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February 6, 2026

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Docket No. OP-1877—Request for Information and Comment on Reserve Bank Payment Account Prototype

Dear Ms. Misback:

The Independent Bankers Association of Texas (IBAT) appreciates the opportunity to comment on the Board's request for information regarding the proposed special purpose Reserve Bank "Payment Account." IBAT represents community banks that provide credit to small businesses, family farmers and ranchers, and consumers across Texas and the entire nation. For the reasons outlined below, IBAT opposes the Payment Account proposal.

The proposed Payment Account would introduce new and unnecessary vulnerabilities and volatility into the U.S. monetary and payment systems by enabling nontraditional, payments-focused institutions to hold Reserve Bank balances and clear high-speed transactions outside the prudential guardrails and liquidity intermediation functions that community banks provide. Further, by encouraging deposit migration away from community banks, the proposal would accelerate disintermediation and erode core funding that supports credit availability for small businesses and farmers. The net effect would be a less stable payment system, greater procyclicality in stress, and diminished access to credit in the communities that community banks serve.

The Proposal Heightens Systemic Vulnerability and Payment System Volatility

The Payment Account would be a special purpose Federal Reserve account, distinct from a master account, available to any legally eligible institution and intended to facilitate clearing and settlement of the holder's payment activity. The design contemplates streamlined approval timelines relative to master accounts, potentially expanding the number and diversity of direct Reserve Bank accountholders whose business models concentrate payments through, but without commensurate backstops or supervisory oversight.

The Proposal Accelerates Disintermediation and Erodes Community Bank Deposits

The contemplated prototype invites payments-centric institutions to intermediate customer funds directly on the Federal Reserve balance sheet during the business day, which will attract commercial and fintech models, siphoning operational and commercial deposits from community banks. Community banks transform stable core deposits into long-term, relationship-based credit for small businesses and farmers. Deposit outflows to Payment Account holders reduce balance-sheet capacity and raise marginal funding costs, constraining lending precisely in the communities least served by large, transactional institutions. The proposal thereby

risks shrinking credit to Main Street and family agriculture as deposits migrate to high-velocity and high-volatility payment platforms.

The Proposal Undercuts Monetary Policy and Financial Stability

The proliferation of payment-only accounts with minimal overnight balances complicates reserve management, increases intraday liquidity peaks, and may impair the smooth transmission of policy through the banking system. Rapid deposit migration toward Payment Account holders during stress could amplify flight-to-safety dynamics and intensify run risk for community banks, undermining financial stability.

The Proposal Present Considerable Anti-Money Laundering and Know Your Customer Concerns

Granting direct access for nonbanks to hold Reserve Bank balances and clear high-speed transactions without those same accountholders being subject to the same rigorous oversight of banks via the prudential regulators poses serious risks. The rush to grant those nonbanks access doesn't acknowledge that many of the fintech users are simply not equipped to handle the same rigorous standards that chartered banks must comply with.

The Proposal Effectively Puts Chartered Banks at a Competitive Disadvantage

Giving fintech users the same privileges – even on a limited basis - would be unfair to traditional banks that bear the burden of higher compliance costs, including the Community Reinvestment Act. We call to your attention a Conference of State Bank Supervisors study entitled *Too Small to Scale: What 10 Years of Data Say About Community Bank Compliance Costs* which concludes 'And what ultimately emerges is a portrait of a banking system under strain. Compliance, once a background function, has become a central line item in community bank budgets. The smallest banks devote upward of a fifth of their data-processing and personnel expenses to meeting regulatory expectations—costs that large banks can absorb easier.' This proposal will only exacerbate the competitive disadvantages for banks, especially community banks.

The Proposal Present the Potential for Increased Fraud

The Federal Reserve Board of Governors, OCC, and FDIC are collaborating on improving the existing regulatory frameworks to address rising, complex fraud schemes involving multiple payment types. Regulation E plays a central role in how fintech companies manage electronic fund transfers, consumer disputes, and fraud claims. Yet, despite its impact, many fintech operators encounter its requirements only when issues arise, such as a fraud claim, a mishandled dispute, or regulatory scrutiny. Unfortunately, it is the account holding bank that more often than not takes fraud losses.

Recommendations

Given these risks, IBAT urges the Board to withdraw the Payment Account proposal in its entirety. In the alternative, if the Board proceeds, IBAT recommends at minimum:

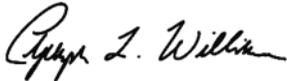
- a. Limit eligibility to federally insured depository institutions subject to consolidated prudential supervision and capital/liquidity requirements.
- b. Prohibit commercial arrangements that enable indirect settlement for third parties or embedded finance partners, including explicit bans on correspondent-like activities and settlement for respondents, with rigorous enforcement. A Payment Account holder should not be permitted to act as a correspondent bank, and a Payment Account could not be used to settle transactions for other institutions. The Reserve Banks should not recognize third-party interests in Payment Accounts
- c. Set a substantially lower overnight balance cap keyed to verified payment needs, require dynamic liquidity stress testing, and mandate contingency funding plans for Payment Account holders.

- d. Require full Bank Secrecy Act (BSA/AML) compliance programs, independent testing, and ongoing supervisory reporting before account opening, with Board-level oversight of Reserve Bank approvals. Further, the Board must address additional risks, including cyber security.
- e. Conduct a quantitative impact study on deposit displacement from community banks and the consequent effect on small-business and agricultural credit availability before finalizing any framework.

IBAT supports safe, efficient payments innovation that reinforces, rather than undermines, the resilience of the U.S. monetary and payment systems and the flow of credit to small businesses and farmers. The Payment Account proposal, as drafted, elevates systemic and operational risks, accelerates disintermediation, and threatens credit availability in communities across Texas and the entire nation. IBAT respectfully urges the Board to withdraw the proposal.

We appreciate the opportunity to comment and would welcome further engagement. Please direct questions to IBAT's counsel, Anne Balcer, at Abalcer@ibat.org.

Respectfully submitted,



Christopher L. Williston VI
President & CEO
Independent Bankers Association of Texas