not join the OCC and FDIC in their final rule and why the FRB’s proposed rule has not yet been finalized.

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