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Banking regulators propose to overhaul CAMELS rating system

Initial perspectives on the FFIEC proposal to update the Uniform Financial Institutions Rating System (UFIRS)

The Federal Financial Institutions Examination Council (FFIEC) proposed revisions to a rating system for banks commonly known as CAMELS to emphasize factors that materially affect a bank's financial condition and risk profile. The move is the latest by regulators to continue to refocus supervision on material financial risks. Established in 1979, the scale is used by federal and state supervisory agencies to evaluate financial institutions on Capital Adequacy (C), Asset Quality (A), Management (M), Earnings (E), Liquidity (L), and Sensitivity to Market Risk (S). Banks are graded on a scale of 1 (strongest) to 5 (weakest) for each factor and given an overall score.

5 insights you should know

1. **Eliminate the “special consideration” for management**: The proposal would remove language directing examiners to give “special consideration” to management in the composite rating. The aim would be to take a more balanced approach and avoid overweighting management's role when assessing a bank's financial condition and risk profile.
2. **Management ratings become less qualitative**: Supervisors would establish a material financial risk threshold for assigning management ratings of 3 or worse. It would also remove qualitative evaluation factors, including (i) “Management depth and succession,” (ii) “Responsiveness to recommendations from auditors and supervisory authorities,” and (iii) “Demonstrated willingness to serve the legitimate banking needs of the community.”
3. **Adjust impact of specialty review findings on management**: Regulators would adjust how findings from specialty reviews (e.g., consumer compliance, anti-money laundering, Community Reinvestment Act) would influence management ratings. Those findings would be reflected in the management rating if they impact a bank's overall financial condition or material financial risks, or lead to significant noncompliance with laws and regulations.
4. **Revise composite definitions to align with financial condition**: CAMELS composite rating definitions would become more tied to a bank's financial condition. For composite ratings of 4 or 5, the updated definitions would require the institution have “deficient” financial performance. Risk management weaknesses that do not result in observable financial deterioration or material financial risk alone would not support a composite rating of 4 or worse.
5. **Removing broad language from evaluations**: Revised definitions would focus on specific risk management areas, such as the effectiveness of funds management practices and the institution’s effectiveness in maintaining appropriate capital levels though an economic cycle. It would deemphasize broader language measuring management's “ability of management to identify, measure, monitor, and control” risks.

5 considerations to evaluate

1. **Evaluate potential impact on composite CAMELS rating**: Institutions should assess how the proposed recalibration of the CAMELS framework may affect a bank's overall rating, particularly where prior management-related findings were not tied to material financial risk or financial deterioration. Institutions with strong financial profiles may benefit from strategic opportunities tied to improved overall ratings and “satisfactory” supervisory status. Limits on activities such as share buybacks, executive pay, branch expansions or mergers and acquisitions could be lifted.
2. **Reassess management vulnerabilities under the revised materiality threshold**: The proposal raises the threshold for management ratings of 3 or worse by linking adverse ratings more directly to material financial risk, significant compliance failures, or unreliable reporting. Institutions should evaluate whether management weaknesses are process-oriented or could still be viewed as creating material safety and soundness concerns.
3. **Assess the reduced supervisory impact of specialty examination findings**: Institutions should evaluate how existing findings from specialty reviews may affect management and the overall CAMELS composite rating under the revised approach. Findings that do not materially affect financial condition or create significant legal or compliance risk may carry less influence on management and composite ratings. More severe deficiencies are likely to remain in focus.
4. **Reevaluate governance and internal audit effectiveness**: Governance, internal audit, and control functions will remain critical in identifying operational, compliance, conduct, and other non-financial risks that could create material financial exposure. While the proposal deemphasizes some qualitative management factors, banks should continue to prioritize timely risk identification and issue remediation to ensure that the bank performs well across a range of economic and market conditions, as well as alignment of risk and capital and liquidity positions to strategy.
5. **Strengthen risk management of enumerated component rating evaluation factors:** Institutions should review whether current monitoring, reporting, contingency planning, and capital management practices are effective. Banks should focus on specific, measurable risk management practices within each CAMELS component, including liquidity management, cash flow forecasting, credit risk management, interest rate risk oversight, and capital resiliency.

Endnotes

1. Federal Financial Institutions Examination Council (FFIEC), "Uniform Financial Institutions Rating System," *Federal Register*, May 19, 2026.

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