



August 8, 2025

“Request for Information on Potential Actions to Address Payments Fraud”

Re: Docket ID OCC-2025-0009

On behalf of Community Spirit Bank, FDIC Certificate #50 we are delighted to submit comments on potential actions the federal agencies can take to combat and address payments fraud. This is an important topic, and I appreciate agencies being willing to hear ways to address payments fraud in the financial services industry. After meeting with our team here, I will attempt to answer some of the questions the agencies raised in your request for comment below:

1. What actions could increase collaboration among stakeholders to address payments fraud?

Response:

- **Community banks support collaborative stakeholder efforts to address payments fraud. Fraud and scams persist across borders, so broad, national stakeholder collaboration is necessary to effectively combat the problem.**
- **However, national efforts must recognize the resource constraints individual community banks face when deciding whether to participate.**
- **Local and regional collaboration across community banks, federal and state regulators, law enforcement, community organizations, and other stakeholders can be an effective way to build connections and share information at the community level.**

2. What types of collaboration, including standard setting, could be most effective in addressing payments fraud? What are some of the biggest obstacles to these types of collaboration?

Response:

- **Create a line item on the call report that requires financial institutions to report amount of payment fraud losses each quarter. Every bank currently lumps this into non-interest expense, so for the regulators to get a handle on the gravity of this,**



create a line for us to report the expense we are incurring on both check fraud and debit card fraud and disputes.

- **Most importantly, require the large institutions who are facilitating check fraud (Fraud funneling) to report to the regulators grand totals by the quarter the total amount of claims being made against them under their "bank of first deposit responsibility" and amounts they have paid.**

I believe it would be eye-opening to the regulators to learn how large this number is and then make them report how much money they have honored in returning to the victim bank.

3. Which organizations outside of the payments or banking industry might provide additional insights related to payments fraud and be effective collaborators in detecting, preventing, and mitigating payments fraud?

Response:

- **FINCEN should play a cooperating role here. We have seen instances where culprits go to a large financial institution, withdraw fraudulent funds and are never heard from again. Why can't funds be tracked down? Money from check fraud is leaving these large banks so why is that not being pursued?**
- **Law enforcement should be taking on a larger role in investigating and prosecuting fraud cases to show there are consequences to such actions.**
- **In addition, the United States Postal Service must play a role in this. It is evident that checks are being stolen from the postal service, washed, altered or replicated as counterfeit so there must be accountability from the postal service.**

9. What potential changes to regulations (apart from the Board's Regulation CC, discussed separately below) could address payments fraud and mitigate the harms from payments fraud to consumers, businesses, and supervised institutions?

Response:

- **With regard to check fraud:**
 - When a claim for fraudulent funds is sent to the “bank of first deposit” that is reported to be fraud, require the bank of first deposit to provide regulatory authorities and the victim bank with proof they followed proper “know you customer” rules and procedures.
- **With Regard to Debit Card Payment Fraud:**
 - Shift liability for certain disputed debit card transactions to merchants when red flags are present.
 - Reduce bank liability window from 60 days to 30 days in the digital environment.
 - Put more liability on the end consumer who is negligent in handling their debit card.
 - The biggest issue here is requiring the end customer to make a claim back to the merchant and put the burden on the merchant to prove a transaction was legitimate first before putting the burden on the local bank.
 - Encourage real-time authorization checks and two-factor authentication on higher-risk transactions in terms of some supervisory guidance.

11. How might new or revised supervisory guidance assist small community banks in detecting, preventing, and mitigating payments fraud?

Response:

- The goal of revised supervisory guidance would be to make fraud prevention more accessible, actionable, and cost-effective.
- Scalable & risk-tiered frameworks that allows community banks to meet standards proportionately.
- Practical procedures with clear guidance.
- Guidance to include how to assess third-party vendors that are needed for the fraud burden.

13. The Board, FDIC, and OCC have received complaints from supervised institutions regarding challenges in resolving disputes about liability for allegedly fraudulent checks.^[15] What is the experience of supervised institutions when trying to resolve these types of interbank disputes regarding allegedly fraudulent checks? Do these types of interbank disputes arise more frequently in connection with certain types of checks or parties? What actions could the Board, FDIC, and OCC consider, including potential amendments by the Board to Regulation CC, that could improve supervised institutions' ability to resolve interbank disputes over liability for allegedly fraudulent checks?

Response:

- **Develop an expedited resolution process to settle check fraud liability disputes between institutions.**
- **Enforce clearer response timelines and documentation expectations from the Bank of First Deposit.**
- **Further, there is a lack of clarity around the distinction between “altered and counterfeit” checks.**

One thing we have learned in dealing with the big banks who are the “fraud funnels”, whatever claim you make against them, they will say it is denied and claim it was opposite of what you are claiming. So for instance, you send a claim for an “altered check” to “big bank” they will come back and say well that is counterfeit so we will not honor the claim, vice versa you send a claim for “counterfeit”, big bank replies with “that’s altered” we have no responsibility.

So having clarity from the regulators that whether its “altered or counterfeit” if their customer facilitated the fraud they should honor paying us back under their “bank of first deposit responsibilities”.

Although the Board is not proposing any changes to Regulation CC at this time, the Board seeks comment on the following questions:

14. Regulation CC seeks to balance prompt funds availability with the risk of checks being returned unpaid for reasons that include fraud. What potential amendments to Regulation CC would support timely access to funds from check deposits while providing depository institutions with sufficient time to identify suspected payments fraud?

Response:

- **Encourage a more dynamic hold periods based on fraud risk indicators instead of check amount or geography.**

15. Regulation CC provides six exceptions that allow depository institutions to extend deposit hold periods for certain types of deposits, including deposits for which the depository institution has reasonable cause to doubt the collectability of a check.^[18] Is this exception effective in allowing depository institutions to mitigate check fraud while also allowing timely access to funds? Would depository institutions benefit from further clarification on when it may be appropriate to invoke this exception? What are the experiences of businesses and consumers when depository institutions invoke this exception in order to delay the availability of depositors' funds

Response:

- **Clarify how and when to invoke 'reasonable cause to doubt collectability' under Regulation CC through model templates and examples.**

16. Broadly, how could payments fraud data collection and information sharing be improved?

Response:

- **As a part of SAR reporting, there should be a database that we can upload fraudulent checks too so the regulatory authorities can learn from them.**
- **In addition, we suggest creating a national, real-time fraud registry that banks can use to report and verify flagged or stolen checks. Mandate real-time image sharing of fraudulent checks across banks to enable faster verification.**
- **Enable API-based fraud data reporting mechanisms integrated with centralized platforms.**
- **Standardizing fraud documentation and reporting that is uniform and not burdensome.**

17. What barriers limit the collection and sharing of payments fraud data between industry stakeholders, and how could these barriers be alleviated? For example, have specific barriers limited development of solutions or participation in bilateral or multilateral payments fraud data collection and information sharing? What changes would address these barriers?

Response:

- **Address legal and competitive concerns by creating a neutral platform (e.g., managed by the Fed) for industrywide fraud data collection.**

- **Support a legal safe harbor for institutions to share fraud data.**

18. What role should the FRS, FDIC, or OCC take in supporting further standardization of payments fraud data?

Response:

- **Encourage greater uniformity in fraud data classification by standardizing formats across banks and regulators**

20. Is there a need for centralized databases or repositories for the sharing of payments fraud data across entities? What legal, privacy, or practical risks and challenges could such a centralized database or repository pose? Which entities are best positioned to develop and participate in a centralized database or repository?

Response:

- **Establish a centralized repository for sharing fraud cases accessible to all U.S. financial institutions, with appropriate data privacy safeguards.**
- **Regulators should create some supervisory guidance much like we get from the OFAC system that alerts banks of names, EIN numbers that have been used in previous fraudulent accounts so that you limit the potential of a customer engaging in fraud at one bank and going and opening another account at another institution. Presently there is no way of knowing if that has occurred and we know of instances where a customer committed check or payments fraud here and went across the street and opened an account at another local community bank.**

21. How can the Reserve Banks enhance their existing risk management tools and services, operations, rules, or procedures to better meet the needs of participating financial institutions in addressing payments fraud? For example, should the Reserve Banks consider requiring fraud reporting for payment rails (as they already do for the Fed Now® Service) or adopting any particular payments fraud standards?

Response:

- **Require mandatory fraud reporting across all Fed payment rails, not just Fed Now.**
- **Expand real-time monitoring tools to include alerts for atypical payment patterns.**

22. Are there risk management tools or services that the Reserve Banks should consider offering or expanding, such as (a) developing a payments fraud contact directory for financial institutions, (b) offering tools that can provide notification of atypical payment activity, or (c) introducing

confirmation of payee services to help mitigate fraudulent payment origination? ^[21]

Response:

- **Introduce a secure Confirmation of Payee service to reduce misdirected or fraudulent payments.**
- **Develop a centralized payments fraud contact directory banks that can be used to escalate fraud cases.**

23. What types of payments fraud have most impacted your organization and its stakeholders? What tactics have criminals employed when perpetrating these types of payments fraud?

Response:

- **Check fraud: Consumers especially fall for romance scams, get rich quick schemes where they are sent a check told to go deposit at the teller line, via mobile and at the ATM, then send some of the money back in the form of gift cards. We must be vigilant and monitor all of these type checks on a constant basis**
- **Check fraud in cash letter: This is the most common with checks being altered, washed, counterfeit coming thru the cash letter and for the most part facilitated by large or regional banks are serve as “fraud funnelers” failing on their bank of first deposit responsibilities and know your customer guidelines.**
- **Debit card fraud remains a significant threat, especially through compromised merchants and account takeover schemes.**
- **ACH fraud often results from social engineering or business email compromise schemes.**

24. What measures, including technological solutions or services, have been most effective in identifying, preventing, and mitigating payments fraud at your institution? Are there actions that consumers can take that help institutions? For example, do financial institutions find it helpful when consumers alert the institution in advance when making large purchases, transferring large amounts of money, and traveling abroad?

Response:

- **Tools that monitor behavioral patterns and geolocation are effective in detecting anomalous payment activity.**
- **Customer notifications for large or unusual transactions add a layer of defense.**

26. Are there specific actions that commenters believe could encourage the use of payment methods with strong security features?

Response:

- **Some type of incentives for businesses that adopt tokenization, encryption, and strong authentication on their payment systems.**
- **Encourage consumer use of secure wallets or virtual card numbers for online purchases.**

Conclusion:

Payments fraud is a real concern for our small community financial institution. Through 7 months of this year, we have incurred around \$50,000.00 in debit card fraud and over \$80,000.00 in check fraud losses and those check fraud losses are directly tied to large “banks of first deposit” not honoring their obligations under current UCC rules!

Federal agencies must hold those large banks accountable for what they are not doing! As you can see, we have attempted to respond to many of the important questions raised in your request for comment. Our biggest issue in all of this is that the local depositors, whether that be a small business owner or consumer, look to the local bank first to make them whole. They have little responsibility for maintaining control over their own payment devices such as their debit cards. Small businesses who continue to use paper checks trust the United States Postal Service will safely delivery their checks to intended recipients so federal agencies must hold the postal service accountable for the amount of theft that is occurring through their delivery systems and most importantly, large financial institutions are helping to facilitate fraud by allowing fraudsters to open accounts and then not honoring their responsibilities under current regulatory rules. Check fraud is a huge issue for community banks, and I hope the regulatory agencies will find a way for us to report this and make the big banks honor their responsibilities.

Thank you for the opportunity to submit comments on this important topic.

Sincerely,



Brad M. Bolton
President/CEO/Sr Lender
Community Spirit Bank

