Artificial Intelligence (AI)

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Issue Update

Artificial Intelligence (AI) is an umbrella term for an array of technologies, including the new iterations of prompt-based generative AI and agentic AI. Banks have long been subject to laws and regulations relevant for AI applications. However, the democratized accessibility to generative AI is leading to heightened banker interest in use cases and risks. Meanwhile, policymakers in Congress, state legislatures, and agencies are considering laws and regulations to address potential gaps.

Shortly after entering office, President Trump rescinded former President Biden's executive order on AI safety and issued his own on promoting AI dominance. The executive order called for the development of an AI Action Plan, which has since been released. Both administrations have looked to the National Institute of Standards and Technology (NIST) and its AI Risk Management Framework to play a leading role. Of course, as highly regulated entities banks must also incorporate compliance requirements for consumer protection and safety and soundness. They must also consider supervisory expectations from their regulators, including the newly revised guidance on model risk management (e.g., SR 26-2) and the 2023 guidance on third party risk management. The three prudential agencies have signaled they intend to move forward on issuing guidance around bank usage of generative and agentic AI after soliciting feedback from stakeholders.

Why It Matters

AI is becoming a top issue for business leaders and policymakers. While banks have a proven track record of complying with existing laws and regulations that pertain to AI, it is vital that new requirements do not stifle potential use cases or unduly impact current practices. As AI evolves, the framework must allow for responsible innovation with the technology, including applications involving generative AI such as new products/services, fraud detection, risk mitigation, and regulatory change management. Banks must continue to build and mature their enterprise governance programs to ensure safe and sound AI usage. Recent actions by the prudential banking agencies are encouraging, but this is just the beginning.

Recommended Action Items

- **Educate Congress on the strong risk management framework already in place for banks.** Banks are the only industry with supervisory expectations on model risk management. Lawmakers should ensure that any new laws do not create duplicative or inconsistent obligations for banks.
- **Engage with regulators on rulemaking and guidance.** Banks must be ready to weigh in when there are opportunities to shape agency policies with respect to AI applications.
- **Mature AI governance.** Banks should continue to mature and integrate their enterprise functions (reorganizing where appropriate), including model risk management, third party risk management, and so on.
- **Promote voluntary standards.** Where possible, voluntary tools such as model cards should be encouraged in order to promote trust in the tech stack ecosystem.
- **Get educated on cybersecurity threats**. Recent developments in frontier models have the potential to create significant vulnerabilities for many sectors relying on sensitive data, including banks.
- Bookmark www.aba.com/AI and check back often for updates.

Bank Merger Policy

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Issue Update

Official regulatory guidelines for reviewing bank merger applications date from 1995 and do not reflect profound changes in the financial services landscape since then. In the intervening years, the market for financial products and services has seen the rise of availability and use of online banking, the interstate expansion of bank branch networks, the enhanced market access made possible by advertising and communication innovations, and the growing market presence of nonbank financial firms, including “fintechs,” credit unions, and Farm Credit System institutions. The Federal banking agencies and the Department of Justice have opened a public discussion about updating the guidelines, but much advocacy still lies ahead.

The competitive analysis required for approval of a bank merger looks at whether the proposed transaction (1) would result in a monopoly in any U.S. market, or (2) would substantially lessen competition, unless those anticompetitive effects are clearly outweighed by benefits to community convenience and needs. Yet, despite the increased competition since 1995, government agencies still often assess competition very narrowly: competition in geographic banking markets (pre-defined by the Federal Reserve) is traditionally measured primarily by comparing deposit market shares (treating deposits as a proxy for all banking services). Moreover, deposit market shares are generally determined by reference to physical branches located in that geographic market. If the projected combined branch deposit market shares of two banks that intend to merge would exceed certain mathematical thresholds, the merger will likely be rejected as damaging overall competition or approved only if the banks make major changes to their footprints. Although banks sometimes can present limited evidence of broader competition, and regulators are now more receptive to such input, there has been no formal, transparent update to the regulatory review standards. Nonbank competitors and banks without a branch presence in the relevant markets are still inadequately assessed.

In reviewing merger applications, the Federal banking agencies must also consider other factors. Though such things as managerial resources, capital, liquidity, supervisory track records, and anti-money-laundering compliance will vary significantly among institutions, two required factors have particular policy implications: the institutions’ record of Community Reinvestment Act compliance and, for some institutions, the effect of the proposed transaction on U.S. financial stability. The agencies’ approach to assessing these factors is also evolving.

Why It Matters

An update of the bank merger guidelines is important to the health of the U.S. financial system and economy. Banks in all markets face increased pressure to maintain investments in technology (for improved customer service and cybersecurity) and in compliance infrastructure. Some banks may find a merger and related economies of scale to be the most efficient way to meet these needs. Moreover, a narrow, outdated view of competition is both unreasonably restrictive and likely to produce irrational outcomes. For example, if two community banks between them have all the branches in their geographic market (as pre-defined by the Federal Reserve), they likely cannot merge because, under current standards, the merger would cause excessive market concentration. This result becomes more likely when the regulators fail to consider additional competition from credit unions and other nonbank competitors or from online competition by firms that have no local branches. If instead one of them is

willing to combine with a larger multistate institution that has no presence in that market yet, that transaction could be approved (other things being equal) because it would be viewed as leaving two viable competitors in the local market. If one of the banks wants to merge because, for example, it needs greater critical mass to invest in cybersecurity, under the current guidelines that bank may have only the second choice.

Recommended Action Items

- **Banks should encourage the agencies to pursue the update process to take account of all actual financial services competition in their markets**. Data to capture innovative competition can sometimes be elusive, but the competition clearly exists. Banks should emphasize that the agencies will lack an accurate picture of competition otherwise, and their merger decisions will be based on distorted information. Agencies say they are working to update standards, but the industry and our customers need action.

- **Banks should also support updating the regulatory framework that implements the Community Reinvestment Act**. Updates to these regulations are necessary to reflect product and delivery channels in the Digital Age. In addition, modernized CRA regulations may also lead to improved “convenience and needs” analysis for bank mergers.

Basel III Reproposal

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Issue Update

It is critically important that banks' capital levels be correctly calibrated to provide an adequate cushion against risk and losses, while also allowing banks to remain competitive sources of credit for their communities. The agencies' 2026 Basel III reproposal replaces the deeply flawed Basel III Endgame proposal with two coordinated capital frameworks: the Expanded Risk-Based Approach (ERBA) and a revised Standardized Approach.

The reproposal reflects a materially improved, more transparent and data-driven process, with better calibration and alignment across the capital framework. While the overall approach is directionally improved, certain cross-cutting elements could significantly increase capital requirements in ways that are not aligned with underlying risk.

Expanded Risk-Based Approach:

- Applies mandatorily to Category I and II banks (primarily G-SIBs) and optional for all other banks.
- Comprehensive framework covering credit, market, operational, and counterparty risks for large firms.
- Greater risk sensitivity through differentiated risk weights, e.g., 65% for investment-grade corporate exposures.
- More granular retail exposure treatment, distinguishing transactors (45%) from other retail exposures (75% to 100%).
- CRE and residential real estate risk weight framework based on LTV and cash flow dependence.
- Standalone operational risk charge based on business indicators and historical loss data.
- Introduction of a 10% credit conversion factor (CCF) for "unconditionally cancelable commitments."

Revised Standardized Approach:

- Applies to all other banks that have not adopted the CBLR framework.
- Category III and IV banks must recognize AOCI in capital, subject to a 5-year transition period.
- Recalibrated but largely flat risk weights (e.g., 95% corporates; 90% retail/other exposures).
- Residential real estate risk weight framework based on LTV and cash flow dependence.
- Operational risk "add-on" imbedded in risk weights, no standalone operational risk charge.
- Retains current 0% CCF for unconditionally cancelable commitments – no capital charge.

Overlap and Cross-Cutting Issues:

- Eliminates the MSA capital deduction threshold and retains the current 250% risk weight.
- Broadly expands the definition of a "commitment" to include non-legally binding arrangements.
- Applies higher capital and reporting requirements to off-balance sheet exposures, including revised treatment of commitments and undrawn exposures.
- Aligns securitization frameworks and removes the current gross-up approach.
- Allow banks to recognize certain types of credit risk mitigants, such as eligible guarantees, credit derivatives, and collateral for risk-based capital purposes.

Basel III Reproposal

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Why It Matters

A well-calibrated capital framework is essential to maintaining a safe and resilient banking system while ensuring banks can continue to serve as a primary source of credit in the economy. Capital buffers must be sufficient to absorb losses, but excessive or poorly calibrated requirements can constrain lending, raise costs for consumers and businesses, and push activity into less regulated parts of the financial system.

The 2026 reproposal represents a significant improvement compared to the 2023 proposal. The agencies have incorporated more robust economic analysis, increased transparency, and meaningfully engaged with stakeholders. This improved process enhances the credibility of the framework and supports more durable, well-informed policy outcomes.

Maintaining a risk-sensitive framework is equally important. More accurate risk differentiation allows banks to allocate capital more efficiently and support lending to households, small businesses, and local economies. Where the framework overstates risk (e.g., by applying capital requirements to non-binding commitments), banks may reduce credit availability or withdraw from certain products, with broader implications for economic growth.

Recommended Action Items

1. **Express support for the agencies' more tailored approach to capital requirements** embodied in both the ERBA and Standardized Approach proposals.
2. **Express support for the agencies' goal of improving the calibration and risk-sensitivity of the capital framework** with respect to banks' core lending activities. Reinforce the importance of a well-calibrated capital framework that supports lending and economic growth.
3. **Urge the agencies not to finalize the proposed revisions to the definitions** of "commitment," "unconditionally cancelable," "traditional securitization," and "synthetic securitization" considering the significant and unassessed impact these changes would have on banks' capital requirements and the ambiguity these proposed changes would create.
4. **Urge the agencies to ensure the final rule accounts for the overlap between the proposal and the revised stress testing final rule**. For example, overlap between the stress test and market risk and CVA frameworks and a bank's stress capital buffer and the operational risk charge.

Central Bank Digital Currency (CBDC)

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Issue Update

Policymakers in the U.S. and around the world are exploring a form of digital asset called central bank digital currency (CBDC). CBDCs are a digital asset that would be issued by a central bank and remain as a liability on the central bank's balance sheet. Contrary to popular belief, CBDCs are not intended nor necessary to "digitize the dollar" as the dollar is largely digital today. Instead, the issuance of a CBDC would fundamentally rewire our banking and financial system by changing the relationship between individual customers and the Federal Reserve.

While there are several potential models for CBDC, in a January 2022 discussion paper the Fed indicated it is exploring a model where the CBDC is a liability of the Fed and widely available to the general public. ABA responded to the Fed's paper and has continued to advocate that there is no compelling use case for a consumer-facing CBDC. In May 2024 and again in July 2025, the House of Representatives passed a bill to prohibit the Federal Reserve from issuing a CBDC largely along party lines (three Democrats voted in favor). And the Fed, for its part, has also promised to not move forward "without clear support from the executive branch and from Congress, ideally in the form of a specific authorizing law."

Momentum for a consumer-facing CBDC has waned in the U.S. likely due to public concerns about data privacy and government control and insight into consumer spending and a recognition of the risks to financial stability and the banking system that a CBDC would cause. While several public-private experiments are underway related to a wholesale CBDC (these would not be consumer-facing), President Trump prohibited the United States from developing a CBDC as part of a January 2025 executive order on the digital assets market.

Other central banks continue to pursue CBDCs to varying degrees, which may reinforce the narrative that the U.S. is "behind." The UK and European Union advanced to a design phase and a preparation phase, respectively for the digital pound and digital euro. Both, however, face similar public skepticism as in the U.S. with respect to the need for a CBDC and privacy.

Why It Matters

The implementation of a CBDC would change the nature of our industry, financial system, and economy. While proponents claim CBDCs could bring benefits, many of these benefits are theoretical and would be hard or impossible to realize. The risks associated with the issuance of a CBDC are tangible and in many cases unavoidable.

Importantly, the issuance of a CBDC would set the Fed up as a direct competitor for bank deposits. Because a CBDC would be a liability of the Fed, it would inevitably sit on the Fed's balance sheet instead of a bank's. Even if delivered through a bank, a CBDC would be more akin to cash in a safety deposit box than an actual bank deposit. This deposit substitution would drain our nation's deposit base and limit banks' ability to make loans that power economic growth.

More generally, it is unclear what policy goals a CBDC would achieve in the United States that cannot be better achieved by other means. For some countries, a CBDC could enhance weak or nonexistent financial systems. However, a CBDC does not appear well-positioned to enhance underlying financial capabilities or extend the reach of financial services in well-developed markets like the United States, despite the overly optimistic promises from proponents.

Central Bank Digital Currency (CBDC)

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Recommended Action Items

Tell Congress to refrain from authorizing a CBDC until the purpose is clearly articulated and careful analysis demonstrates that the proposed model will deliver on the purported benefits while also mitigating the significant risks.

Tell regulators to ensure that the issuance of a CBDC does not threaten the health of the U.S. financial system by destabilizing existing banking and payments systems that are the backbone of our economy and markets.

Community Reinvestment Act Modernization

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Issue Update

On July 31, 2026, the OCC and FDIC filed a motion for final judgment in the Northern District of Texas requesting that the court vacate portions of the 2023 Community Reinvestment Act (CRA) rule and related 2016 guidance because the CRA does not authorize regulators to evaluate banks' retail lending activities outside the geographic areas where they operate deposit-taking facilities or to assess banks' deposit products during CRA examinations. ABA did not oppose the motion, and the court has not yet ruled.

That same day, the OCC and FDIC issued a proposed rule to amend the regulatory framework the agencies adopted in 1995. Key aspects of the proposal include:

- Increasing the Small Bank asset threshold to $1B and the Intermediate Bank threshold to $10B;
- Limiting the lending test to a bank's major product lines (which could include consumer lending);
- Limiting the Large Bank service test to the provision of credit services;
- Clarifying the activities that constitute community development;
- Narrowing CRA credit for grants and donations to those directly supporting a program, project, or initiative whose primary purpose is community development. For Large Banks, CRA credit would be limited to recipients with indirect costs of 15% or less;
- Clarifying eligibility for community development credit for activities outside of a bank's assessment area; and
- Simplifying the strategic plan process.

The Federal Reserve did not join the proposal. It plans to formally rescind the 2023 rule and revert to the 1995 framework "soon."

Why It Matters

The proposal would more closely align CRA evaluations with the statute's focus on meeting communities' ***credit*** needs. In addition, raising the Small Bank and Intermediate Bank asset thresholds would allow more institutions to qualify for streamlined CRA evaluation frameworks and would eliminate CRA data collection and reporting requirements for Intermediate Banks that are currently classified as Large Banks. The revised thresholds would also align more closely with the 1995 Rule's distribution of Small and Large Banks, with approximately 79 percent of supervised institutions qualifying as Small Banks and 17 percent qualifying as Intermediate Banks. The proposal would also clarify aspects of the regulatory framework that have been applied inconsistently.

Recommended Action Items

- Support the agencies' efforts to repeal the 2023 CRA Rule.
- Support raising the asset caps for Small and Intermediate Banks.
- Urge the agencies to adopt CRA regulations on an interagency basis that includes the Federal Reserve.
- Urge the agencies to adopt CRA reforms that are workable and durable so that resources are not redirected from community reinvestment toward implementing multiple revisions to CRA.

Credit Card Interest Rate Caps

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Issue Update

Imposing interest rate caps on credit cards will hurt consumers by reducing access to credit and cutting popular rewards programs. ABA research indicates that up to **159 million** cardholders could lose access to credit cards entirely with a **10% rate cap** and **74%-85%** of open card accounts nationwide would be closed or have their credit lines drastically reduced.

S.381, the 10 Percent Credit Card Interest Rate Cap Act, introduced by Senators Bernie Sanders (I-Vt.) and Josh Hawley (R-Mo.), and H.R. 1944, introduced by Representatives Alexandria Ocasio-Cortez (D-NY.) and Anna Paulina Luna (R-FL.), are unworkable, would set a terrible precedent, and leave consumers worse off by restricting access to credit.

Why It Matters

Credit cards are an important tool helping many American families to pay for essential purchases and providing access to a vital source of flexible credit, but interest rate caps put access to these cards at risk. Research demonstrates that when consumers lose access to credit, they reduce spending on essentials such as healthcare, education, and food, and are more likely to fall behind on their bills, including rent and mortgage payments.[1] Other borrowers will seek funds through alternative channels (e.g., pawn shops, payday loans, or the black market) or make other less desirable choices. These alternatives could endanger their credit profiles and lead them to pay much more than if they had access to their credit card.

These bills would impose a 10% all-in APR credit card interest rate cap. Recent ABA analysis[2] found that if a **10% rate cap** were imposed on credit cards, **74-85%** of open credit card accounts nationwide would be closed or have their credit lines drastically reduced. This means that up to **159 million Americans** would no longer be able to use their cards and American families would have less consumer credit access than is necessary.

While lower-risk cardholders may retain access to credit under a rate cap, they would likely experience higher fees for late payments and annual membership, reduced credit lines, and less access to credit card rewards programs. In addition, other popular credit card features, such as car rental insurance, discounts for food delivery, warranties for purchases made with the card, free airline baggage, and travel insurance would also be at risk.

Academic researchers agree that consumers do not benefit from rate caps. The Brookings Institution has published several articles and analyses that indicate that these policies, while seeming to be pro-consumer, are "bad ideas on economic grounds."[3] The Cato Institute[4] and Heritage Foundation[5] argue the same point. Opinion pieces in both the Washington Post and Wall Street Journal come to the same conclusion.[6] The research is clear: interest rate caps are bad for consumers — particularly lower-income consumers who rely on credit access to meet their financial needs.

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[1] Cuesta, J., and Sepulveda, A. (2019), "Price Regulation in Credit markets: A Trade-off between Consumer Protection and Credit Access."
[2] *See* American Bankers Association, New Research: Proposed 10% Credit Card Rate Cap Would Result in Up to 159 Million Americans Losing Access to Credit, Press Release (Jan. 20, 2026).
[3] Litan, R. (2010). "Proposed Limits on ATM Fees and Credit Card Interest Rates: Counter-Productive Punishment That Goes Too Far."
[4] Michel, N. (2023). "Hawley's Interest Rate Cap Is a Loser."
[5] Michel, N. (2021). "Interest-Rate Caps—Like Other Price Controls—Harm Consumers."
[6] Sarin, N., Washington Post (2024). "Trump and Sanders want to cap credit card rates. But there's a catch." Editorial Board, Wall Street Journal (2024). "Trump's Price Controls on Credit Cards."

Credit Card Interest Rate Caps

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Recommended Action Items

- Urge your member of Congress to oppose S. 381 and H.R. 1944, the 10% interest rate cap bills, as they would have harmful effects on consumers who use credit cards — particularly for those who need it most.

Credit Unions

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Issue Update

Today's credit unions operate far beyond their original mission – serving broad commercial interests while benefiting from outdated tax exemptions. More than 90 years ago, Congress enacted the Federal Credit Union Act, giving credit unions a mission to provide basic consumer financial services to those of modest means connected through some common bond within a well-defined community, such as employees of a company or parishioners of a church. This mission limited credit unions' potential membership and together with their not-for-profit status and cooperative structure, justified an exemption from federal corporate taxes and certain reporting requirements.

The credit union industry has evolved drastically over the past few decades, with America's entire population now eligible for membership. The expansion of the common bond and field of membership – largely a result of the Credit Union Membership Access Act of 1998 and subsequent actions taken by the National Credit Union Administration (NCUA) – have pushed credit unions away from their mission and eliminated the justification for their preferential tax and regulatory treatment. In recent years, dozens of community banks have been acquired by credit unions, a trend that underscores the need to reassess whether their activities remain consistent with their original mission and tax-exempt status.

Why It Matters

Justifying Tax Subsidy. The $2.48 trillion credit union industry receives a $3.95 billion per year tax subsidy to provide basic consumer financial services to under-resourced groups and communities. Unlike most tax-exempt non-profits, however, federal credit unions do not file IRS Form 990, leaving little accountability for their use of taxpayer resources.

Community Reinvestment Accountability. Community Reinvestment Act (CRA) requirements historically did not apply to credit unions because membership limits confined them to the specific groups they were chartered to serve. Although NCUA-approved expansions now permit nationwide membership, the exemption remains, creating a mismatch that affects community investment outcomes and has led some states to impose CRA requirements on state-chartered credit unions.

Recommended Action Items

- **Reassess Credit Union Tax Treatment and Require Form 990 Reporting.** Congress last held a hearing on credit unions in 2005; it should renew oversight to assess whether 21st-century industry activities, including bank acquisitions, remain consistent with credit unions' tax treatment. In addition, Treasury should require federal credit unions to file IRS Form 990.

- **Mandate Credit Union Community Reinvestment Reporting.** Congress should assess whether credit unions fulfill their statutory mandate in a robust, demonstrable way and whether expanded fields of membership warrant community reinvestment reporting or comparable accountability measures.

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- **Reject Proposals that Expand Credit Union Powers.** Congress should oppose legislation that would further expand credit union powers and strengthen oversight of credit union service organizations to ensure these entities do not further blur the line between tax-exempt credit unions and taxpaying banks.

Data Aggregation - 1033

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Issue Update

Section 1033 of the Dodd-Frank Act gives consumers the right to access their financial records in a standardized electronic format, with some exceptions. Since this law's passage, an ecosystem of third-party apps operating through intermediaries known as data aggregators has proliferated by obtaining consumers' consent to access their data for use cases such as budgeting tools, income verification, and digital wallets.

The CFPB finalized a rule implementing 1033 during the latter days of the Biden-Harris Administration. It was immediately challenged in a lawsuit filed by a community bank, the Kentucky Bankers Association, and the Bank Policy Institute. A trade association representing fintechs and data aggregators, the Financial Technology Association, successfully intervened in May 2025. In July 2025, a new coalition of fintechs, retailers, and crypto emerged with an interest in preserving the current rule's fee prohibition and payment initiation feature (which would scale adoption of the pay-by-bank use case). The CFPB changed its posture a few times but ultimately requested the litigation be stayed while it conducted an "accelerated rulemaking process" to "reconsider the Rule with a view to substantially revising it." In October 2025, the court enjoined the CFPB from enforcing the Biden-era rule.

The CFPB issued an Advance Notice of Proposed Rulemaking (ANPR) as a starting point of the revision, soliciting feedback on the current version of the rule (codified at 12 CFR Part 1033). It asks questions around the definition of "consumer" and "representative acting on behalf of [the consumer]"; potential impact on fees on the defrayment of costs; information security and privacy concerns resulting from the exercise of 1033 rights; and compliance dates.

Other aspects of the current rule not directly addressed by the ANPR but which continue to be in focus are: whether to include payment initiation in scope; ability to deny sharing requests due to risk management concerns; liability for data breaches and unauthorized activity: and the role of industry standard setters (such as the Financial Data Exchange aka FDX, which currently connects over 130 million accounts via safe and secure APIs). We are currently awaiting the next step from the CFPB, which is expected imminently.

Why it Matters

Banks support their customers' ability to access and share their financial data in a secure, transparent manner that gives the customer control. Screen scraping is a dangerous practice that leaves consumers' credentials and account information subject to security risks and fraud, and it is important the industry adopt more secure data sharing methods. The market was solving for these factors; however, the CFPB's flawed 1033 rule puts consumer data at greater risk while imposing significant costs on banks.

Recommended Action Items

- **Respond to future comment opportunities for the 1033 rule.** The CFPB will re-propose the 1033 rule imminently; banks must be prepared to provide feedback when prompted. Banks should also consider asking the prudential agencies to clarify expectations for safeguarding permissioned data.
- **Mature data governance and set strategy.** Regardless of the status of the rule, banks must know where their data is, ensure its accuracy and integrity, and verify associated legal and contractual terms. They should also set their strategy for APIs and for receiving data.

Debit and Credit Card Interchange/Durbin Amendment

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Issue Update

Debit Card Interchange. The Durbin Amendment caps interchange on debit card transactions for banks with more than $10b in assets and requires all banks to provide merchants with two unaffiliated debit networks in certain situations. Regulation II ("eye-eye"), implements those statutory requirements.

The Federal Reserve's 2023 Regulation II pending proposal would (1) lower the debit interchange price cap by nearly 30% and (2) implement an automatic update mechanism to reset the interchange price cap every two years. These government price caps, and routing requirements, are simply a wealth transfer from bank customers, who lose access to low-cost financial services, to large corporate megastores that the FRB's own research demonstrates do not pass the savings on to consumers.

Credit Card Interchange. Senators Roger Marshall (R-KS) and Richard Durbin (D-IL) want to expand the Durbin Amendment routing requirements to credit cards. The Credit Card Competition Act (CCCA) would require banks with more than $100b in assets to offer merchants multiple credit card processing networks from among a list of networks determined by the Federal Reserve, not the card issuer. This legislation would harm consumers, small businesses and financial institutions by reducing choice, increasing costs and fraud risks, and creating economic challenges for smaller financial institutions.

Why It Matters

Interchange funds the security, reliability, and seamless operation of the payment system, while providing an important source of revenue that enables banks to offer affordable checking accounts and valuable rewards programs.

The impacts of interchange price caps and routing mandates would not be limited to the largest issuers. The Federal Reserve's own data clearly shows that debit card revenue has fallen fastest at banks below $10b in assets, and the Durbin routing mandate has also resulted in increased costs largely due to increased fraud and operational costs. Community financial institutions have seen debit interchange revenue decline by over 35% since the Durbin Amendment was implemented in 2011.

Further, in setting the debit interchange cap, the Federal Reserve is required to calculate "bank costs" to determine whether the interchange fee is "reasonable and proportional". Because the Fed's interchange routing regulation took effect on July 1, 2023, meaningful data is not yet available. Understanding the regulatory impact to bank costs is a critical component to achieving an accurate calculation of an appropriate interchange cap under the requirements of the statute. Additionally, the Fed has chosen not to include other important bank costs of running a debit card program, such as cardholder inquiry costs and NSF handling costs in the calculation.

Recommended Action Items

- Urge your member of Congress to oppose the Credit Card Competition Act.
- Urge the Federal Reserve to withdraw its Regulation II proposal and not repropose further rulemaking until it has completed significant additional research that calculates costs to consumers and reflects the real-world experience of covered financial institutions.

FedNow Instant Payment Service

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Issue Update

FedNow Services (FedNow) is the new instant payment system that operates 24/7/365 and launched operations in July 2023. As of Q2 2026 more than 1,800 financial institutions were registered to receive payments on the network but only a few had opted to send payments with volume averaging more than 54,000 transactions per day. This is the first new payment platform offered by the Federal Reserve in more than 40 years and is a competitor of The Clearing House Real Time Payment Network © (TCH RTP), another instant payment service that began in 2017.

Banks have the choice of becoming a receive only participant or to offer send and receive transactions to their customers. Becoming a receive only bank is simpler and presents little risk. This is significant because FedNow transactions settle directly in a bank's master account. Banks will need to evaluate the demands of their customers to determine if the original transactions would be worthwhile.

FedNow offers credits push payments that are irrevocable once sent. It does not allow any debits, although it will offer a Request for Payment (RFP) service that will allow participants to request a payment, but it will be up to the recipient of the RFP to originate the credit. Only banks that originate payments can receive and execute RFPs.

In 1925, the transaction cap was increased to $10 million per instance. Banks that offer send services can reduce that cap based upon their own risk analysis. Some of the most cited potential use cases involve P2P payments, gig economy worker payments, insurance claim payouts, government distributions, and digital wallet payouts.

Why It Matters

Faster payment systems like FedNow and TCH RTP allow banks to offer instant payment services to customers. These bank-centric solutions compete directly against non-bank services and provide benefits that customers want in a safer and well-regulated environment. They offer a great answer to critics of payment services that are slower and that don't operate on weekends and holidays.

Transactions on FedNow and TCH RTP are not interoperable. This means that payments that originate on one service cannot be received by the other network. Banks will need to decide whether to offer FedNow or TCH RTP, or both, or neither.

Recommended Action Items

- Talk to your core service provider about the implementation process and the cost.
- Review potential demand from your customers.
- Evaluate your technical and personnel needs.
- Develop a business case with a budget.
- Create an implementation team with a leader reporting to the CEO (compliance, marketing, operations)

Federal Home Loan Banks' Comprehensive Review

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Issue Update

The Comprehensive Review of the Federal Home Loan Banks, issued by the Federal Housing Finance Agency in 2023, made 55 recommendations for changes to the System, including: clarifying the dual mission of the FHLBs to provide liquidity to members and support for affordable housing efforts by members; ensuring that FHLBs are not the "lender of last resort" for members; and strengthening member risk management. While FHFA made no specific recommendations to expand or restrict membership in the System, longstanding efforts by groups seeking to gain access to the System or restrict some banks' existing access are likely to continue.

While FHFA retains authority to modify certain regulatory and supervisory requirements, many of the most significant questions regarding FHLBank mission, membership, or structure would require congressional action. Debate over these issues continues among policymakers, housing advocates, and market participants, particularly as housing affordability and financial stability remain prominent public policy concerns.

Recent agency activity suggests a greater emphasis on regulatory streamlining alongside ongoing oversight of the FHLBanks. In July 2026, FHFA proposed repealing the Federal Home Loan Bank New Business Activities regulation as part of a broader effort to reduce regulatory burdens while maintaining the safety and soundness of the System.

Congress also continues to examine the role of the FHLBank System. Recent oversight discussions have focused on the System's contribution to housing finance, affordable housing programs, community development, and liquidity provision during both normal and stressed market conditions.

Why It Matters

The FHLBs have been a fundamental part of the nation's financial system for more than 90 years, and they provide members with an important source of funding for mortgages and liquidity management. The System has proven to be well designed; its cooperative structure ensures that each participant has an interest in its safety and soundness. Member institutions capitalize the System with their investment, and in return, they receive the benefit of borrowing at attractive rates, earning potential dividends on their investment, and eligibility for Affordable Housing Program funds (and other community support programs) in lieu of or in addition to potential dividends.

Because the FHLBanks are chartered by Congress, requirements about the level of support they must provide for affordable housing and community development are to be decided by Congress. We are generally supportive of voluntary efforts by the FHLBs to expand their affordable housing efforts, and especially welcome efforts that help community banks further affordable housing efforts.

The liquidity mission of the FHLBanks is vital to ensure that banks of all sizes have access to reliable day-to-day liquidity. Attention by FHFA to the FHLBanks' role in the provision of liquidity is expected and reasonable. How FHFA addresses these issues – especially as it relates to day-to-day liquidity management will be important. It is essential that any changes be subject to careful consideration by all stakeholders, including members and prudential regulators, and that no changes are made without input and understanding by all impacted parties.

Changes in this area have the potential for significant negative impact on banks of all sizes, and these changes could require a comprehensive realignment of the financial system to avoid significant disruption.

Federal Home Loan Banks' Comprehensive Review

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While the financial system is evolving, and numerous new entities compete with FHLB members in the housing and community development finance arena, those entities do not have comparable capital requirements as well as comparable prudential requirements and oversight as existing FHLB members. Most also do not have the kinds of eligible collateral used to back borrowing from the System in its current form. Given the success of the FHLBs, it is not surprising that these entities want to join or replicate the System. However, their admission would introduce significant risk to the cooperative System. Allowing entities with vastly different regulation, collateral and oversight into the System risks destabilizing it and putting existing members' capital at risk, with potential negative cascading effects throughout the financial system and U.S. economy.

Recommended Action Items

- Explain to Congress, FHFA, and prudential regulators why your bank is a member of the System – include points about the access to necessary liquidity in all economic cycles and specifics about how your bank uses System access to further economic opportunity in your community including through the Affordable Housing Program (AHP).

- Urge Congress not to expand FHLB membership to less regulated entities or those without collateral to back their borrowing, which would destabilize the FHLB System and put bank investments at risk.

- Urge policymakers to preserve the FHLBanks' dual mission of providing reliable liquidity and supporting affordable housing, recognizing that both functions are essential to the System's long-term success.

- Support efforts to improve coordination between the FHLBanks and the Federal Reserve while preserving banks' ability to access both facilities as complementary sources of liquidity

Flood Insurance

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Issue Update

The National Flood Insurance Program (NFIP) was created by Congress in 1968 to provide flood coverage in the absence of a private market. Even with the development of a private flood market in recent years, the NFIP remains the main source of primary flood coverage in the United States, with nearly 4.6 million policies providing almost $1.3 trillion in coverage for 22,700 communities across 56 states and jurisdictions. Despite the program's importance to the housing market, Congress has not passed a long-term reauthorization of the program since 2012. For more than a decade, the program has operated under short-term extensions and has lapsed several times.

Why It Matters

As flooding continues to be the most common and costly natural disaster in the United States, it is imperative that Congress ultimately pass a longer-term reauthorization of the NFIP. As part of the reauthorization, Congress should enact reforms to address the program's sustainability, affordability, and availability, including providing lenders and servicers with the tools needed to better serve their customers.

Although the prudential regulatory agencies took a positive step in May 2022 by publishing updated Interagency Q&As on Flood Insurance, significant areas of confusion persist. The Agencies must commit to providing the banking industry with clear, comprehensive, and consistent guidance using the notice-and-comment process to ensure they remain current and responsive to industry needs. Prior to the 2022 update, the previous updates occurred in 2011. An 11-year gap between updates is unacceptable, especially when the penalties for non-compliance are strictly enforced.

The lack of guidance is further compounded by inconsistent supervision and enforcement of the FDPA's mandatory purchase requirements, underscoring the critical need for the Agencies to provide clear and uniform guidance. Additionally, supervision and enforcement are not evenly applied across all mortgage lenders and servicers. Non-depository lenders now make the majority of mortgages originated today, yet these lenders are not subject to federal supervision for compliance with the mandatory purchase requirement.

Recommended Action Items

Tell Congress to pass a longer-term reauthorization of the NFIP and work to enact reforms. It is critical that NFIP reauthorization is timely and long-term, and reforms are needed to address sustainability, affordability, and availability to ensure American communities and homeowners have continued access to affordable, reliable flood insurance coverage.

Flood Insurance

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Urge Congress to require the prudential regulators to provide regular updates to the Interagency Q&As on Flood Insurance using the notice-and-comment process. The absence of adequate guidance regarding compliance with the mandatory purchase obligation of the Flood Disaster Protection Act continues to pose significant challenges for banks of all sizes.

Urge your member of Congress to consider directing banking regulators to adopt a similar approach to flood risk as they do with other types of hazard risk, focusing on practical, risk-based assessments rather than procedural compliance. Flood compliance is unduly complicated and burdensome, especially for small banks.

Promoting Affordable Housing

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Issue Update

Policymakers are increasingly focused on addressing housing affordability challenges across markets. Housing prices remain elevated, placing sustained financial pressure on consumers by reducing affordability, limiting access to homeownership, and straining household budgets. Significant attention has been focused on boosting and improving housing supply across all jurisdictions. Bipartisan legislation such as the ROAD to Housing Act and the Housing for the 21st Century Act emphasizes zoning reform, regulatory streamlining, and expanded financing tools to accelerate construction, particularly for entry-level and workforce housing. At the same time, proposals like the Housing Supply Fund Act aim to channel capital through Community Development Financial Institutions and nonprofits to preserve affordable units and support underserved borrowers.

Importantly, on March 13, President Trump issued two separate Executive Orders (EO) that have the potential to broadly impact housing and mortgage finance. The EOs—"Promoting Access to Mortgage Credit" and "Removing Regulatory Barriers to Affordable Home Construction"—call for a comprehensive review of housing finance while initiating rulemaking and increased focus towards eliminating provisions that hamper mortgage efficiencies, especially for community banks. By stripping away administrative obstacles and disproportionate compliance burdens, these actions aim to lower borrowing costs for families and stimulate new housing construction across the country. Importantly, CFPB is advancing with Request for Information for recommendations on regulatory changes that would reduce unwarranted burdens and promote access to mortgage credit, including reforms to TRID, TILA rescission rights, and reverse mortgage disclosures. ABA will use this process to advance targeted changes that will reduce delays and compliance costs while preserving the transparency that TILA and RESPA were designed to provide.

Why It Matters

Housing affordability remains a critical economic challenge impacting consumers, communities, and the broader financial system. Persistent supply-side barriers, elevated prices, and constrained inventory continue to stifle homeownership and strain household budgets. ABA believes recent Executive Orders provide a vital opportunity to reform complex mortgage regulations. By simplifying and streamlining the regulatory framework, we can significantly reduce mortgage costs and expand credit access without compromising consumer protections. ABA will continue to advocate for a comprehensive review of current rules to ensure they are balanced, transparent, and conducive to lowering costs and reinvesting in all communities.

Recommended Action Items

The current TRID disclosure regime should be reformed to eliminate TRID's 10% tolerance category and revert to RESPA's good-faith estimate standard in order to eliminate disproportionate compliance costs without harming consumer protections or information to shop for loans.

The CFPB should revise the HMDA regulations so that only institutions that originate at least 200 closed-end mortgage loans in each of the two preceding calendar years must collect and report the data. Additionally, the Bureau should eliminate all requirements to collect and report data on home equity lines of credit (HELOCs), regardless of origination volume. Finally, to ensure community lenders can focus

on serving local homebuyers rather than navigating costly administrative red tape, HMDA should be amended to eliminate burdensome reporting requirements for discretionary data points that exceed statutory mandates.

Regulators should reduce capital treatment for loans held in portfolio to encourage banks – and especially community banks that can be more responsive to local and smaller loan borrowers – to reenter the mortgage market and level a playing field that has been tilted toward the GSEs by letting them operate without sufficient capital for more than 18 years.

Regulators should advance with recalibrations to capital requirements for MSAs to reflect actual risk profile and economic importance. Better capital treatment for MSAs will encourage more banks to retain servicing, which benefits consumers, particularly those that incur financial hardship, and improved access to local financing for mortgages and other loan needs.

The CFPB should reexamine regulations under the Real Estate Settlement Procedures Act to ensure they achieve the statutory goals in today's digital marketplace. Modernizing anti-kickback provisions (Section 8)—such as clarifying the rules for marketing services agreements or desk rentals—would fix laws that are poorly suited to modern and digital markets.

Create HUD pilot program to expand access to FHA-backed mortgages under $100,000. In addition, as now required by ROAD to Housing Act legislation, CFPB should advance to evaluate impact of points and fees restrictions for qualified mortgage loans.

Advance expediently with ROAD to Housing Act orders to strengthen federal government's commitment to addressing housing needs through Opportunity Zones, a critical economic development tool aimed at incentivizing investments, spurring community revitalization, and creating jobs in distressed and low-income communities across the United States.

Mission Driven Banks

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September 2026

Issue Update

Minority Depository Institutions (MDIs) and Community Development Financial Institutions (CDFIs) play a vital role in the banking ecosystem. Mission-driven banks partner with other institutions to deliver capital, credit, and financial services to underserved communities throughout the United States. The long-term health, preservation, and competitiveness of MDIs and CDFIs will strengthen local economies and bolster rural and urban communities alike.

To obtain CDFI certification, a financial institution must demonstrate a primary mission of community development, serve a defined target market, and provide both financial products and development services tailored to that market. The process also requires institutions to meet accountability standards and follow responsible financing practices. Certification enables access to federal funding and technical assistance, and institutions must submit annual reports to maintain their status and demonstrate continued alignment with the CDFI Fund's mission.

Eligible institutions may also be designated as MDIs. This designation, overseen by federal banking regulators, recognizes banks that are committed to expanding access to financial services.

Why It Matters

MDIs and CDFIs are uniquely positioned to reach historically underserved markets and to help facilitate access to bank products and services. However, funding challenges, regulatory pressures, and technological changes limit their ability to serve communities at scale.

Recent proposals to tie supervisory ratings to CDFI certification have raised concerns about unintended consequences that could restrict participation and reduce access to capital. Additionally, rising lending costs and staffing constraints continue to strain operational capacity.

Together, CDFIs and MDIs manage billions in assets and serve thousands of communities that might otherwise lack access to traditional banking services. By enhancing oversight and collaboration with policymakers, mission driven banks stand ready to increase economic opportunity for all Americans.

Recommended Action Items

- Continue engagement with Treasury, OCC, FDIC, and Congress to preserve and expand CDFI and MDI resources.
- Monitor implementation of CDFI Certification reforms and advocate for practical approaches that maintain MDI and CDFI participation.
- Support appropriations measures that provide stable funding for the CDFI Fund.

National Bank Preemption

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Issue Update

The Supreme Court first articulated a strong national bank preemption standard more than 200 years ago in its landmark *McCulloch* (1819) decision. State law, the Supreme Court held, cannot stand as "an obstacle" to constitutional federal operations. Though the Second Bank of the United States was ultimately short-lived, national bank preemption took on renewed importance when, as part of the *National Bank Act of 1863*, Congress established the Office of the Comptroller of the Currency (OCC) and expressly charged it with chartering and regulating national banks.

The Supreme Court has since expansively interpreted national banks' express and implied powers. For example, in *Barnett* (1996), the Supreme Court found national banks' power to act as an insurance agent or broker to be "a broad, not a limited, permission" and held a state law limiting the types of insurance banks may sell was preempted as to national banks as it "prevent[ed] or significantly interfere[d] with [a] national bank's exercise of its powers." Congress codified the *Barnett* standard in *Dodd-Frank*.

Yet, state lawmakers on both sides of the aisle are increasingly attempting to leverage consumer financial laws that significantly interfere with core bank activities. Recently passed state laws variously attempt to dictate which risk characteristics banks may consider when opening and servicing accounts, how and with whom banks must share risk analyses and reports, and which transaction costs banks may recover.

Why It Matters

Access to Financial Services. Competition among national and state-chartered banks helps ensure consumers and businesses across the country and economic spectrum have access to the trusted financial services and products they need and deserve. Absent Congress, the courts, and federal regulators upholding a strong national bank preemption standard, national banks and many state-chartered banks operating across state lines would be subject to a burdensome patchwork of conflicting state laws and unable to efficiently serve customers across the country as they do today.

State Consumer Financial Laws are Needlessly Duplicative. Banks are already subject to and examined for compliance with robust federal consumer financial laws and regulations, and bank regulators already possess the enforcement tools necessary to resolve any compliance concerns.

Recommended Action Items

Urge the OCC to continue to defend dual banking system. In April 2026, OCC issued an interim final rule clarifying that national banks may charge a range of non-interest charges and fees, including interchange fees established by payment card networks, and an interim final order preempting the Illinois Interchange Fee Prohibition Act, which purports to prohibit collection of interchange fees on taxes and gratuities. ABA supported each of these rulemakings and has urged OCC to move with speed and force to address a similar Colorado law. In May 2026, OCC issued an order preempting interest-on-escrow laws in New York and 13 other states and territories.

National Bank Preemption

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Urge Congress to encourage the OCC to continue to defend dual banking system. Federal statutes and Supreme Court caselaw plainly support a strong national bank preemption standard. Lawmakers should not hesitate to remind the OCC of its duty to forcefully and timely defend our dual banking system against impermissible state action.

Payments Fraud

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Issue Update

Over the years multiple groups have attempted to expand the limitations on consumer liability in the Electronic Funds Transfer Act (EFTA) and its implementing regulation, Regulation E, which govern consumer electronic payments and transfers of money. Currently, EFTA limits a consumer's liability only for unauthorized transactions and not for authorized transactions (i.e. initiated by the consumer or someone the consumer authorized). With the rise in scams perpetrated against consumers, some groups are pushing to expand EFTA to require banks to reimburse consumers for an authorized payment that was fraudulently induced (i.e. the consumer was convinced to make the payment as part of a scam). These groups have convinced a small group in Congress to introduce the Protecting Consumers from Payment Scams Act, which would expand bank's liability under EFTA.

Why It Matters

Massively Increases Bank Liabilities. Under the proposed bill, banks would be responsible for reimbursing customers for an authorized transaction that they claim was fraudulently induced. This approach removes responsibility from the customer to vet requested payments and places it solely on the bank, which cannot know the full circumstances behind each customer's decision to authorize a transfer. Banks cannot and should not second-guess each decision a customer makes to transfer their own money. Even when the bank suspects a scam, it often cannot convince the customer they are a victim. Every bank has a story of a teller pleading with a customer not to send funds and being ignored. The bill would also encourage first party fraud where a customer sends money to an accomplice that they later claim was fraudulently induced. Community banks, in particular, cannot shoulder higher fraud losses, and could be put in the untenable position of having to restrict consumers' access to deposit accounts, which is bad for consumers and reduces community banks' competitiveness.

Does Nothing to Stop Scams. This approach is only remedial and would do nothing to stop the criminals that are committing these scams. Instead, it would encourage fraud. Criminals would have new tools to convince consumers to send money under clearly suspicious circumstances if they could point out that the consumer has nothing to lose because only the bank's money is at risk.

Recommended Action Items

- **Tell Congress banks need help protecting consumers from scams.** Banks invest heavily to protect consumers from scams, but criminals use impersonated Caller ID or text messages or social media profiles that appear to be legitimate. FTC and FCC should establish rules forcing telecom and social media companies to disallow these impersonations and take them down when notified.

- **Tell Congress banks cannot second-guess customers.** Share your experiences of customers who could not be persuaded not to transfer funds to likely scammers.

- **Urge Congress to support development of a national fraud and scam prevention strategy.** Fraud and scams are a multi-billion-dollar national problem, and yet there is no comprehensive strategy to protect Americans led by a single Federal agency or official.

Privacy

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Issue Update

Banks are subject to a variety of federal laws that govern the ways consumer personal information can be collected, used, and shared. There are also notice requirements and certain policies and procedures that must be in place. These include the Gramm-Leach-Bliley Act (GLBA), the Fair Credit Reporting Act (FCRA), the Right to Financial Privacy Act, and CAN-SPAM. In addition, banks may be subject to banking sector-specific or comprehensive privacy laws at the state level. California in particular imposes a number of compliance obligations on banks meeting certain thresholds. Finally, certain international laws such as the European Union's General Data Protection Regulation (GDPR) could apply depending on the bank's particular circumstances.

At a base level, privacy can be understood as the permissible access to and uses of a consumer's personal information, including how and with whom it can be shared. This is distinct but related to information security, which creates safeguards for preserving those permissions. Thus, if privacy is a door, information security is the lock and key.

Many of the federal privacy laws have been on the books for many years. Meanwhile, multiple states have passed generalized privacy laws inspired by the GDPR that create consumer rights to access and delete data held by businesses. These rights often conflict with banks' legal and compliance obligations; fortunately, the state laws have some form of exemption recognizing the GLBA and FCRA protections. Nonetheless, the patchwork of state laws imposes challenges on banks and creates risks.

In addition, privacy issues have increasingly dovetailed with other topics, such as Artificial Intelligence, Section 1033 / Data Aggregation, and data governance. Data breaches, which can put millions of consumers at risk, are also tied to privacy considerations. Banks can no longer think of privacy as an ancillary issue.

Why It Matters

Banks' most important currency is trust. Financial information is among the most sensitive types of data, and consumers need to feel comfortable with what banks collect, how they use it, with whom it is shared, and why. Policymakers are increasingly looking to privacy as a concept linking several disparate topics and there is growing momentum for addressing it at the federal level in reaction to a critical mass of state activity. Congressional, CFPB, and prudential agency activity has the potential to significantly impact bank operations, especially if data access or deletion rights come into scope.

Recommended Action Items

- **Apply robust data security and privacy standards to all entities that handle sensitive personal financial information.** Stopping data breaches is critical for consumers, and also important to banks who often have the closest relationship to those affected. Data breaches impose significant costs on banks of all sizes because our first priority is to protect consumers and make them whole.
- **Urge Congress to create a comprehensive privacy law with strong preemptions and an entity-level GLBA exemption.** The House Energy & Commerce Committee in the 119th Congress introduced a bill observing these essential principles (HR 8413).

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- **Encourage Congress to take care with any GLBA updates.** The House Financial Services Committee in the 119th Congress introduced a bill that thoughtfully modernizes GLBA while raising it from a federal floor to a federal ceiling (HR 8398).

Protecting the Payments System

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Issue Update

The Federal Reserve Banks operate payment services that serve as a backbone of payment system stability, instill confidence in economic transactions, and facilitate the nation's commerce. Banks are subject to robust federal supervision, prudential standards, anti-money laundering and sanctions requirements, and ongoing oversight because of the risks they manage as payment intermediaries. As payments innovation accelerates, nontraditional financial firms and firms with novel charters are seeking direct access to Federal Reserve accounts and payment services. That access must be governed by clear, consistent, and enforceable safeguards so innovation does not come at the expense of consumers, financial institutions, or the safety and integrity of the U.S. payments system.

Several states have developed special purpose depository charters, and the OCC has received and granted applications from nontraditional entities for national trust bank charters. In many cases, the entities pursuing these charters are interested in obtaining master accounts and direct access to the Federal Reserve Banks' payment systems. n 2022, the Board of Governors adopted a uniform policy for Federal Reserve Banks to evaluate account access requests, with heightened scrutiny for institutions that are not federally insured and are not subject to consolidated federal supervision.

Since then, the Federal Reserve has moved from concept to formal policy development. In December 2025, the Board issued a request for information on a limited-purpose payment account—often called a "skinny" master account—that would allow legally eligible institutions to clear and settle payments while prohibiting interest on balances, daylight overdrafts, discount window access, and services that create unmanageable credit risk. In March 2026, the Federal Reserve Bank of Kansas City approved a limited-purpose account for Kraken Financial, a Wyoming special-purpose depository institution, before the broader framework was finalized. In May 2026, the Board issued a formal proposal to establish payment accounts and encouraged Reserve Banks to pause certain Tier 3 account access decisions while the proposal remains pending. ABA responded in July 2026, supporting a measured framework only if it includes stronger safeguards, direct federal oversight, transparent standards, and phased implementation.

Why It Matters

A safe and efficient payment system permits consumers, businesses, and banks to make payments with the confidence that those transactions are conducted with financially responsible intermediaries that comply with applicable legal requirements, including anti-money laundering, countering-the-financing-of-terrorism, sanctions, cybersecurity, operational resilience, and consumer protection obligations.

Legal eligibility alone should not guarantee direct access to Federal Reserve accounts or payment services. Entities chartered through special-purpose state charters or as national trust banks may not be subject to consolidated federal supervision, FDIC oversight, or the full

prudential framework that applies to insured depository institutions. Without strong guardrails, a limited payment account could become a de facto payments charter that allows firms to access critical public infrastructure without equivalent supervision, risk management, or accountability.

The Fed's proposal is a constructive step because it recognizes that full-service master accounts are not appropriate for every legally eligible applicant. However, the framework must be strengthened to ensure that payment accounts remain truly limited purpose, do not create deposit-flight or stablecoin-reserve incentives, and cannot be used by third parties to circumvent account limitations through nesting or pass-through arrangements.

Recommended Action Items

Congress and regulators should avoid creating new payment charter pathways that expand access to Federal Reserve services without equivalent federal oversight and safeguards.

The Board and Federal Reserve Banks should protect consumers, financial institutions, and the payment system itself by:

- Maintaining the proposal's core limitations, including no interest on balances, no daylight credit or overdrafts, no discount window access, no FedACH access, and no services that cannot be supported by automated overdraft controls;
- Conditioning access on demonstrated capabilities in governance, independent risk management, BSA/AML/CFT compliance, sanctions compliance, cybersecurity, operational resilience, and consumer protection;
- Mandating direct federal banking agency supervision for any payment account holder, with enforceable ongoing compliance obligations;
- Preserving the distinction between limited payment accounts and full master accounts, with full master account access remaining limited to federally supervised institutions with federally insured deposits.

SBA'S 7(A) Lending Program

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Issue Update

Prior to April 2023, the Small Business Administration (SBA) capped at 14 the number of nondepository institutions – known as "small business lending companies" (SBLCs) – licensed to make loans under SBA's section 7(a) program. But that April, SBA lifted the moratorium, and in a separate rule also issued that month, amended various regulations governing the 7(a) program, including loosening underwriting standards for these loans. Since 2023, SBA has granted licenses to an aggregate six new SBLCs to participate in the 7(a) program, despite stating in 2022 that the agency had the resources to supervise only three new nonbank entrants to the program. Available data indicate that the program has experienced increased defaults since those changes went into effect, particularly in loans originated by nonbank lenders.

In May 2025, SBA issued a Standard Operating Procedures (SOP) document (SOP 50 10 8) that made several positive ABA-recommended changes to the 7(a) program, including:

(1) imposing stronger underwriting criteria for 7(a) loans;
(2) requiring a minimum 10% equity injection for startup loans and when the loan is meant to facilitate a change in ownership (i.e., the sale) of the business; and
(3) reinstating SBA's franchise directory, which assists lenders with determining the eligibility of a franchisee for a 7(a) loan.

Why It Matters

Members of Congress and other stakeholders have expressed concern that increased 7(a) loan defaults could jeopardize the ongoing viability of the 7(a) program, which is intended to operate at a "zero subsidy rate" – i.e., to generate sufficient revenue through fee collections and recoveries of collateral on defaulted loans to not require an appropriation from Congress. When SBA lifted the moratorium in 2023, the agency also loosened underwriting standards for 7(a) loans. Specifically, SBA replaced its nine-factor underwriting test with a requirement that lenders use the same underwriting that the lender uses for its "similarly-sized, non-SBA guaranteed commercial loans" or use a "business credit scoring model." One month later, SBA through a procedural notice imposed stronger underwriting criteria for 7(a) loans greater than $500,000 – i.e., criteria that are similar, but not identical, to the nine-factor test that SBA had removed – but maintained the looser criteria for loans of $500,000 or below. Nonbank 7(a) lenders are not subject to Federal prudential supervision. Therefore, they are not supervised to ensure compliance with BSA/AML laws, concentration caps, safety and soundness standards, and other regulations that promote prudent lending.

The addition of six non-federally supervised SBLCs joining the 7(a) program, coupled with the looser underwriting standard, has contributed to rising default rates. Data compiled by Lumos Technologies, a financial technology firm that advises SBA lenders, show that 7(a) loans originated by nonbank lenders in 2023 had a default rate of 8.1% in 2024 – more than double the default rate of 7(a) loans originated by banks in 2023. These data are deeply concerning.

SBA'S 7(A) Lending Program

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Recommended Action Items

SBA should do more to create durable underwriting standards and limit risk to the program posed by nonbank lenders. ABA recommends that SBA:

- **Through rulemaking, reinstate the nine-factor lending criteria for underwriting 7(a) loans.** SOP 50 10 8 is a positive step forward, but a future administration could rescind this SOP without any process. SBA should put the SOP's stronger underwriting standards into regulation by issuing a rule.

- **Focus on increasing the number of highly regulated banks that participate in the 7(a) program instead of seeking new nonbank entrants to the program.** SBA should not grant any new SBLC licenses unless and until the agency demonstrates there is a small business lending "desert" that a new SBLC would serve and that SBA has the resources to oversee the new SBLC. Through rulemaking, SBA should reimpose a cap on the number of SBLCs in the 7(a) program.

- **Reinstate the Loan Authorization as a required document for 7(a) loans.** In the April 2023 final rule, SBA removed the Loan Authorization as a required document for 7(a) loans. The Loan Authorization had reflected SBA's commitment to guarantee the loan if specified conditions are met. The loan term length, rate, amount, and allowable uses of loan proceeds will vary from one 7(a) loan to the next. The Loan Authorization removed any uncertainty about those conditions. This was particularly important if the lender who made the loan left the financial institution or if a party sought to make modifications to the loan after origination.

- **Cease conducting eligibility checks on 7(a) loans made by lenders in SBA's Preferred Lender Program (PLP).** Lenders who demonstrate a record of successfully processing and servicing SBA loans may qualify for PLP status, which gives the lender the final credit decision on making SBA loans under what is known as "delegated authority." In August 2023, SBA begin checking the eligibility of 7(a) loan recipients of loans made by PLP lenders, despite a lack of evidence that PLP lenders are making fraudulent loans. This unnecessarily delays the receipt of 7(a) loan funds by borrowers, which may lead the borrower to look to less regulated, higher cost lenders.