

# INSIGHT360

## FFIEC Proposes Changes to CAMELS Rating System: Part One

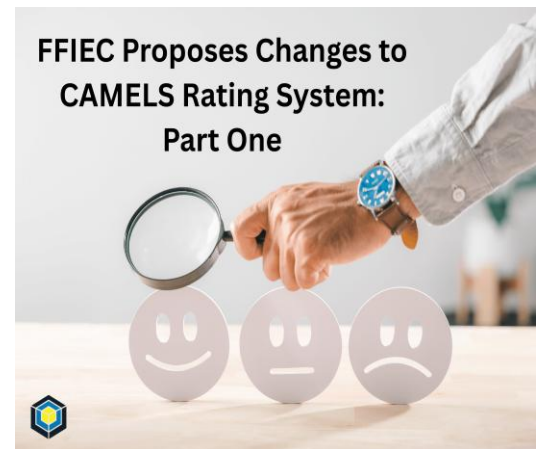
05/27/2026

On May 19th, the Federal Financial Institutions Examination Council (FFIEC) issued a [proposed rule](#) that would make several updates to the Uniform Financial Institutions Rating System, commonly referred to as the CAMELS Rating System. Over the course of the next two weeks, we'll take a deep dive into the proposal. In this first edition, we'll review what the CAMELS Rating System is all about and look at the proposed changes to the Capital Adequacy and Management components. Next week, we'll cover the proposed changes to the Earnings, Liquidity, and Sensitivity to Market Risk components. We'll also look at changes to the overall composite rating.

### CAMELS Rating System

The CAMELS Rating System, developed in 1979, is a comprehensive supervisory rating system used by federal and state regulators to evaluate the safety and soundness of financial institutions on a uniform basis. Last updated in 1996, the CAMELS Rating System consists of the following six components:

- C – Capital Adequacy
- A – Asset Quality
- M – Management
- E – Earnings
- L – Liquidity
- S – Sensitivity to Market Risk



Each component is rated between 1 and 5, with 1 being the highest rating. Each component rating contributes to an overall composite rating for the financial institution, also on a scale between 1 and 5.

### Capital Adequacy

The Capital Adequacy component rates a financial institution's ability to maintain sufficient capital to absorb unexpected losses from credit, market, and other risk exposures. This component is rated based on an assessment of seven factors.

The first proposed change to the Capital Adequacy component is to replace the assessment factor which currently reads "the ability of management to address emerging needs for additional capital" with "the institution's effectiveness in maintaining capital levels commensurate with its risk profile and strategic priorities through a range of economic conditions."

The second proposed change is to add the following as an assessment factor under the Capital Adequacy component – "risks posed by off-balance sheet activities and contingent liabilities."

### Management

The Management component rates the effectiveness of a financial institution's board of directors and management in identifying, measuring, monitoring, and controlling the material financial risks associated with the institution's activities. It is rated based on an assessment of eight factors.

First, the proposed rule removes the following standalone assessment factors from the Management component as they are already adequately addressed as part of other assessment factors:

- Management depth and succession,
- Responsiveness to recommendations from auditors and supervisory authorities,
- Demonstrated willingness to serve the legitimate banking needs of the community, and
- Overall performance of the institution and its risk profile.

Second, the proposed rule clarifies that a financial institution would warrant a Management component rating of 3 or worse if:

- Weaknesses in its risk management practices result in material financial risk to the institution,

- Its financial and/or regulatory reporting is unreliable,
- It fails to safeguard assets, or
- It is in significant non-compliance with laws and/or regulations.

Finally, under the current CAMELS Rating System, the Management component is given special consideration. The proposed rule would remove that preferential language, allowing examiners to take a more balanced approach in weighing all six components.

Comments on the proposal are due by August 17th.