



April 27, 2026

Benjamin W. McDonough
Deputy Secretary
Federal Reserve Board of Governors
Constitution Ave NW & 20th St NW,
Washington, DC 20551

Docket No. R-1884; RIN 7100-AH17

Re: Prohibition on Use of Reputation Risk or Other Supervisory Tools To Encourage or Compel Banking Organizations To Engage in Politicized or Unlawful Discrimination

On behalf of National Taxpayers Union, the nation's oldest taxpayer advocacy organization, I write to express our strong support of the Board's proposed rulemaking, "Prohibition on Use of Reputation Risk or Other Supervisory Tools To Encourage or Compel Banking Organizations To Engage in Politicized or Unlawful Discrimination," 91 Fed. Reg. 9499 (proposed February 28, 2026); RIN 7100-AH17; Docket Number: R-1884.

NTU is an advocacy organization dedicated to promoting taxpayer interests, free markets, and limited government policies. Our experts and advocates engage federal policymakers on important matters affecting taxpayers in a variety of settings, including tax administration, trade, and health care, among many other important topics. Important to this issue, we have a long history of commenting on regulations proposed by the Federal Reserve, including on interchange (Durbin Amendment) and capital requirements (Basel III) due to their important economic impacts.

NTU appreciates the opportunity to comment on this important proposal. The Board of Governors of the Federal Reserve System (Board) has proposed a valuable rule that addresses a significant issue in the regulation of banking.

Researchers across the political spectrum have long recognized that debanking is both real and not a new phenomenon. This is a process by which financial institutions suddenly close individuals' or organizations' financial accounts without apparent justification. On the surface, it is easy to blame banks for "punishing" their customers, but, in reality, it is often due to government policies that create incentives for such outcomes. In particular, regulators have relied on "reputational risk" as a tool to pressure banks into cutting ties with disfavored industries and organizations.

Because reputational risk is a qualitative and highly subjective measure, it has proven difficult to define or apply consistently. This ambiguity has opened the door to abuse, enabling regulators to target institutions and customers based on political considerations rather than objective financial criteria.

Such is the case with an ongoing lawsuit against JPMorgan Chase, who closed bank accounts associated with President Trump in 2021. Chase contends that there was regulatory pressure and risk with keeping

those accounts open. Due to ambiguity, the industry operates under a framework of regulations and guidance that makes it risky for lenders to cater to certain clients.

This is a serious issue. Regulatory pressures were most notably employed during Operation Choke Point in 2014, when governments targeted firearm dealers, payday lenders, and other sectors deemed “high-risk.” More recently, similar efforts—often referred to as “Operation Choke Point 2.0”—have focused on crypto firms, conservative organizations, and other groups perceived to pose reputational concerns. Both waves of activity trace back to a 1996 regulatory framework that elevated “reputational risk,” including the impact of negative publicity, as a factor in bank supervision.

This unfortunately puts America’s financial institutions in an untenable position. They are forced to spend billions compiling “Suspicious Activity Reports” and “Current Transaction Reports” on customers and applicants that federal authorities rarely follow up with enforcement action. Those very same authorities nonetheless threaten institutions with fines for failing to “de-bank” more aggressively. In essence, taxpayers are being bilked twice—first by regulators not doing their jobs, and second by banks’ wasted compliance costs that could better be spent innovating and growing the private sector economy. Ironically, “structuring” of cash transactions remains an activity that banks are compelled to police, even as the NTU-backed Taxpayer First Act of 2019 placed prudent limits on how the IRS can enforce tax laws with regard to such structuring.

The various banking surveillance dictates can even conspire to give innocent, legitimate customers cause to “de-bank” themselves. The burdensome disclosures act to deter many from continuing or initiating a banking relationship. As NTU’s research affiliated described, this phenomenon in another context, when the Treasury sought license early in the Biden Administration to dramatically expand information reporting on bank account customers for tax purposes and concluded: “Distrust of the IRS may also discourage the 5% of unbanked households from opening a savings or checking account.”

At its core, reputational risk is inherently subjective and lacks the clear metrics associated with traditional supervisory concerns like credit, liquidity, or operational risk. This lack of definition makes it vulnerable to ideological bias and inconsistent application, with little evidence that it improves the safety and soundness of the banking system. Regulators themselves have acknowledged that reputational risk may distract from more concrete risks while introducing unnecessary subjectivity into oversight.

Moreover, reliance on reputational risk can distort bank decision-making, encouraging institutions to sever profitable and lawful customer relationships without sufficient justification. This not only harms businesses and individuals, but may also weaken financial institutions by reducing revenue and increasing operational inefficiencies.

Eliminating the words “reputational risk” from regulators’ vocabulary is an important recognition that investors and consumers, not the government, are the best judges of where to conduct their banking business. For these reasons, NTU supports efforts to explicitly prohibit the use of reputational risk as a basis for supervisory action. Clear, objective standards are essential to ensure fair treatment, maintain regulatory integrity, and refocus oversight on genuine risks to the financial system and its customers.

Sincerely,

Thomas Aiello

Vice President of Federal Affairs