



October 2026

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Your Ballot Matters in the Upcoming Election



By Duncan Taylor, President & CEO, Washington Bankers Association

Election season is upon us again, and that means preparing to dive into electoral engagement.

Washington voters will soon face some consequential decisions. Ballots begin arriving in mid-October, and while congressional and legislative contests will understandably attract plenty of attention, some of the most important choices on this year's ballot will be farther down the page. That is especially true of the Washington State Supreme Court.

An Unusual Election for the Supreme Court

Five of the nine seats on the Washington Supreme Court are before voters this November, an extraordinary amount of turnover for a court where justices serve six-year terms.

For Washington's banking community, these races deserve special attention. The Supreme Court is the final arbiter of Washington law and our state constitution. Its decisions shape the legal environment in which banks and businesses

operate, including questions involving contracts, taxation, property rights, employment law, regulatory authority, and liability. We have seen firsthand how consequential those decisions can be. With significant questions about state taxing authority still working their way through the legal system, the composition of the Court matters a great deal.

We encourage you to study each race closely and see who has endorsed each candidate. The Seattle Times tends to endorse candidates that work with Republicans and Democrats alike, while The Stranger often does not. For example, the Times provides insights like this one in their endorsement of Sean O'Donnell for Position 4, "*O'Donnell has endorsements that span the political spectrum in King County and the state, from Republican King County Councilmember Pete von Reichbauer to former Democratic Gov. Chris Gregoire... The majority of Birk's contributors are trial attorneys. While he has endorsements of many judges at all levels around the state, he has not a single endorsement from an elected Republican.*"

Whatever your conclusions about any judicial contest, take the time to dig a little deeper before

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Issues & Answers October 2026

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On the Cover

*Heather Meadows shows off its autumn colors before
the snow returns at Mt Baker Snoqualmie National
Forest. Photo courtesy of USFS.*

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you decide. Judicial races are nonpartisan, receive less media coverage than legislative races, and can easily be overlooked. Yet the people elected to these positions will be interpreting Washington law long after this election cycle is over.

Beyond the Court

There is plenty more at stake on the November ballot. All 98 seats in the Washington House and 24 of the 49 seats in the Senate are up for election. Those races will determine the composition of the Legislature that convenes in January and, with it, the direction of debates over taxes, housing, employment policy, financial regulation and the state budget.

Washington's congressional delegation is also on the ballot, with all 10 U.S. House seats up for election, including a new representative in the 4th District, covering Central Washington, as Rep. Dan Newhouse retires. Decisions made in Congress also directly affect our industry, from financial regulation and taxation to housing policy, fraud prevention, and the broader economic environment.

Voters will also decide three statewide ballot measures. Among them is Initiative 645, which would repeal the new 9.9% tax on annual individual income above \$1 million before it takes effect in 2028 and would prohibit state and local governments from taxing individual income. The debate over I-645 involves competing arguments about Washington's tax structure, economic competitiveness, government revenue, and funding for public services.

Every Vote Really Does Matter

It's easy to assume one ballot will not make much difference, but Washington elections regularly remind us otherwise. In this year's primary alone, the race for second place in the 42nd Legislative District Senate contest was separated by just four votes when statewide results were certified, triggering a manual recount. Four. Votes.

That is a remarkable reminder that elections are ultimately decided one ballot at a time. So, when your ballot arrives, please give it the attention it deserves. Read the Washington Voters' Pamphlet. Review the candidates' backgrounds and statements. Look at endorsements from organizations you trust, including business organizations such as the Association of Washington Business. And pay particular attention to those judicial races that can be easy to skip.

Then fill out your ballot and return it early. Be sure to leave plenty of time for it to be postmarked well before election day, or consider using an election drop box instead of mailing your ballot. The USPS recently changed its rules about postmarking mail, and dropping your ballot in a drop box guarantees it will be received on time. Washington's general election is November 3, and we'll be eagerly awaiting the results. We'll be ready to adjust our advocacy strategy based on the results for the 2027 legislative session.

Three cheers for civic engagement. Huzzah!

HAVE NEWS TO SHARE?

Email it to megan@wabankers.com to be
included in an upcoming *Issues & Answers*

PNW Bankers Bring Industry Priorities to Washington D.C.

Bankers from Washington and Oregon traveled to Washington, D.C., in September for the annual Pacific Northwest Capitol Hill Visit, meeting with federal regulators, national banking organizations, and members of Congress to discuss the issues affecting banks and the communities they serve.

Hosted jointly by the Washington Bankers Association (WBA) and Oregon Bankers Association (OBA), the September 20–23 visit provided bankers with an opportunity to hear directly from federal policymakers and regulators while bringing the perspective of Pacific Northwest financial institutions to the nation's capital.

Hearing Directly from Federal Regulators

The regulatory portion of the visit included briefings from several of the nation's primary financial regulatory agencies.

At the Federal Deposit Insurance Corporation (FDIC), bankers heard from Leonard Chanin, Deputy to the Chairman for Consumer Protection and Innovation, and Alex LePore, Deputy to the Chairman for Policy. The group also visited the Office of the Comptroller of the Currency (OCC), where Comptroller of the Currency Jonathan Gould was among the featured speakers.

The day's agency visits continued at the U.S. Department of the Treasury, where Luke Petit, Assistant Secretary for Financial Institutions, met with attendees. The following morning, bankers received a briefing from the Financial Crimes Enforcement Network (FinCEN) featuring Jackie Blaesi-Freed, Acting Associate Director for Regulatory and Strategic Affairs and Deputy Associate Director for Regulatory and Strategic Affairs.

These conversations gave bankers an opportunity to hear about federal regulatory priorities and share firsthand perspectives on how regulatory decisions affect institutions of different sizes and business models throughout the Pacific Northwest.

National Banking and Policy Updates

Attendees also spent time with leaders from the American Bankers Association (ABA) and Independent Community Bankers of America (ICBA). Speakers throughout the visit included ABA's Chris Fisher, Vice President of Congressional Relations; Robert Flock, SVP of the Office of Strategic Engagement; Jaclyn Levy, Vice President of Advocacy & Grassroots; and Patrick Smith, SVP of Fraud Operations. ICBA's Paul Merski, EVP of Congressional Relations, also participated in the program.

The program included an election update from Robert Flock and B.J. Martino of ABA, as well as an economic update and a grassroots advocacy briefing designed to prepare bankers for their meetings on Capitol Hill.

Taking Washington's Banking Priorities to Capitol Hill

The visit culminated with meetings with members of



Washington's Congressional delegation and their staffs. WBA members used the meetings to discuss how federal policies affect banks, their customers, and communities across the state.

Major issues included federal digital asset policy, including the CLARITY Act, legislation that addresses the regulatory framework for digital assets. Bankers also discussed concerns surrounding fraud and scams and the SCAM Act, emphasizing the importance of addressing fraud across the broader ecosystem and the role of telecommunications companies, social media platforms, technology providers, and financial institutions in protecting consumers.

Another priority was the SAFE Banking Act, which would provide federal protections for financial institutions serving state-sanctioned cannabis businesses. The Secure and Fair

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WBA Supports Launch of Industry Owned Blockchain Network

In late August, 38 state bankers associations announced the formation of BankChain Alliance to provide customers across the country secure, modern banking services at financial institutions of all sizes.

Representing one of the most expansive efforts among state bankers associations, the Alliance is creating an industry-owned, industry-designed and industry-governed network built on a common blockchain platform. The BankChain Alliance network will allow participating financial institutions the ability to provide emerging banking capabilities while maintaining the regulatory standards, security, and trust that customers expect from their banks. Examples of such innovations are smart payment tools, tokenized deposits, stablecoins, automated settlement, and other innovations.

“This is about banks of all sizes building their own future,” said Kathy Kraninger, Interim Chair, BankChain Alliance, and Florida Bankers Association President and CEO. “Through an unprecedented collaboration representing thousands of banks, BankChain Alliance is developing a secure, regulated, industry-built and industry-owned network that allows institutions of all sizes to provide modern capabilities so they can continue serving customers safely and efficiently in rural, urban and regional communities across the country.”

The Alliance is undergoing a rigorous process to select a technology partner and is targeting a 2027 launch. The BankChain Alliance network will be interoperable with other networks and will invite ownership from banks across the country.



Together, the state bankers associations represent thousands of financial institutions serving millions of consumers, businesses, and communities nationwide. While each association serves its own unique market, this initiative reflects a unified vision: that the future of banking is strongest when built collaboratively, governed by industry, and accessible to all institutions.

“Our member banks have always embraced innovation while maintaining the trust their communities depend on. Participating in this initiative allows us to help shape emerging technologies in a way that reflects the needs of all banks and the customers and communities they serve,” said Duncan Taylor, President & CEO, Washington Bankers Association.



Understanding Bank Performance

Next session starts October 22!
Learn more at wabankers.com/ubp

Credit, Lending & Compliance Conference Explores the Forces Reshaping Banking

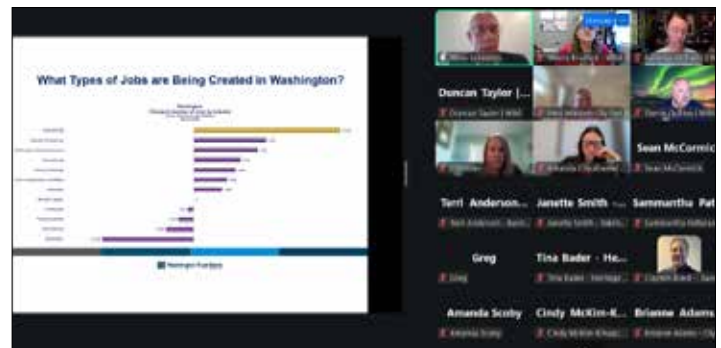
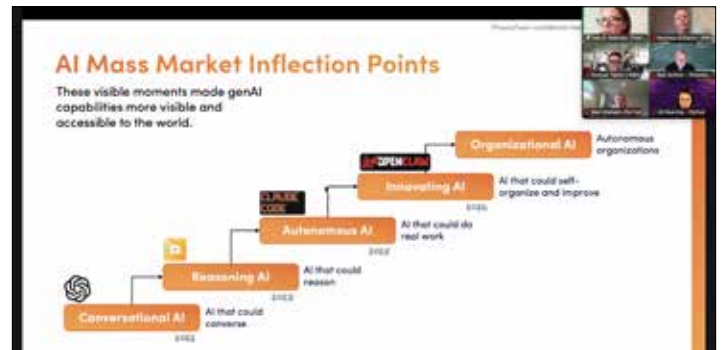
Bankers from across the region came together virtually on September 30 for the Washington Bankers Association's annual Credit, Lending & Compliance Conference, a full day focused on the emerging issues shaping financial institutions. From artificial intelligence and fair lending to credit quality, fraud, digital assets and the economy, the conference offered attendees practical insights into both today's challenges and the opportunities ahead.

WBA President & CEO Duncan Taylor welcomed attendees and opened the conference, thanking the event's sponsor Resolver, before the day's first session, "AI's Role in Fair Lending and Compliance," presented by Tela Gallagher Mathias, Managing Partner, Phoenix Team. Mathias explored the potential for AI to introduce unintended bias or disparate outcomes throughout the lending lifecycle and highlighted questions lending and compliance teams should consider as banks expand their use of AI.

The first round of breakout sessions gave attendees the opportunity to focus on compliance, credit or commercial lending. Shaun Harms, Principal, Forvis Mazars, presented "Examination Readiness: Building Trust with Regulators Through Strong Risk Management," discussing the current regulatory environment, examiner expectations, and the importance of communicating compliance priorities to bank leadership. Kent Kirby, Senior Consultant, Portfolio Risk, Abrigo, led "The Silent Threat to Credit Quality: Closing the Technology Gap," examining how outdated technology and processes can affect credit quality and how modernization, including AI, can improve underwriting and loan review. Mike Schott of Caird Investment Partners, LLC presented "Growing C&I in a Competitive Market: Comparing Channels," comparing strategies for addressing C&I production shortfalls, including organic origination, participations, and broadly syndicated loans.

Following the breakouts, Yoga Huo, Senior Product Marketing Manager GRC at Resolver, presented "Does Your GRC Program Understand Risk, or Just Record It?" The session examined the increasingly interconnected nature of technology, fraud, third-party, regulatory, operational, reputational, and AI risks. Huo highlighted how modern governance, risk and compliance programs can help banks connect risk information across their organizations and use AI to identify insights while maintaining human judgment and oversight.

The conference's second breakout block looked toward some of the fastest-changing areas of financial services. Nick Elledge, Co-Founder & COO of Stablecore, presented "Stablecoins and Tokenized Deposits in 2026: Strategy and Use Cases for Regional and Community Banks," exploring how digital assets and new legislation could affect deposits, payments, and cross-border transactions. Neepa Patel, Founder and CEO of Themis, and Dana Lawrence, VP of GTM Strategy and Relationships at Themis, led "The Banker's AI Toolkit," sharing practical approaches to AI gover-



nance, vendor due diligence, model risk and examination documentation.

Rounding out the morning breakouts, Diana Kern, Trainer with SHAZAM, presented "The Changing Landscape of Debit Card Fraud and Error Claim Compliance." Kern reviewed the changing payments environment and addressed unauthorized claims, Regulation E requirements, card-network chargeback rules and the timeframes banks must navigate when processing claims.

After lunch, Steve Scranton, Chief Economist at Washington Trust Bank, presented "National Policies, but Local Economic Impacts." Scranton connected developments in the national economy and monetary and fiscal policy with conditions closer to home, providing economic context designed to support bankers working across credit, lending and compliance functions.

The afternoon breakout sessions continued the conference's focus on practical challenges facing financial institutions. Kitty Ryan, Fair and Responsible Banking with the American Bankers Association, presented "Fair Lending in Transition: What the 2026 ECOA and Regulation B Changes Mean for Community Banks," examining changes to fair lending requirements and the areas compliance and lending teams should continue to review.

In "When 'No' Isn't the Only Answer: How Post-2009 Derisking Rewired Commercial Credit," Jim Duncan, Co-Founder and President of CXM Group and Leader of C8 Capital Network, examined changes in commercial lending and the role of private capital when banks encounter strong credits that do not fit traditional lending param-

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Executive Development Program Builds a Better Path to Banking Leadership

Developing the next generation of bank executives requires more than teaching individual skills. Future leaders need to understand how the different parts of a financial institution connect—and how decisions in one area can influence performance, risk, customers and strategy across the entire bank.

That idea is at the heart of the Washington Bankers Association's updated 2027 Executive Development Program (EDP).

For 2027, WBA has reorganized the EDP schedule to create a more intentional progression throughout the year. Rather than approaching each class as a stand-alone banking topic, related sessions are grouped together so participants can build on what they learned in previous classes and better understand how the pieces fit together.

The progression moves participants through leadership, bank performance, strategy and economics, risk and regulation, and executive leadership—creating a learning experience that increasingly reflects the way senior bank leaders must think about their institutions.

A Schedule Designed for Deeper Learning

The 12-month program begins by establishing the broader context of banking and developing participants' individual leadership capabilities. From there, students move into the financial fundamentals of running a successful institution, including understanding bank financial statements and profitability.

As the year progresses, the curriculum expands into areas such as fintech, credit and risk, asset liability management, legislation and the economy, and audit and compliance. The program then brings those lessons together through sessions focused on leading others, building high-performing teams, credibility and ethics.

The benefit of the revised sequence is continuity. A participant learning about profitability, for example, can carry that knowledge into later discussions about risk, economic conditions and strategic decision-making. By the time students reach the program's executive leadership topics, they have spent the year developing a broader understanding of

the entire institution—not simply their own department or specialty.

That bigger-picture perspective is one of EDP's defining goals. The program is designed to help promising bankers begin thinking beyond their current responsibilities and understand the interconnected decisions senior executives make every day.

Built for Bankers With Full-Time Responsibilities

The updated structure also maintains one of EDP's most important features: a schedule designed around the realities of working bankers.

Classes take place approximately once a month, allowing participants to remain engaged in their day-to-day responsibilities while steadily building their knowledge throughout the year. Students generally complete six to eight hours of preparation before each class, giving them an opportunity to explore the subject before discussing it with instructors and peers.

That time between sessions is an important part of the experience. Participants can apply concepts at their institutions, speak with colleagues and executives, and return to class with practical questions and observations. Instead of concentrating development into a few days, EDP creates an ongoing learning experience that stretches across the year.

More Than Classroom Education

EDP also distinguishes itself through its mentorship component. Each participant is paired with an executive mentor from their own institution who works with them throughout the program. Mentors reinforce classroom lessons, connect participants with subject-matter experts inside the bank and help students better understand areas outside their existing responsibilities.

Participants also learn alongside bankers with different roles, backgrounds and areas of expertise. Those relationships create another layer of learning: students see how peers at other institutions approach similar challenges and

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★ **WATCH YOUR CAREER GROW!**

Registration now open!
2027 Executive Development
Program begins Jan. 12

Learn more:
WABANKERS.COM/EDP



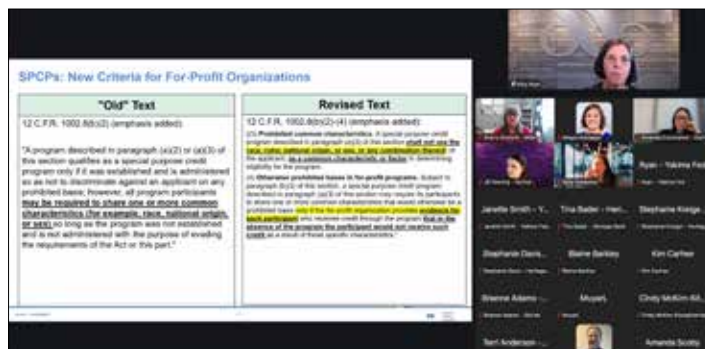
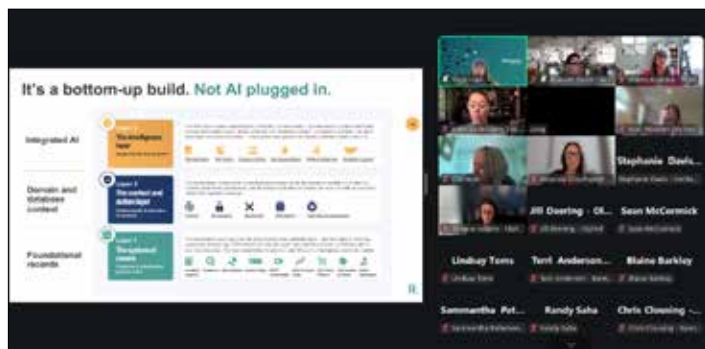
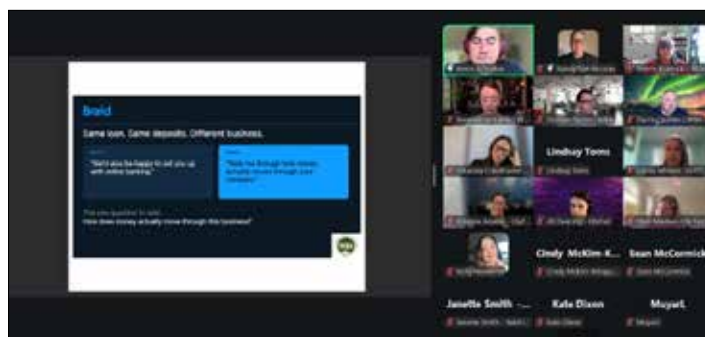
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eters. The session also highlighted efforts by state bankers associations, including WBA, to provide member banks with additional options for serving those customers.

A third breakout offered a distinctly Washington-focused opportunity. Amy Andrews, Accounting/Economic Policy Advisor, and Chris McGuire, Regulatory Analyst, with the Washington Utilities and Transportation Commission, presented “An Untapped Lending Opportunity: Financing Washington’s Small Utilities.” The session explored smaller investor-owned utilities’ need for capital to maintain and upgrade infrastructure and the unique considerations banks face when lending to regulated utility businesses.

The day concluded with “The Future of Banking is Already Here: Building What’s Next From What Community Banks Already Do Best,” presented by Randy San Nicolas, CEO, and Kevin Johnston, Chief Banking Officer and COO, of Braid. The session challenged community banks to look at their existing strengths – including customer relationships, payments capabilities, infrastructure, trust and expertise – as building blocks for future growth. San Nicolas and Johnston explored opportunities to gather deposits beyond rate competition, deepen commercial relationships and develop new products and revenue streams using capabilities banks already possess.

Across the day, a common theme emerged: banking continues to change rapidly, but institutions can respond by combining sound risk management and regulatory knowledge with new technology and innovative approaches to serving customers. The 2026 Credit, Lending & Compliance Conference gave attendees perspectives from across the industry to help them navigate that changing environment and bring practical ideas back to their institutions.



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build a professional network that can continue well beyond graduation.

For banks, that combination of education, mentorship and peer learning provides an opportunity to develop leadership talent without separating professional development from the institution itself. Students continually bring what they are learning back into their organizations.

Why Attend EDP in 2027?

Banking leadership increasingly requires executives to understand far more than a single business line. Technology is changing how customers interact with their financial institutions. Economic conditions influence funding, lending and profitability. Regulatory and legislative developments can quickly affect strategy, while effective leadership remains essential for attracting talent, managing change and building successful teams.

EDP exposes emerging leaders to each of these areas.

The 2027 curriculum includes The Big Picture and Bank Evolution; Leading Yourself; Understanding Bank Financial Statements; Bank Profitability; Fundamentals of Fintech; Credit and Risk Review; Asset Liability Management; Legislation, Politics and the Economy; Audit and Compliance; Leading Others; Leading Teams; and Credibility and Ethics.

The result is an opportunity for participants to move beyond being experts in their current roles and develop a more complete understanding of what it takes to lead a financial institution.

EDP has now served nearly 500 bankers from Washington, Oregon, Montana, Utah, California and Idaho, and WBA reports that more than half of graduates have been recognized and promoted within their institutions. The program can also provide a strong foundation for bankers considering ad-

ditional executive education, including the Pacific Coast Banking School.

For institutions thinking about succession planning and the strength of their future leadership teams, that makes EDP an investment not only in an individual employee, but also in the bank's leadership pipeline.

The 2027 Executive Development Program begins in January and continues through November, giving the next cohort an opportunity to spend the year building the financial knowledge, strategic perspective, leadership capabilities and industry relationships needed for the next stage of their careers.

For rising leaders ready to understand the whole bank—and institutions ready to prepare them for greater responsibility—2027 EDP offers a deliberate path from strong banker to stronger banking leader.

Learn more about the program at wabankers.com/edp.



Heritage Bank Earns Best Workplace Recognition

The Puget Sound Business Journal recognized Heritage Bank as one of Washington's Best Workplaces for 2026.

The recognition highlighted the bank's workplace culture and employees' commitment to serving clients and communities. Heritage Bank team members celebrated the honor at T-Mobile Park.

Mechanics Bank Sponsors Bridgeways Community Celebration

Mechanics Bank sponsored the 2026 Bridgeways Community Change Makers Celebration, which recognized individuals and organizations making a difference in the community.

The event raised support for Bridgeways' Social & Community Services and highlighted the contributions of community partners working to strengthen opportunities for residents.



1st Security Bank of Washington Supports Stuff the Bus Drive

1st Security Bank of Washington's Ferndale branch and Whatcom County team supported the Opportunity Council's annual Stuff the Bus drive by collecting essential items for local children and families.

The Whatcom County community donated more than 4,500 items, including 100 containers of laundry detergent, 470 toothbrushes, 150 backpacks and 100 pairs of shoes.

KeyBank Opens New Black Diamond Branch

KeyBank celebrated the opening of a new full-service branch in Black Diamond with a ribbon-cutting ceremony attended by community leaders, business owners, residents, and bank employees. The new branch, located at 32500 Main Street, expanded KeyBank's presence in the growing community.

As part of the opening, KeyBank donated \$10,000 each to the Black Diamond Historical Society and Black Diamond Community Center. The branch offered full-service banking, enhanced technology, a drive-up ATM, and services for individuals, businesses, and home lending clients.

Washington Trust Bank Supports Western Washington University Golf Tournament

Washington Trust Bank sponsored the first hole at Western Washington University's annual golf tournament and fielded two teams.

Bank representatives connected with golfers and community members throughout the tournament while supporting the university and its community programs.



First Interstate Bank Supports Community Organization with \$5,000 Gift

First Interstate Bank contributed \$5,000 as a Catalyst Sponsor to support an organization serving women in the community.

The contribution supported programs designed to create opportunities and pathways toward greater stability and independence for the women served by the organization.

Timberland Bank Volunteers with Emergency Food Network

Timberland Bank employees celebrated the Apple Cup by bringing Husky and Cougar fans together for a volunteer project at Emergency Food Network.

The two teams repacked 14,468 pounds of food and household



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items for distribution to local food pantries, shelters, and hot-meal sites.



Heritage Bank Volunteers Support West View Club

Heritage Bank employees volunteered with West View Club members, spending time with local youth through activities including Summer Bingo.

The volunteer effort allowed Club members to connect with bank employees while supporting the organization's work creating positive experiences for young people.



Washington Trust Bank Supports Sound Outreach

Washington Trust Bank sponsored a community luncheon benefiting Sound Outreach, a Tacoma organization focused on helping Pierce County residents achieve greater financial stability and economic mobility.

Sound Outreach provided financial coaching and counseling designed to help individuals and families improve credit, increase income, build savings, and strengthen their overall financial health.



Kitsap Bank Raises Funds Through Shred to Fed

Kitsap Bank and Heritage Bank NW launched the seventh year of their Shred to Fed events at branches in Poulsbo, Sequim, and Port Townsend.

Community members brought sensitive documents for secure shredding while contributing to local food banks. The first round of events raised nearly \$4,500 for food bank partners serving neighbors experiencing food insecurity.



U.S. Bank Volunteers Support Imagine Children's Museum

U.S. Bank employees volunteered at Imagine Children's Museum during its Close Week, helping complete cleaning projects throughout the facility.

Volunteers washed walls, dusted exhibits, and cleaned tables and chairs, helping museum employees prepare the space to welcome families back.

Riverview Bank Sponsors Hispanic Heritage Gala

Riverview Bank sponsored and attended the Hispanic Metropolitan Chamber's 32nd Annual Hispanic Heritage Gala.

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Events Calendar

October 8 – Retail Branch Manager Development Program

October 22 – Understanding Bank Performance

November 3 – Banking AI Accelerator

December 3 – CareerWork\$ Summit, Seattle

January 7 – Understanding Bank Performance

January 6-8 – CBA Bank President's Seminar, Laguna Beach, CA

January 12 – Executive Development Program, Seattle

January 12 – Banking AI Accelerator

February 14-16 – ABA Conference for Community Bankers, Chula Vista, CA

March 8-10 – ABA Washington Summit, D.C.

March 9 – Banking AI Accelerator

March 10 – Credit Analyst Development Program

April 8 – Understanding Bank Performance

May 5-7 – Tri-State Agriculture Conference, Boise, ID

May 11 – Banking AI Accelerator

May 18 – OBA Women in Banking Luncheon, Portland, OR

To register or to learn more about any of the listed events, please visit wabankers.com/calendar.



The event brought together businesses, families and community leaders to celebrate Hispanic culture, leadership and achievement while recognizing the contributions of Hispanic and Latino communities throughout the region.

KeyBank Supports Annual Foofaraw for Service Members

KeyBank employees participated in the annual Foofaraw in the Olympia area, supporting more than 250 service members with a day of rest, recreation, and camaraderie.



The annual event brought together the Olympia Chamber of Commerce, Olympia Yacht Club, volunteers and community partners to recognize military service members around the anniversary of September 11.



Peoples Bank Creates Endowed Scholarship at Skagit Valley College Foundation

This fall, Peoples Bank announced a \$25,000 donation to the

Skagit Valley College Foundation to establish the Peoples Bank Endowed Scholarship.

The new endowment will provide ongoing scholarship support for Skagit Valley College students, helping reduce financial barriers.

“Education has the power to transform lives, strengthen families, and build more vibrant communities,” said Jennifer Covey, Peoples Bank Retail District Branch Manager. “At Peoples Bank, we believe investing in students is one of the most meaningful ways we can support the future of our region. We are honored to partner with the Skagit Valley College Foundation to create opportunities that help students pursue their goals and achieve their full potential.”

The scholarship reflects the bank’s dedication to community investment and mission of helping individuals, families, and businesses thrive. Through the gift, the bank will support students pursuing degrees, certifications, and career pathways that strengthen Northwest Washington’s economic viability.

Skagit Valley College, which is celebrating 100 years in 2026, serves 7,999 students and has awarded more than \$1 million in Foundation Scholarships and Emergency Funds.

Cashmere Valley Bank Celebrates Ellensburg Customers

Cashmere Valley Bank’s Ellensburg branch hosted a customer appreciation event for local community members.

Bank employees welcomed customers for lunch and conversation as part of the branch’s efforts to recognize and strengthen its relationships with the people it served.



Timberland Bank Participates in Loggers’ Playday

Timberland Bank participated in Hoquiam’s annual Loggers’ Playday, a longstanding community tradition celebrating the

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Industry News

New Hires

Karen Allmann
Vice President, Application Systems
Manager at Banner Bank

Len Devaisher
President & CEO at Cashmere Valley
Bank

Beth Crocker
Vice President, Credit Administrator at
Wheatland Bank

Kim Travis
Community Business Banking Officer
at 1st Security Bank of Washington

Kip Kontos
President & CEO at Baker Boyer Bank

Colette Lentsch
Vice President and Small Business
Banking Team Lead at Washington
Trust Bank

Kara Beihn
Market Retail Leader for KeyBank

Christopher Algeo
Senior Vice President and Senior Rela-
tionship Manager at KeyBank

Ramy Atwal
Vice President and Area Retail Leader
at KeyBank

Scott Strawn
Vice President and Senior Commercial
Loan Officer at Sound Community
Bank

Kimi Sakamoto
Assistant Vice President and
Relationship Manager at Washington
Trust Bank

Greg Rafuse
Commercial Market President at First
Interstate Bank

Kandice Herndon
Vice President and Market Manager at
Mechanics Bank

Nicole Montgomery
Executive Vice President and Chief
Financial Officer at State Bank
Northwest

Promotions

Andrew Boyd
Residential Loan Officer at Timberland
Bank

Toni Fredrick
Team Leader, Private Banking at
Washington Trust Bank

Brooke Turner
Regional Credit Administrator at
Washington Trust Bank

Gary Borjan
Vice President, Senior Market Manager
at Mechanics Bank

Retirements

Mark Kajita
Baker Boyer Bank

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region's logging heritage.

The bank joined the Hoquiam Elks Loggers' Playday Parade and connected with residents during the annual celebration.



Baker Boyer Supports Perry Technical Foundation Campaign

Baker Boyer supported the Perry Technical Foundation's Legacy of Excellence Capital Campaign in Yakima.

The bank's contribution helped fund the new Washington Fruit & Produce Technology Center, which expanded hands-on training, laboratory space, and access to emerging technologies while preparing students for careers supporting the Yakima Valley economy.



PNC Supports LeMay Museum Gala

PNC sponsored LeMay – America's Car Museum's Wheels & Heels Gala, which celebrated automotive history and supported the museum's preservation and education programs.

The Roaring '20s-themed event raised \$1,683,505 to support the museum's mission of preserving automotive heritage and inspiring future generations of automotive restorers.



WaFd Bank Participates in Muz Fest

WaFd Bank participated in Muz Fest, connecting with community members during a celebration of culture, music, and diversity.

Bank representatives met residents and community partners

throughout the event, which brought together people from across the region through music and cultural programming.

First Interstate Bank Partners with Smithsonian

First Interstate Bank partnered with the Smithsonian Institution to create paid summer internships for college students from rural communities. The First Interstate Bank Smithsonian Internship placed students in a 10-week program across Smithsonian museums, research centers, offices, and the National Zoo in Washington, D.C.

Each participant received a \$7,000 stipend and round-trip airfare, along with networking and career-development opportunities. The inaugural class included students from institutions across the bank's footprint, including the University of Washington and Washington State University.



Washington Trust Bank Supports Veterans Build

Washington Trust Bank served as presenting sponsor of Veterans Build 2026 at Lee Wade Landing in Spokane Valley. Over four days, 137 volunteers contributed more than 540 hours to toward affordable homes under construction in the community.

Military families, supporters, and community volunteers worked together on the project, supporting future homeowners and expanding affordable homeownership opportunities in Spokane Valley.



Bank of the Pacific Supports Hospital Charity Tournament

Bank of the Pacific, a division of Banner Bank, participated in the fourth annual Willapa Harbor Hospital Drive to Save Lives Charity Golf Tournament.

Bank representatives connected with participants and community members while supporting the hospital and the tournament's charitable mission.

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U.S. Bank Volunteers at Taste of the Sound

U.S. Bank employees volunteered at Taste of the Sound in Seattle, supporting an event that brought together local food makers, chefs, businesses and community members.

The volunteer effort let bank employees support the regional business community while helping with an event organized by the Good Business Network of Washington.



Baker Boyer Earns Readers' Choice Honors

Baker Boyer and two of its employees earned honors in the Walla Walla Union-Bulletin Readers' Choice Awards.

Tori Anguiano was named Best Financial Advisor, Luis Alvarez was named Best Banker/Loan Agent, and Baker Boyer was recognized as Best Financial Planning Firm.



Riverview Bank Supports Lifeline Connections

Riverview Bank sponsored Lifeline Connections' A Lifeline to Wellbeing event, supporting the organization's work providing behavioral health and wellness resources.

The partnership reflected the bank's support for organizations providing mental health services, compassionate assistance, and resources to individuals throughout the community.



Mountain Pacific Bank Earns Best in the PNW Honors

Mountain Pacific Bank was named Best Bank in The Seattle Times' Best in the PNW contest.

The bank also earned second place in the Best Home Mortgage category, recognizing its banking and mortgage services and its relationships with customers throughout the region.



First Interstate Bank Holds Ninth Annual Volunteer Day

First Interstate Bank employees completed nearly 400 community service projects during the bank's ninth annual Volunteer Day. Branches and offices across its 10-state footprint closed at noon so employees could volunteer with nonprofits, schools, and community organizations.

Projects included food bank support, neighborhood and park cleanups, nonprofit outreach and school assistance. First Interstate launched Volunteer Day in 2018 as part of its 50th anniversary and continued the program as an annual community engagement initiative.



Mechanics Bank Supports Recipe for Hope

Mechanics Bank sponsored the Issaquah Food and Clothing Bank's Recipe for Hope fundraiser, supporting services for individuals and families experiencing homelessness and food



insecurity.

The bank also maintained a direct connection to the organization through BSM Uma Minakshisundaram, who served on its board of directors.



PNC Supports UIC Foundation Golf Tournament

PNC supported the 15th Annual UIC Foundation Benefit Golf Tournament.

The event raised support for scholarships and educational opportunities

benefiting UIC shareholders and their descendants.



Bank of America Supports Restoration of Eng Family Home

Bank of America provided a \$1 million capital grant supporting the renovation of the historic Eng Family Home at the Wing Luke Museum of the Asian Pacific American Experience.

The restored home preserved stories of family, resilience, and cultural heritage for future generations. The investment supported the museum's broader work preserving Asian American, Native Hawaiian and Pacific Islander history and community experiences.



PNC Supports Plymouth Housing and YWCA Events

PNC representatives attended community events benefiting Plymouth Housing and YWCA Seattle | King | Snohomish.



The Plymouth Housing Key to Hope Luncheon featured author Cheryl Strayed, while the YWCA luncheon featured Laila Ali. Both events highlighted the organizations' work to strengthen communities and expand opportunities for people throughout the region.



Sound Community Bank Volunteers at Key to Hope

Sound Community Bank employees volunteered at Plymouth Housing's annual Key to Hope event.

Team members assisted with event setup, guest check-in, and other preparations, supporting Plymouth Housing's work to address homelessness and help residents achieve greater housing stability.



Washington Trust Bank Participates in Women in Business Conference

Washington Trust Bank representatives attended the Women in Business Conference hosted by the Tri-City Regional Chamber of Commerce.

The conference brought together women leaders, entrepreneurs and professionals for professional development, networking and discussions about leadership and the role women play in shaping businesses and communities.

Planning Season and Your ATMs

By Joe Woods, SVP Marketing & Partnerships, Dolphin Debit Access

It's estimated that there are roughly half a million ATMs throughout the United States. Nearly 75% of these ATMs are in need of the Windows 11 software upgrade. In addition, large manufacturers have specific ATM models that are due to sunset in the next 12-24 months, meaning they will no longer provide parts or software upgrades after the sunset date.

Budget and planning conversations are in process at many banks. This budget season is incredibly important for the success of your future ATM or ITM fleet.

Whether you have two or 200 units the coming planning process will be important as your ATMs are an extension of your branch and a lifeline for members that need cash and make deposits after hours.

ITMs have grown significantly in popularity. If you're currently considering ITMs, now is the time to speak to the professionals and explore if an ITM solution is a viable option for your desired in-branch and/or drive-up experience.

There are several key points or concepts to consider as you begin planning. The first is the capability of your current fleet. What types of transactions do your ATMs perform today? What are your customers asking for or better yet, what transactions can be reduced at your teller line by adding them to the ATM? The average transaction cost at an ATM is \$0.70. The average cost of a teller transaction is \$4.50. You can save staff time and reduce your operational expenses by expanding the transactions available on your new units.

The second consideration is the make and model you choose to deploy. You should be working with a partner that is equipment neutral. By this I mean finding an ATM provider that can offer and operate any make and model of ATM for your program. Most providers across the country are only capable of offering ATMs from one manufacturer. This dramatically limits their capabilities and your potential for success.

If you're working on an acquisition of another FI, the acquired locations may have a different brand of ATM, which



can mean a completely different set of service providers and contracts for your staff to manage.

The third and final point is financial. There are three major considerations that will affect your budget for your ATMs. The first is Windows 11. This is the easiest. You have ATMs. You need them to continue to operate in a secure environment for you and your customers. The Windows upgrade can be a significant unanticipated cost. The second is ATM replacement. Do you keep the same manufacturer? Many major business moves have been made that can dramatically change cost, service & response from certain providers. Are you aware of these changes? The third is the move to ITM. Is now the time? If you are considering ITMs, also consider that choosing to embark on an ITM project will typically mean the need for ITM specific hardware. If you purchase ATMs today, are they ITM capable? Some models do not have ITM capability. Which can limit your abilities or increase your costs when you're ready for the leap to ITM.

Our partner Dolphin can reduce your ATM expenses and vendor contracts.

In addition, Dolphin can purchase new equipment and operate and potentially purchase your existing equipment. Saving you a large amount of capital that you can direct to new programs.

Reach out to your association representative to set up a call.

Continued from page 3

Enforcement Banking Act of 2026 was introduced in both the Senate and House earlier this year, renewing congressional consideration of the longstanding issue.

The Congressional meetings allowed bankers to share examples from their institutions and communities and explain how federal legislation and regulation translate into practical impacts for customers back home.

Bringing the Pacific Northwest Voice to Washington

The annual Capitol Hill Visit remains an important part of WBA's federal advocacy efforts, providing Washington bankers with direct access to policy-makers while helping federal officials better understand the economic and regulatory environment facing banks in the Pacific Northwest.

During the visit, participants moved from conversations with national banking advocates to meetings inside federal regulatory agencies and,

finally, to Capitol Hill. Together, those discussions provided bankers with a broader understanding of the federal policy landscape while giving policy-makers an opportunity to hear directly from the institutions implementing those policies every day.

By participating in these conversations, WBA members helped ensure that the perspective of Washington's banking industry—and the customers, businesses, and communities those banks serve—was represented in Washington, D.C.

Model Risk Management: What SR 26-2 Means for Financial Institutions

By Laura Clary, AAP, Senior Director, Product Compliance, Abrigo

Financial institutions rely on models to approve loans, estimate credit losses, price risk, detect fraud, prioritize AML investigations, and support strategic decisions. Models are vital to banking strategy, but decisions based on inaccurate or poorly implemented models can create financial, compliance, and reputational risk. Model risk management gives institutions a framework for identifying, assessing, monitoring, and controlling that risk.

In April 2026, the Federal Reserve, Office of the Comptroller of the Currency (OCC), and Federal Deposit Insurance Corporation (FDIC) issued SR 26-2, the revised Interagency Guidance on Model Risk Management. The guidance supersedes SR 11-7 and SR 21-8, including the prior interagency statement focused on model risk in systems supporting BSA/AML compliance. The latest guidance reinforces a key principle in model risk compliance: every significant model should be governed throughout its lifecycle in a manner proportionate to its risk.

The guidance is most relevant to banking organizations with more than \$30 billion in assets regulated by the Federal Reserve. The guidance also states that it does not set enforceable standards or prescriptive requirements. Financial institutions have flexibility in how they structure model risk management. Supervisory action may still result from violations of law or unsafe or unsound practices stemming from insufficient management of model risk.

What counts as a model under SR 26-2?

SR 26-2 defines a model as a complex quantitative method, system, or approach that applies statistical, economic, or financial theories to input data to produce quantitative estimates. It excludes simple arithmetic calculations, such as those in spreadsheets, and deterministic rule-based processes or software that do not rely on those theories.

SR 26-2 does apply to decision engines, machine learning, predictive analytics, vendor-provided models, and certain AI-enabled capabilities.

This scope helps institutions make better decisions about what belongs in a model inventory and how much oversight is appropriate. A tool may fall outside the guidance's definition of a model while still creating operational, compliance, or technology risk. Institutions should therefore connect model risk management to broader risk and control processes rather than treating the definition as grounds to ignore systems that influence important decisions. The guidance should also encourage institutions to perform data integrity reviews annually and consider a full third-party model validation biannually or anytime there has been a significant change in an institution's model.

Models support decisions across banking

Ask someone to identify the models used by their bank, and many immediately think of CECL or credit scoring. In

reality, model risk management in banking touches nearly every discipline, although not every tool used in those functions is a model under SR 26-2.

Lending and credit

Credit scorecards, probability-of-default models, loan pricing models, early-warning indicators, and commercial loan risk models can influence approval decisions, pricing, terms, and ongoing monitoring. Debt-to-income calculations and deterministic rules may also support underwriting without meeting the model definition in SR 26-2. Governance should connect each model's intended use to the decisions it supports and to the consequences of inaccurate outputs.

Portfolio risk and financial reporting

CECL calculations, stress testing, concentration risk analysis, economic forecasting, risk migration analysis, and capital planning models can affect reserves, capital allocation, management strategy, and board reporting. For these models, documentation and outcomes analysis help management understand whether outputs remain reliable as portfolio composition and economic conditions change.

Financial crime

Financial crime programs may use models or predictive analytics for transaction monitoring, customer risk scoring, sanctions screening, fraud detection, payment anomaly detection, entity resolution, and behavioral analytics. Institutions should assess how model outputs affect alert prioritization and investigations, monitor performance and data quality, and understand the tradeoffs between missed activity and unnecessary false positives. Deterministic rules may not meet SR 26-2's model definition, but they still need effective controls and oversight. Institutions may also use model validation and parallel testing when appropriate to confirm that changes produce reliable results.

How SR 26-2 applies to AI adoption

Generative and agentic AI deserve careful treatment. SR 26-2 says these models are outside the scope of the guidance because they are novel and rapidly evolving. It also says an institution's risk management and governance practices should guide the determination of appropriate controls for tools, processes, or systems not covered by the document. The guidance's principles apply to both traditional statistical and quantitative models and non-generative, non-agentic AI models.

For institutions adopting AI, the practical question is how the capability affects decisions and risk. Governance should address intended use, data, human oversight, explainability or output limitations, performance monitoring, change controls, access, and incident escalation. AI governance should connect to model risk management

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Deposit Competition is Poised to Intensify

By Diane Ellis, Senior Managing Director, IntraFi

Bank deposit competition is likely to intensify as regulatory capital relief increases banks' capacity to expand balance sheets. Recently finalized or proposed capital changes could free up as much as \$300 billion in Tier 1 capital at U.S. depository institutions. Even at conservative deployment rates, that relief implies potential balance sheet expansion of \$3.4 to \$4.7 trillion—growth that must be funded. The most likely funding source is deposits. Most market commentary has focused on how capital relief may affect lending and asset-mix decisions or on broader financial stability implications. The deposit implications have received far less attention.

Our review of regulatory analyses suggests that reduced capital constraints will cause a structural increase in banks' demand for deposits. And unless economic conditions generate a surge in new deposit creation (i.e., through lending), or funds flow back into the banking system from nonbank alternatives, banks are likely to compete more aggressively for a relatively limited pool of deposits.

Capital Relief Has Meaningfully Increased Balance Sheet Capacity

Since last November, federal banking regulators have finalized and proposed four rules that would provide capital relief to banks. For each rule, they estimate the effect on capital at the holding company or bank-subsidary level, as applicable. The sections that follow review each of the four rules and their estimated effects on Tier 1 capital requirements or balance sheet capacity for insured depository institutions where deposit demand is most directly affected.

Rule 1: eSLR Reform: The Most Consequential Change for Balance Sheet Expansion

The most consequential change for balance sheet expansion is the finalized reform of the Enhanced Supplementary Leverage Ratio (eSLR). This rule, which was finalized in November 2025 and became effective April 1, 2026, applies to the eight U.S. GSIBs and covered bank subsidiaries. A key objective of the rule was to make the leverage requirement less likely to constrain a GSIB's balance sheet, thereby reducing capital-related disincentives to engage in low-risk, low-return activities, such as U.S. Treasury market intermediation and investment.²

Although relief at the holding company level appears modest, the effect at the insured depository institution level should be substantial. Regulators estimate a roughly 28 percent reduction in Tier 1 capital requirements, freeing approximately \$219 billion in aggregate.

Some analysts translate this relief into as much as \$5.5 trillion of potential balance sheet expansion if GSIBs and other eSLR-covered banks maximize leverage under the revised requirement.

In practice, however, other constraints, such as stress test constraints, internal risk limits, and the cost and availability of funding are likely to limit balance sheet growth before the revised eSLR becomes the binding constraint.

At leverage ratios consistent with current practice, rough-

Additional Balance Sheet Capacity for Depository Institutions				
	Category I & II ^A	Category III & IV ^B	Smaller Banking Orgs ^C	Total
Call Report Data as of 12/31/2025				
Total Assets for Leverage Ratio Calc.	\$11,767B	\$5,782B	\$5,975B	
Tier 1 Capital	\$999B	\$592B	\$615B	
Median T1 Leverage Ratio (%)	8.7	11.0	10.2	
Projected Tier 1 Capital Reductions				
eSLR	\$219B			
ERBA (Basel III) (%)	-2.3%			
ERBA (Basel III) (\$)	\$22B			
Revised Standard Approach ^D		\$29B	\$28B	
CBLR			(See Memo below)	
Total T1 Capital Reduction	\$241B	\$29B	\$28B	\$298B
Projected Impacts				
Projected T1 Capital	\$699B	\$563B	\$587B	
Projected T1 Leverage Ratio (%)	5.9	9.8	9.8	
Additional Balance Sheet Capacity (CurrT1LR)	\$2,769B	\$263B	\$338B	\$3,369B
Additional Balance Sheet Capacity (ProjT1LR)	\$4,051B	\$297B	\$349B	\$4,697B
Memo: CBLR Additional Balance Sheet Capacity				\$64B

Call Report Data and Projected Impacts ignore Nondepository Trusts and Foreign Banking Organizations

A. Risk categories assigned based upon the Federal Reserve Board's most recent stress test categorization.

B. Includes 17 depository institution subsidiaries from the following banking organizations: JPM, C, WFC, BAC, GS, MS, STT, BNY, NTR.

C. Includes 31 depository institution subsidiaries from the following banking organizations: ALLY, AXP, BCS, BND, CFG, COF, DB, FNCN, FITB, HBAR, HSBC, KEY, MTS, PNC, RF, RY, SAN, SCHW, SYF, TD, TFC, UBS, USB.

D. Includes depository institution subsidiaries of all banking organizations not included above in Category I, II, III, or IV and that have not elected to participate in the CBLR framework as of 12/31/25.

Table 1

ly 10x to 12x, the freed capital implies approximately \$2.2 trillion to \$2.6 trillion of potential balance sheet capacity at GSIBs alone. Those figures are consistent with Treasury Secretary Scott Bessent's cited estimate of \$2.5 trillion in additional lending capacity resulting from the Trump administration's deregulatory actions.

Rule 2: CBLR Reform: Capital Relief Extends to Community Banks

Capital relief is not limited to the largest banks. In April 2026, federal banking regulators finalized a rule lowering the Community Bank Leverage Ratio (CBLR) threshold from nine percent to eight percent, expanding eligibility for the simplified capital framework.

Today, about half of currently eligible community banks have opted into the CBLR framework. Regulators estimate that the lower threshold could allow several hundred additional banks to qualify and could support approximately \$64 billion in incremental balance sheet expansion. While modest relative to the eSLR relief for GSIBs, the relief provided by the CBLR final rule could still increase deposit demand pressures across the banking system by giving community banks more room to grow. This rule becomes effective on July 1, 2026.

Rule 3: Basel III Endgame: Additional Relief for the Largest Banks

At the end of March, federal banking regulators proposed a new version of the Basel III endgame, called the Expanded Risk-Based Approach (ERBA), which would apply to the largest and most complex banking organizations and those with significant trading activity. This proposal departs notably from the prior administration's approach, which would have increased capital by 15 to 20 percent for the largest U.S. holding companies.

By contrast, regulators estimate that the ERBA, if implemented as proposed, would reduce Tier 1 capital requirements at depository institution subsidiaries by 2.3 percent.

Rule 4: Revised Standardized Approach: Broader Relief

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Bank of America Supports Susan G. Komen Walk

Bank of America employees participated in the Susan G. Komen Walk at Woodland Park Zoo.

The team joined survivors, families and advocates in supporting breast cancer awareness and the organization's work serving people affected by the disease.



Riverview Bank Sponsors Clark County Historical Museum Event

Riverview Bank sponsored the Clark County Historical Museum's Spooky Soiree, which combined fundraising and community engagement in support of local history.

The bank also maintained a leadership connection to the museum through Cody Ritter, SVP and Commercial Real Estate Director, who served on its board.



Washington Trust Bank Volunteers with Habitat for Humanity

Washington Trust Bank's Bellevue team spent a day volunteering with Habitat for Humanity and connecting with community members.

The volunteer event also included team activities and a Seattle

Mariners ticket raffle, giving employees a chance to combine community service with team building.



1st Security Bank Supports Columbia Ability Alliance

1st Security Bank of Washington donated to Columbia Ability Alliance to support the organization's work creating opportunities for people in the community.

The contribution strengthened an ongoing partnership and supported the organization's mission and community programs.



U.S. Bank Supports El Centro de la Raza Gala

U.S. Bank employees attended El Centro de la Raza's Building the Beloved Community Gala, supporting the organization's work in the region.

Bank employees had previously volunteered to create floral decorations used during the celebration, and U.S. Bank's Esther Richmond participated in the program to discuss the organization's community impact.



Riverview Bank Celebrates Annual Pumpkin Patch Bash

Riverview Bank hosted its annual Pumpkin Patch Bash for employees and their families with a "Riverview on the Farm" theme.

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Team members participated in a farm-themed costume contest and other fall activities as part of the bank's tradition of bringing employees and families together outside the workplace.



KeyBank Supports Big Brothers Big Sisters Gala

KeyBank representatives attended the 61st Annual BIG Gala benefiting Big Brothers Big Sisters of Puget Sound.

The event highlighted the impact of consistent mentorship on young people and brought together mentors, families, businesses, and community supporters to raise support for the organization's youth programs.



Timberland Bank Supports Downtown Olympia

Timberland Bank employees participated in the Love Oly Cleanup in downtown Olympia, volunteering alongside community members to help improve the city center.

The bank also contributed \$30,000 to the Olympia Downtown Alliance to support its efforts to maintain a clean, safe, and vibrant downtown Olympia.



First Fed Bank Celebrates Port Angeles Pump Track

This fall, First Fed Bank celebrated with the community as the Port Angeles Pump Track opened.

The bank originally pledged \$50,000 toward the track's construction and another \$5,000 over three years to support ongoing maintenance.



1st Security Bank of Washington Donates to Woodland Elementary

1st Security Bank of Washington announced a donation to Woodland Elementary School as part of the bank's annual Stuff the Bus campaign.

Each summer, the bank encourages donations of school supplies or cash to help local students be prepared for the new school year.

Woodland Elementary was just one of many schools that received donations to help students start a new year confidently.

If you have WBA member or Bankers Care news to share, please send it to megan@wabankers.com. Submissions are run on a space available basis.

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when a system meets the relevant definition of a model, and to broader technology, operational, compliance, and third-party risk controls when it does not.

What is model risk governance?

Model risk governance is the structure that makes model risk management consistent and accountable. It includes policies, roles, approval authorities, reporting, controls, issue escalation, and oversight from senior management and the board.

A sound model risk governance program should answer basic questions:

- Who owns this model?
- What decision does it influence?
- What data and assumptions does it use?
- Who provides effective challenge?
- How is performance monitored?
- What happens when the model changes or no longer fits its purpose?

SR 26-2 emphasizes assessing model risk both individually and in aggregate. Aggregate risk can arise when several models rely on common data, assumptions, or methodologies. Governance should therefore look beyond one model's validation report and consider dependencies across lending, financial crime, portfolio risk, and other functions.

Model risk management best practices for financial institutions

SR 26-2 describes sound principles, not a single operating model. Institutions can tailor practices to risk while building a repeatable risk management lifecycle:

- Identify and classify models. Maintain an inventory of models under development or in use, and record enough information to understand individual and aggregate risk. Consider inherent risk, exposure, purpose, and materiality when setting tiers.
- Document intended use and limitations. Record purpose, methodology, assumptions, data sources, developmental evidence, approved use, limitations, and controls. Good documentation supports continuity, issue tracking, and remediation.
- Use effective challenge. Objective, qualified reviewers should critically assess model risk and have enough independence and organizational influence to drive change when needed.
- Validate and monitor based on risk. Validation should evaluate reliability and limitations. It can include conceptual soundness, outcomes analysis, benchmarking, back-testing, and other tests appropriate to the model. Frequency should reflect purpose, methodology, changes, data limitations, and materiality rather than a blanket schedule.
- Control changes and extensions. Using a model beyond its intended purpose or changing data, assumptions, or methodology creates additional uncertainty. Set expectations for approval, testing, documenta-

tion, and monitoring before expanding use.

- Oversee vendor and third-party products. Vendor models remain subject to model risk management principles. Institutions should understand conceptual soundness, development data, performance, ongoing monitoring, and any customization or overlays, even when proprietary limitations affect access.
- Track findings and report them. Establish a process for exceptions, recommendations, responses, remediation, and escalation. Management and the board should receive information appropriate to their responsibilities.

First steps toward updating model risk management practices

- An effective update can begin with a focused review:
- Reconcile the model inventory with lending, financial crime, portfolio, reporting, and AI use cases.
- Reassess risk tiers using purpose, exposure, inherent risk, and materiality.
- Identify owners, validators, users, approvers, and escalation paths.
- Review validation and monitoring plans against model changes and business conditions.
- Document vendor dependencies, limitations, customizations, overlays, and performance evidence.
- Confirm that management and board reporting reflects aggregate model risk and open findings.

Model risk management supports stronger decisions

SR 26-2 reinforces a practical model risk management principle: oversight should be proportionate to risk, but accountability should be clear. Institutions with strong model risk governance can explain what their models do, where outputs may be unreliable, who can challenge them, and how the organization responds when conditions change. That discipline supports regulatory readiness and better decisions across lending, portfolio risk, and financial crimes.

Financial institutions that want to strengthen their programs can start by formalizing existing practices, closing documentation gaps, and confirming that validation and monitoring reflect actual model use. Independent model validation and advisory support can help institutions assess model performance and build a model risk governance framework aligned with their risk profile.

Laura Clary the Senior Director, Product Compliance at Abrigo and is an Accredited ACH Professional and Senior Director with the Abrigo Product Compliance Team, driving regulatory clarity, influencing product direction and ensuring high-confidence compliance software across the Abrigo solution areas. She leads regulatory insight across product lines and owns the compliance positioning in the Financial Crimes software, acting as a strategic partner to the product management team. Laura brings expertise in financial services and payment technologies, with a proven track record of driving strategic initiatives, operational excellence, and innovative solutions.

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for Mid-Size and Smaller Banks

Concurrently with the Basel III proposal in March, federal banking regulators also proposed changes to the standardized approach, which is the risk-based capital framework used by most banking organizations that report risk-weighted assets.

These proposed changes would produce larger reductions in binding Tier 1 capital requirements at depository institution subsidiaries: approximately \$29 billion, or 7.8 percent for Category III and IV banks, and approximately \$28 billion, or 7.2 percent, for smaller banks.

Regulatory Estimates Imply a Range of Potential Balance Sheet Expansion Scenarios

Together, these regulatory changes imply a meaningful increase in potential balance sheet capacity across the banking system.

As shown in Table 1, these four rules are estimated to provide roughly \$300 billion in cumulative Tier 1 capital relief for insured banks. Assuming banks deploy this capacity at current leverage ratios, total potential balance sheet growth would be approximately \$3.4 trillion to \$4.7 trillion.

Almost three-quarters of the estimated capital relief comes from changes to the eSLR, which applies only to GSIBs and is intended to increase incentives to hold zero-risk-weighted assets, particularly U.S. Treasury securities. Initial expansion is therefore likely to be concentrated among the largest banks, which will need stable, low-cost funding to grow their securities portfolios.

This analysis excludes holding company effects from these and other proposals, such as the GSIB surcharge and stress-test changes, which could also indirectly increase balance sheet capacity and deposit demand.

How Banks Are Likely to Deploy Capital Relief

Capital relief is unlikely to translate immediately into a large increase in dividends or share repurchases.

Following last summer's stress test results, most of the largest banks increased dividends and share repurchases.¹² But eSLR relief is different. Regulators generally do not view leverage-ratio recalibration as a meaningful driver of capital distributions, because the relief is limited at the holding company level and does not, by itself, affect Common Equity Tier 1 capital requirements.¹³ In addition, stress capital buffer requirements and related payout constraints remain in place and may continue to limit distributions.

Other capital changes could eventually create more flexibility. Regulators estimate that Common Equity Tier 1 requirements for covered holding companies would decline by about \$87.7 billion.¹⁴ Some of that capital may ultimately be returned to shareholders, but the amount and timing remain uncertain.

Increasing Lending: Regulatory Intent Is Clear, but Loan Growth Will Be Gradual

Federal banking regulators have made clear that part of the goal of recent capital changes is to support lending. Changes such as the ERBA and revised standardized approach are intended to reduce capital burdens on certain types of lend-

Year	Estimated Utilization Rate	Regular Deposit Growth: 4.5%	Estimated Additional Deposit Demand	Total Estimated Deposit Demand
2026	10-20%	\$0.8T	\$0.4-0.8T	\$1.2-1.6T
2027	35-55%	\$0.9T	\$1.4-2.2T	\$2.3-3.1T
2028	80-95%	\$0.9T	\$3.2-3.8T	\$4.1-4.7T

Table 2

ing, including mortgage and small-business lending. Other policy shifts, including the OCC's and FDIC's withdrawal of the 2013 leveraged lending guidance, may also modestly increase banks' willingness to take credit risk.¹⁵ 16

Even so, loan growth is not automatic. Banks will need sufficient demand, acceptable credit quality, and a supportive macroeconomic environment. As such, any increase in lending is likely to develop gradually rather than all at once.

Purchasing U.S. Treasuries and Other Securities: The Most Immediate Use of Freed Capacity

The most immediate response of freed balance sheet capacity is likely to be increased securities holdings, especially U.S. Treasuries, and expanded repo activity.

This is particularly true for GSIB affiliates. The eSLR changes give these institutions more flexibility to hold low-risk assets and support Treasury market intermediation. Even if GSIBs are not currently tightly constrained, additional leverage flexibility could make them more willing to expand Treasury and repo activity. To support larger securities portfolios, banks will need access to stable and competitively priced funding. Deposits are likely to remain an important part of that funding mix.

Asset Growth Creates Demand for Deposits

Whether banks use the new capacity to buy securities, expand repo activity, or eventually increase lending, balance sheet growth requires stable, low-cost funding. That dynamic sets the stage for intensified deposit competition, particularly among GSIBs and other large banks that choose to deploy newly available balance sheet capacity. Without stronger credit demand driving deposit creation, banks will need to compete for existing deposits to fuel growth.

Short-term wholesale funding, particularly repo financing backed by Treasury collateral, may offset some deposit demand. It is unlikely, however, to eliminate the need for deposits if balance sheet expansion becomes widespread, given internal risk limits and banks' preference for more stable funding sources.

This could increase competition for deposits across the banking system. GSIBs already control roughly 42 percent of domestic deposits.¹⁸ More aggressive deposit gathering by these institutions could help set the marginal price of funding and increase competitive pressure for deposits across the industry, including for banks that are not expanding balance sheets aggressively.

Deposit Demand Could Exceed Recent Growth Trends

Growth is likely to be gradual as banks gain regulatory certainty and adjust their strategies, with loan growth across the industry following over time. However, even under conservative assumptions, the resulting demand for deposits

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could exceed recent deposit growth trends.

Since the fourth quarter of 2023, domestic deposits have grown by approximately \$1.1 trillion, following an industry-wide decline in 2022.¹⁹ By contrast, the asset growth scenarios shown above would require deposit growth comparable to the surge that occurred in 2020, when extraordinary fiscal and monetary stimulus in response to the COVID-19 pandemic drove a sharp increase in system-wide liquidity.

What This Means for Bank Executives

Capital relief has materially eased constraints on balance sheet expansion and is likely to reshape competition for

bank funding. The extent of banks' appetite for growth will depend on broader macroeconomic and financial conditions. Even so, partial deployment of GSIB capacity is likely to intensify competition for deposits, with pricing effects that spill across the banking industry as deposit flows adjust.

For bank executives, the key issue is funding. If large banks deploy even part of their newly available capacity, competition for deposits could intensify. Large institutions may try to attract deposits from nonbanks, compete more directly with other banks on price, term, convenience, or other features. Another possibility is that larger banks pursue growth through acquisitions.

These trends bear watching.



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4

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