



Economic Growth and Regulatory Paperwork Reduction Act Public Outreach Meeting

October 30, 2025 -- Testimony of David Schroeder, SVP Federal Governmental Relations, Community Bankers Association of Illinois

Good morning, and thank you!

CBAI is proud to represent nearly 250 Illinois community banks which are located throughout the state of Illinois.

I appreciate the opportunity to speak about regulations concerning bank operations, safety and soundness and money laundering. Each of these is related to the ongoing and significant problem of check fraud and community banks being reimbursed for fraudulently altered returned checks.

Three years of our member check fraud survey results revealed that this problem in banking is caused by a number of the same largest banks and credit unions (the largest FIs) opening fraudulent accounts (many online) and into which fraudulently altered checks are being deposited (many by remote deposit capture).

These checks clear back to community banks, harming them and their customers, and undermining the integrity of the nation's payments and banking system.

CBAI highlights the intersection of check fraud and the CAMELS rating system, which is the framework used to assess the safety and soundness of banks.

There is an apparent (mis)management (the M in CAMELS) at these largest FIs for not sufficiently knowing their customers, which is harming the earnings (the E in CAMELS) at community banks, eroding community bank capital (the C in CAMELS) and wasting their valuable management time and resources (again, the M in CAMELS).

It is vitally important to address check fraud because these crimes involve money laundering, which harms community banks, their consumers and small businesses, enriches criminals and finances terrorism.

Existing regulations in this area span the alphabet but are concentrated around a bank truly knowing its customer (or KYC).

Unfortunately, and despite many existing regulations and guidance, check fraud is growing in size and severity.

Something different, something else, needs to be done.

CBAI has consistently recommended Joint Supervisory Guidance directed at the largest FIs, requiring them to address their apparent KYC compliance failures.

This guidance would not only squarely address check fraud, but it would also fulfill the regulatory requirement to tailor regulations to match the risk profile of a bank, taking into consideration its size and business model.

The asset size of the largest FIs distinguishes them from all other financial institutions, and their preference for mobile account openings and remote deposit capture is certainly an easily distinguishable business model. Together, they indicate that the largest FIs should be the sole focus of new guidance.

Community banks are smaller in size and have a business model that is more conducive to knowing their customers and their customers' typical financial behavior.

Community banks should be exempt from any new regulations to address check fraud because it is unnecessary and would be overburdensome.

Earlier, I mentioned the problems community banks have with being reimbursed by the largest FIs for check fraud returns.

Our members report that it is an incredibly frustrating experience that far too often is unsuccessful.

This (mis)management of check fraud reimbursements (the M in CAMELS) also needs to be addressed in Joint Supervisory Guidance.

Typically, community banks are alerted to a fraudulent check by their customer after they receive their bank statement.

Unfortunately, this notification is well beyond the 24-hour expedited return deadline.

As a result, many reimbursements are denied by the largest FIs.

CBAI recommends that the Federal Reserve revise Regulation CC to modify the 24-hour expedited return rule to take into consideration the reality that customers are likely not even aware that check fraud has occurred within this short timeframe.

In addition, banks need an increased ability to restrict access to funds deposited into a new account, deposits with questionable checks, or if a pattern of a depositor's financial behavior raises suspicion.

CBAI recommends that Regulation E be revisited to prevent fraudsters from accessing funds from the deposit of fraudulent checks as quickly as they are able to do now.

Finally, privacy rules and regulations need to be modified to permit (even require) banks to communicate with one another and with trusted family members to detect, deter and mitigate fraud more effectively. Banks must be provided with a safe harbor or indemnification for doing so.

Thank you very much for considering our thoughts on addressing check fraud, which touches bank operations, safety and soundness, and money laundering.

We hope that this decennial review of regulations is successful in reducing the significant regulatory burden on community banks.

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