COMMUNITY BANKERS ASSOCIATION OF ILLINOIS, DAVID SCHROEDER

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-C106

Subject

Docket No OP-1878

Submitter Information

Organization Name: Community Bankers Association of Illinois

Organization Type: Organization

Name: David Schroeder

Submitted Date: 07/27/2026

Please find attached the comment letter from the Community Bankers Association of Illinois regarding Proposed Revisions to the Federal Reserve Policy on Payment System Risk and Guidelines for Account Service Requests – Docket Bo. OP-1878.

Thank you.

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July 27, 2026

Mr. Benjamin W. McDonough
Deputy Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Regarding: Proposed Revisions to the Federal Reserve Policy on Payment System Risk and the Guidelines for Account Services Requests - Docket No. OP-1878

To whom it may concern:

The Community Bankers Association of Illinois ("CBAI"), which proudly represents nearly 250 Illinois community banks, welcomes the opportunity to provide our observations and recommendations to the Board of Governors of the Federal Reserve System ("Federal Reserve" or "Fed") regarding the proposed revisions to the Federal Reserve Policy Statement on payment system risks, updates to its guidelines to accommodate requests for access to payment accounts ("Payment Accounts"), and encouraging Reserve Banks to pause decisions on requests for Reserve Bank accounts and services from Tier 3 institutions ("Proposal")." CBAI understands that new business models seek access to the Federal Reserve's payment system and services, and that a Payment Account would be distinct from, and have fewer benefits than, a Federal Reserve Master Account.

CBAI has concerns with, and we strongly oppose, what is commonly being described as a Federal Reserve "skinny" payment account. However, with this Proposal, the Federal Reserve is

CBAI is dedicated exclusively to representing the interests of Illinois community banks and thrifts through effective advocacy, outstanding education, and high-quality products and services. CBAI's members hold more than $80 billion in assets, operate 940 locations statewide, and lend to consumers, small businesses, and agriculture. For more information, please visit www.cbai.com.

likely moving forward with and will consider approving applications for Payment Accounts. CBAI urges the Federal Reserve to consider that the Payment Accounts which the Proposal envisions will be true prototype accounts as discussed in the Federal Reserve's original Request for Information. While we oppose Payment Accounts, CBAI provides the following observations and recommendations and urges the Federal Reserve to address our many legitimate concerns.

Background

CBAI's advocacy on this matter dates back to July of 2021. Most recently, in February of 2026, we responded to the Federal Reserve's RFI on the Reserve Bank Payment Account Prototype. Our consistent position is that access to the nation's payments system with a Federal Reserve Master Account and services should be exclusively available to real or actual, full-service and FDIC-insured, state or nationally chartered banks ("Traditional Banks") including community banks which are subject to the full suite of regulatory requirements including safety and soundness, consumer compliance, CRA, BSA/AML, auditing and reporting, periodic examination and enforcement actions, and other requirement that they are subject to on an ongoing basis. All these requirements are necessary in recognition of the fact that access to a Federal Reserve account and services is a privilege – not a right.

Our concern with the Payment Account as proposed is that regardless of the limitations on services available for novel financial institutions or financial entities ("Novel FIs") this will be their first step to a wider degree of participation, which will create an uneven playing field that will disadvantage Traditional Banks and particularly the nation's community banks. If Novel FIs are ineligible for a Federal Reserve Master Account and services, then there should be no alternate level of due diligence or scrutiny that would make them eligible for a limited segment of the benefits of a Federal Reserve Payment Account and services.

As stated in CBAI's February 5, 2026, comment letter, our position on this matter does not reflect a disregard for innovation. We appreciate the need for innovation to satisfy consumer and small business demands and to be competitive with the rest of the world in providing financial services. CBAI and its community bank members are actively engaged in financial and payment modernization. We have formed both a payments and innovations committee to investigate and discover opportunities for the adoption of these advances. We supported the earliest possible launch of the FedNow Service with robust functionality and interoperability. We are now

engaged in influencing the development of different types of digital assets, including payments stablecoins and tokenized deposits.

CBAI's position on this matter does not reflect protectionism or anti-competitiveness. Community banks not only compete vigorously among themselves, but also with the largest banks, credit unions, industrial loan companies and industrial banks, commercial and consumer finance companies, payment services, check cashing services, and a host of others, including crypto institutions and the forthcoming Permitted Payments Stablecoin Issuers (PPSIs). If all competitors are being appropriately and consistently regulated, examined for compliance, enforced against, and the playing field is otherwise level, community bankers do not object to competition.

However, Novel FIs are not subject to the same robust regulatory compliance regime; they have not demonstrated the fair, honest and respectful treatment of their customers and communities for many decades or in many cases for over a century; they likely do not meet robust regulatory capital requirements; and they have not met the rigorous standards achieved by community banks in compliance with the entire spectrum of laws, rules and regulations. If Novel FIs are allowed Payment Accounts and services, they will not only have an unfair competitive advantage over community banks but will additionally pose a significant risk of harming consumers, the financial system and American taxpayers, as well as potentially interfering with the Fed's implementation of monetary policy.

Questions

Question 1. Would the design of the Payment Account, as updated from the RFI, support eligible institutions' payment activity and be an attractive account option?

The commercial motivation of these Novel FIs to gain access to Federal Reserve accounts and services is obvious. This access would lend credibility to their operations by connoting the strength and stability of Traditional Banks. Another benefit to them is their ability to avoid the cost of settlement when processing payments through intermediary banks. The cost of settlement through banks is rooted in large part in the robust regulatory, operational and compliance requirements to which Traditional Banks are subjected. These Novel FIs will need to and should absolutely be required to follow all these same requirements and replicate the many other safeguards, which will come at a significant cost. As a result, the economic benefit of a

Payments Account may likely not be as significant as they may believe. If Novel FIs are able to avoid any of these requirements and costs, as we will discuss later in our answer to the questions, the competitive landscape will be skewed further in their favor and against community banks.

Questions 2. through 4.

Eligibility – CBAI opposes Novel FIs being eligible for a Federal Reserve Master Account, and limiting the services available to them does not ameliorate our concerns. However, given the direction of this Proposal, CBAI urges the Fed to allow no more than five to 10 participants in a true prototype Payment Account with all of the following constraints.

Closing Balances – CBAI recommends a significantly smaller closing balance than the proposed $1 billion limit. This lower limit will minimize the various risks while still allowing the Payment Account holders to participate in this prototype program.

Interday Credit – Payment Accounts shall not be permitted to access interday credit.

Available Services – Only those services detailed in the Proposal and which the Federal Reserve Banks can automatically reject that would cause an overdraft shall be permitted to settle in a Payment Account.

Correspondent Prohibition – A Payment Account holder shall not operate as a "correspondent."

Respondent Prohibition – A Payment Account holder shall not act as a "respondent."

Illicit Financial Risk – CBAI believes that a Payment Account holder shall provide initial and periodic information, as well as be periodically examined, to demonstrate their compliance with the full suite of laws, rules and regulations that Traditional Banks are subject to in order to detect and deter illicit finance.

Discount Window – A Payment Account shall not be permitted to access credit from the Discount Window.

Interest on Balances – A Payment Account shall not receive interest on balances.

Excess Balance Account (EBA) – A Payment Account holder shall not be permitted to participate in an EBA.

Review Timeline – The review of Payment Account requests should generally be completed within 90 – 150 days of receiving all requested documents (i.e., a complete application).

Question 5. – Illicit finance requirements in connection with a Payment Account request.

Traditional Banks, including community banks, are subject to a veritable blizzard of laws, rules and regulations concerning illicit financial activity. Most recently, there has been an exponential growth of financial fraud inflicted on community banks and their customers with payments and check fraud.

Community banks have long been enlisted in the fight against illicit finance, including financial fraud and scams, money laundering and terrorist financing. In recent years, monitoring and reporting this activity has become increasingly important both nationally and globally. Community banks understand the importance of awareness, development of comprehensive policies and procedures, training, implementation, monitoring, reporting, verification, auditing and periodic examination for compliance regarding KYC (Know Your Customer), BSA (Bank Secrecy Act), AML (Anti-Money Laundering), CFT (Countering the Financing of Terrorism), CDD (Customer Due Diligence), CIP (Customer Identification Program), CTR (Currency Transaction Reports), EDD (Enhanced Due Diligence), OFAC (Office of Foreign Assets Control), SDN (Specially Designated Nationals), SAR (Suspicious Activity Reports), USA Patriot Act, and others.

As good citizens, community banks are proud to fulfill their responsibility to identify and report the bad actors, but doing so comes with a very real regulatory burden and significant costs of compliance, particularly for community banks, which are less likely (than large banks) to have sufficient volumes of activity to warrant expensive automated processes and narrowly focused employee responsibilities. Accordingly, it is incumbent on all agencies and regulators to minimize the regulatory burden on community banks concerning these many requirements.

It is incumbent on the Federal Reserve (and the other banking regulators) to maintain the same rigorous standards to combat illicit finance on all institutions that have any access to Federal Reserve accounts and services, including all those who will be seeking approval for a Payment Account. Those rigorous standards must begin with ensuring that these Novel FI's have dedicated sufficient resources and have attained the requisite expertise to be able to comply with the necessary requirements. Any deviation from compliance with the full suite of laws, rules and regulations that community banks are subject to will not only create a competitive imbalance that will harm community banks but will expose the payments system to unnecessary risk of abuse by illicit actors and degrade the faith and confidence in the Nation's payments system, which has heretofore been exemplary.

Question 6. and 7. – Concerning a tiering framework and timelines for approval of access requests.

The Proposal is considering a tiered approach which is reasonable given that Tier 1 institutions are already known to the regulators and have more experience with these institutions, which will likely not be the case with Tier 2 and 3 institutions. Therefore, CBAI recommends an expedited process for Tier 1 institutions and for the regulators to have sufficient additional time (i.e., generally within 90 - 150 days) to consider applications, and the ability to defer and consider additional information, from Tier 2 and particularly Tier 3 institutions.

Additional Recommendation

A question that was not asked in the Proposal concerns any additional information that the Reserve Board should consider. CBAI encourages the Federal Reserve to consider the following.

The Federal Reserve's December 23, 2025, RFI requested information on a *Reserve Bank Payment Account Prototype.* By definition, a prototype is built to test a concept or process and serve as a working model to evaluate the design, catch errors and gather feedback before full implementation. A prototype Payments Account should therefore have a limited number of participants, and a limited term, together with a robust examination/enforcement and a transparent review process. Unfortunately, all of these characteristics of a true prototype are absent from this Proposal.

CBAI urges the Federal Reserve to specifically state that Payments Accounts may be approved for a limited number of prototype participants, with limited features, and to operate for a limited period of time (a maximum of 24 months). After 24 months, there should be a formal comprehensive assessment (jointly by the Fed, OCC and FDIC (as applicable)) of the prototype Payment Accounts' operating performance, compliance with all rules and regulations (including the full suite of BSA/AML requirements), as well as any harmful impact on community banks and the Feds conduct of monetary policy. The results of that review process should be made public to inform the next step(s) the Federal Reserve may be considering.

Also, Novel FIs could create a toxic mix of commercial and financial services activity, which CBAI has consistently opposed. When large commercial and technology companies are permitted entry into financial or payments services, their concentration of power and influence can present serious privacy concerns for consumers in addition to undermining financial stability and creating significant risks to the economy. CBAI urges the Federal Reserve to be concerned with and address breaching the firewall between banking and commerce, and for consumer privacy and data security reasons, and incorporate appropriate requirements and constraints when considering applicants and designing the requirements for Payment Accounts and services.

In addition, the application and ongoing examination and process should not only apply to Novel FIs but should encompass their holding companies and any affiliates, so the regulators can know the complete picture of the risks they present, and assess the support or threats posed by their parents. Doing so will allow the Federal Reserve to achieve its policy objectives, and there will be a more level playing field which will minimize the discrimination against community banks.

Conclusion

CBAI appreciates the opportunity to provide our observations and recommendations about this Proposal. CBAI objects to the Federal Reserve offering "skinny" payment accounts. If, however, the Federal Reserve is going to be considering applications and approve a small number of Payment Accounts, they should be true prototype accounts which incorporate all of the restrictions in the Proposal and all requirements that Traditional Banks must comply with in the application process as well as with the ongoing compliance requirements, examinations and enforcement.

If you have any questions or require any additional information, please contact me at davids@cbai.com or (847) 909-8341.

Sincerely,

/s/

David Schroeder
Senior Vice President
Federal Governmental Relations