

# WOOD & HUSTON BANK, MARK THOMPSON

## Proposal and Comment Information

**Title:** Proposed Revisions to the Federal Reserve Policy on Payment System Risk and the Guidelines for Account and Services Requests, OP-1878

**Comment ID:** FR-2026-0013-01-C01

## Submitter Information

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**Organization Type:** Company

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I appreciate the opportunity to submit comments in response to the Federal Reserve's request for public input regarding the potential establishment of special-purpose "payment accounts" for eligible financial institutions (Proposed Revisions to the Federal Reserve Policy on Payment System Risk and the Guidelines for Account and Services Requests [OP-1878]). I respectfully urge the Board to consider the significant risks and unintended consequences associated with extending such access to non-traditional financial institutions.

## **1. Financial Stability Risks and the Likelihood of Uninsured Failures**

Allowing non-traditional institutions—particularly those without federal deposit insurance or full prudential supervision—to hold payment accounts at the Federal Reserve introduces new and unnecessary risks into the core of the U.S. financial system. These firms often operate with business models that are more volatile, less transparent, and less resilient than those of insured depository institutions.

It is not speculative to say that **an uninsured failure is inevitable** among such firms. When that failure occurs, it will occur *inside* the Federal Reserve's payment system. This would undermine public confidence in the safety and neutrality of central bank infrastructure.

Importantly, **political pressure or industry lobbying should not be the basis for granting access** to the Federal Reserve's accounts or services. The Federal Reserve's mandate is financial stability, not responding to short-term political or commercial demands. Decisions of this magnitude must be grounded in safety, soundness, and long-term systemic resilience.

## **2. Deposit Competition and Reduced Credit Availability**

Expanding access to payment accounts for non-traditional institutions will intensify competition for deposits—particularly operational and payments-related balances. These deposits are the foundation of the traditional banking system's ability to extend credit.

If deposits migrate toward large technology-driven platforms or specialized non-banks, the result will be a **reduction in the deposit base available to fund loans**. This will directly affect:

- small-business lending
- agricultural lending
- mortgage availability
- commercial and industrial credit

The U.S. economy depends on a healthy, diversified banking system capable of transforming deposits into productive lending. Eroding the deposit base undermines that system.

Supporters of payment accounts argue that these accounts are limited-purpose and not intended for broad deposit-taking. However, even limited-purpose settlement accounts will shift payment flows and customer relationships away from community and regional banks, weakening their funding stability.

### **3. Harm to Community Banks and Rural America**

Community banks are the backbone of rural and small-town America. They provide the majority of lending to small businesses, farms, and local enterprises. They maintain long-standing relationships that cannot be replicated by national platforms or non-bank entities.

If payment accounts accelerate the migration of financial activity toward large non-traditional institutions, community banks will face:

- reduced deposits
- diminished payment-related revenue
- weakened customer relationships
- increased competitive pressure from firms not subject to equivalent regulation

The result will be **bank closures**, particularly in rural areas where community banks are often the only providers of credit. The decline of community banks would contribute to the economic deterioration of towns and regions that are already struggling. This is not merely a banking issue—it is a **rural economic survival issue**.

Supporters argue that innovation in payments does not necessarily harm community banks. However, history shows that when core financial functions migrate to large, centralized platforms, smaller institutions and rural communities are disproportionately harmed.

### **4. AML/BSA, Operational, and Supervisory Challenges**

Non-traditional institutions often lack the mature compliance frameworks required to manage AML/BSA obligations at scale. Granting them access to Federal Reserve payment accounts would require the Federal Reserve to supervise a broader and more complex set of institutions, stretching supervisory resources and increasing the likelihood of oversight gaps.

While supporters argue that direct Fed oversight could improve transparency, the reality is that the Federal Reserve is not structured to supervise a wide array of novel business models with varying risk profiles, many of which will change frenetically.

## **5. Legal and Policy Concerns**

Creating a new category of payment accounts blurs the line between traditional master accounts and limited-purpose accounts. It introduces legal ambiguity and sets a precedent that could be expanded over time, potentially opening the door to broader access for entities that lack the regulatory rigor required for participation in the nation's core payment infrastructure.

The Federal Reserve should not establish a policy framework that could be interpreted as an endorsement of non-bank entities operating within the central banking system without the safeguards that apply to insured depository institutions. Scope creep is inevitable.

## **Conclusion**

For the reasons outlined above, I urge the Federal Reserve to proceed with extreme caution and to refrain from extending payment account access to non-traditional financial institutions. The risks to financial stability, the potential for uninsured failures, the erosion of community banks, the harm to rural economies, and the reduction in credit availability all outweigh the speculative benefits claimed by supporters. The existing system allows them the access they need through established banking channels which have proven their resiliency over a long period of time.

The Federal Reserve's payment system is a public trust. Its integrity must not be compromised by political pressure, commercial lobbying, or the desire to accommodate business models that do not meet the standards of safety and soundness that have long protected the U.S. financial system.

Thank you for considering these comments.

Respectfully submitted,