Insights

21st Century ROAD to Housing Act Becomes Law: Eight Provisions Bank Executives Should Know

July 14, 2026

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The 21st Century ROAD to Housing Act ("Act") became law on July 11 without President Donald Trump's signature, after the President neither signed nor vetoed the legislation. The Act represents one of the most comprehensive federal housing packages enacted in recent years. Although much of the Act focuses on housing supply, homeownership, and federal housing programs, several provisions are directly relevant to bank executives evaluating mortgage strategy, deposit funding, community development investments, regulatory burden, and growth opportunities.

Below are eight provisions banks should be watching.

1. Public Welfare Investment Cap Increased

The Act increases the statutory cap on public welfare investments for national banks and Federal Reserve-supervised state member banks from 15% to 20% of capital and surplus, subject to regulatory approval.

Why it matters: For banks active in affordable housing, low-income housing tax credit investments, community development, and CRA-related investment strategies, the increased cap may provide additional capacity. Banks approaching the prior 15% ceiling should evaluate whether the higher limit creates new investment opportunities.

2. FHA Small-Dollar Mortgage Pilot Program

The Act authorizes HUD to establish an FHA pilot program intended to increase access to small-dollar mortgages. A small-dollar mortgage is generally defined as a mortgage with an original principal balance of $100,000 or less, secured by a 1- to 4-unit property that is the borrower's principal residence.

The pilot program may include direct payments to mortgagees to incentivize origination, adjustments to FHA terms and costs, grants to borrowers for down payments, closing costs, appraisals, and title insurance, borrower outreach, and technical assistance for participating mortgagees.

Why it matters: Small-balance mortgage lending can be difficult to offer profitably because many origination, compliance, appraisal, title, and closing costs are fixed regardless of loan size. This is especially relevant in rural and lower-cost housing markets. Banks that already originate FHA loans—or that serve markets where home values frequently fall below $100,000—should monitor whether the pilot program improves the economics of small-dollar mortgage lending.

3. Housing Supply Initiatives May Create Lending Opportunities

The Act includes numerous provisions intended to increase housing supply, including reforms related to affordable housing construction, publicly owned land, manufactured housing, HOME Investment Partnerships, rural housing programs, and other federal housing initiatives.

Why it matters for executives: The banking impact may be indirect but important. If these provisions result in additional housing development, banks may see increased demand for acquisition, development and construction lending, builder finance, lot loans, permanent mortgage financing, and community development lending. For community banks with strong local developer relationships, the Act may create business opportunities beyond residential mortgage origination.

4. Brokered Deposit Relief for Custodial and Reciprocal Deposits

The Act includes two notable brokered deposit changes.

First, the Act creates a limited brokered deposit exception for certain custodial deposits at certain institutions with less than $10 billion in total assets.

Second, the Act modifies the treatment of reciprocal deposits by replacing the existing cap with a tiered formula. Under the new framework, certain reciprocal deposits of an agent institution would not be treated as brokered deposits up to an amount equal to:

- 50% of the institution’s total liabilities up to $1 billion;
- 40% of total liabilities above $1 billion and up to $10 billion; and
- 30% of total liabilities above $10 billion and up to approximately $96.3 billion.

Why it matters: Brokered deposit classification remains an important liquidity, funding, and supervisory issue. The custodial deposit exception may create additional flexibility for certain banks under $10 billion in assets with fiduciary or custodial deposit relationships. The reciprocal deposit changes may also help banks retain larger local deposit relationships, including municipal, nonprofit, business, and other high-balance depositors seeking expanded deposit insurance coverage.

Banks should not assume, however, that all third-party, custodial, fiduciary, or reciprocal deposit arrangements will qualify. The definitions are technical, and banks should evaluate eligibility before relying on the exceptions.

5. 18-Month Examination Cycle Threshold Increased from $3 Billion to $6 Billion

The Act increases the asset threshold for certain institutions eligible for an 18-month examination cycle from $3 billion to $6 billion.

This change does not automatically place every bank under $6 billion on an 18-month cycle. Existing eligibility requirements continue to apply, including requirements related to capital, management, composite condition, enforcement status, and recent changes in control.

Why it matters for executives: For qualifying institutions between $3 billion and $6 billion in assets, this may reduce examination burden and allow management teams to devote additional time to lending, operations, technology, and strategic initiatives. Banks approaching or exceeding $3 billion in assets should evaluate whether this change affects regulatory planning, staffing, and board-level supervisory calendars.

6. De Novo Bank Formation and Application Process Updates

The Act includes several provisions intended to support de novo bank formation.

First, the Act authorizes the federal banking agencies to issue rules providing a two-year phase-in period for qualifying community banks and their holding companies to meet otherwise applicable federal capital requirements.

Second, the Act permits qualifying new banks, during the first two years after becoming insured depository institutions, to request deviations from approved business plans. The applicable federal banking agency must act on the request within a specified period, provide reasons for any denial, and suggest changes that would allow approval.

Third, the Act requires federal financial institution regulators to review de novo application forms, reduce duplicative information requests where practicable, review capital-raising restrictions in consultation with the SEC, improve communication with applicants by designating agency caseworkers, and provide de novo applicants with information regarding potential mentors.

Why it matters for executives: New bank formation has remained historically low for more than a decade. These provisions are intended to reduce friction in the de novo process by addressing capital requirements, business-plan flexibility, application burden, regulator communication, and organizer support. Existing banks should also monitor whether renewed de novo activity could affect competition in attractive markets.

7. Financial Agent Mentor-Protégé Program for Small Financial Institutions

The Act directs the Secretary of the Treasury to establish a Mentor-Protégé Program. Under the program, a financial agent designated by Treasury or a large financial institution may serve as a mentor to a small financial institution.

The program is intended to help small financial institutions prepare to perform as financial agents or improve their capacity to provide services to their customers. In this context, a “financial agent” generally refers to a bank designated to perform certain functions for the U.S. Treasury. For purposes of the program, a small financial institution generally includes institutions with $2 billion or less in total consolidated assets, minority depository institutions, and rural depository institutions.

Why it matters: Although the practical impact will depend on Treasury implementation, the program may create new partnership and capacity-building opportunities for smaller banks, rural institutions, and minority depository institutions. Larger institutions may also wish to monitor whether participation creates strategic, reputational, or community development opportunities.

8. Restrictions on Large Institutional Investors in Single-Family Homes

The Act restricts certain large institutional investors from purchasing additional single-family homes, subject to a number of exceptions. A large institutional investor generally includes certain for-profit entities that are engaged in owning, renting, managing, or holding single-family homes and that have investment control of at least 350 single-family homes.

The Act includes exceptions, including for certain build-to-rent programs, renovate-to-rent programs, homeownership programs, debt previously contracted, and purchases by mortgage servicers, lenders, or other entities with legal rights to a single-family home for purposes of loss mitigation, servicing, investor obligations, foreclosure, deed-in-lieu transactions, enforcement of a mortgage or security interest, or operation of law following borrower default.

Why it matters for executives: Although this provision is not directed primarily at banks, it could affect local housing inventory, borrower competition, investor demand, property values, and mortgage demand. Banks with significant residential mortgage, construction, warehouse, or investor real estate exposure should monitor how these restrictions affect local housing markets.

Other Provisions to Watch

The Act also includes provisions regarding systemic risk authority transparency, a rural depositories revitalization study, and a prohibition on the Federal Reserve issuing or creating a central bank digital currency without congressional authorization. These provisions may be relevant to some institutions, but they are either more limited, more indirect, or more dependent on future agency action than the provisions discussed above.

Looking Ahead

The 21st Century ROAD to Housing Act is not simply a housing statute. For banks, it includes meaningful changes affecting community development investments, mortgage lending, deposit funding, regulatory burden, and market strategy.

Krieg DeVault's Financial Institutions attorneys will continue monitoring implementation of the Act and are able to provide counsel to financial institutions on the impact of these changes to their operations.
