



12 CFR Part 331

RIN 3064-AG34

State Bank Parity

AGENCY: Federal Deposit Insurance Corporation.

ACTION: Notice of proposed rulemaking.

SUMMARY: The FDIC is proposing amendments to its regulations to recognize parity between out-of-State State banks and national banks concerning the application of host State laws when State banks provide services outside of their chartering State. Under the proposed rule, when host State laws do not apply to a national bank, those laws would similarly not apply to an out-of-State State bank providing services in the host State with or without a branch. Specifically, the amendments would provide that, for purposes of section 24(j) of the Federal Deposit Insurance Act, the laws of a host State apply to any branch in the host State of, or any services provided in the host State by, an out-of-State State bank to the same extent such State laws apply to a branch in the host State of, or any services provided in the host State by, an out-of-State national bank.

DATES: Comments must be received no later than **[INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*]**.

ADDRESSES: You may submit comments on the notice of proposed rulemaking, identified by RIN 3064-AG34, using any of the following methods:

- *FDIC Website:* <https://www.fdic.gov/federal-register-publications>. Follow the instructions for submitting comments on the agency website.
- *Email:* Comments@fdic.gov. Include RIN 3064-AG34 on the subject line of the message.
- *Mail:* Jennifer M. Jones, Deputy Executive Secretary, Attention: Comments–RIN 3064-AG34, Federal Deposit Insurance Corporation, 550 17th Street NW,

Washington, DC 20429.

- *Hand Delivery to FDIC:* Comments may be hand-delivered to the guard station at the rear of the 550 17th Street NW building (located on F Street NW) on business days between 7 a.m. and 5 p.m.
- *Public Inspection:* Comments received, including any personal information provided, may be posted without change to <https://www.fdic.gov/federal-register-publications>. Commenters should submit only information that the commenter wishes to make available publicly. The FDIC may review, redact, or refrain from posting all or any portion of any comment that it may deem to be inappropriate for publication, such as irrelevant or obscene material. The FDIC may post only a single representative example of identical or substantially identical comments, and in such cases will generally identify the number of identical or substantially identical comments represented by the posted example. All comments that have been redacted, as well as those that have not been posted, that contain comments on the merits of the proposed rule will be retained in the public comment file and will be considered as required under all applicable laws. All comments may be accessible under the Freedom of Information Act.

This proposal, all comments received, and a summary of not more than 100 words of the proposed rule pursuant to the Providing Accountability Through Transparency Act of 2023 are available at <https://www.fdic.gov/federal-register-publications>.

FOR FURTHER INFORMATION CONTACT: James Watts, Counsel, 202-898-6678, jwatts@fdic.gov.

SUPPLEMENTARY INFORMATION:

I. Policy Objectives

The United States has a system of dual banking that allows banks to be chartered by either the States or the Federal Government. Congress has demonstrated a desire to

maintain a strong and vibrant dual banking system by periodically enacting legislation to achieve parity between State-chartered banks (State banks) and national banks.¹ The FDIC, as the primary Federal regulator of State banks that are not members of the Federal Reserve System, has likewise long sought to maintain a level playing field between State banks and national banks.

Recent litigation involving an Illinois law concerning payment card transactions has created uncertainty as to the application of the laws of States to State-chartered banks which offer services outside their home State. This uncertainty will negatively affect State banks and may result in substantial disruption and confusion for the merchants relying on payment card transactions and the consumers they serve. This uncertainty also creates a competitive imbalance between national and State banks.

This rulemaking would address this legal uncertainty and recognize parity between out-of-State State banks (State banks that are chartered by their home State but doing business in a host State) and national banks doing business in another State (a host State) without establishing a branch in such host State. The rule would clarify that when host State law does not apply to national banks, then host State law would not apply to out-of-State State banks offering services in the host State with or without a branch. Instead, the chartering State's law would apply to such banks offering services in the host State regardless of whether they branch into the host State.

In addition to achieving parity between out-of-State State banks and national banks, the proposed rule also would enhance consistency in the application of host State law among State banks that offer services outside their chartering States. Under the proposed rule, out-of-State State banks that offer services in a host State without a branch

¹ For example, the McFadden Act of 1927 allowed national banks to establish branches within the city or town in which the bank was situated to the same extent permissible for State banks under relevant State law. See sec. 7, Pub. L. 69-639, 44 Stat. 1228. Another example is the Depository Institutions Deregulation and Monetary Control Act of 1980, which allowed State banks to charge interest on their loans at the rates permissible for national banks. See sec. 521, Pub. L. 96-221, 94 Stat. 164.

would be treated the same as out-of-State State banks that perform the same services through a branch.

II. Background

Recent Developments and Need for Rulemaking

As noted above, recent litigation involving an Illinois law concerning payment card transactions has resulted in uncertainty as to the application of host State laws to out-of-State State banks. The litigation concerns the Illinois Interchange Fee Prohibition Act (IFPA), a law enacted by the State of Illinois in 2024.² The IFPA includes provisions that: (1) prohibit card issuer banks, card networks, acquirer banks, and other participants in a payment card transaction from charging or receiving interchange fees on the portion of the transaction that constitutes a tax or gratuity (Interchange Fee Prohibition); and (2) make it unlawful for entities other than the merchant involved in a card transaction to distribute, exchange, transfer, disseminate, or use the associated data, subject to certain exceptions (Data Usage Limitation). By its terms, the IFPA's application is not limited to Illinois-chartered banks.

Shortly after the IFPA's enactment, several trade associations and other parties responded by filing suit against the Illinois Attorney General, arguing that various Federal laws preempted the IFPA.³ In addition, the Comptroller of the Currency, the regulator of national banks, issued for comment an interim final order concluding that Federal law preempts the IFPA,⁴ as well as an interim final rule clarifying that national banks' power to charge non-interest charges and fees includes the power to collect non-interest charges and fees, including interchange fees from credit and debit card operations.⁵ The district court has determined that the interim final rule expressly

² 815 Ill. Comp. Stat. 151/10-1 et seq. The statute was originally set to go into effect July 1, 2025, but the effective date has subsequently been delayed by the legislature to July 1, 2027.

³ See *Ill. Bankers Ass'n v. Raoul*, 760 F. Supp. 3d 636 (N.D. Ill. 2024).

⁴ 91 FR 23150 (Apr. 29, 2026) (interim final order).

⁵ 91 FR 22989 (Apr. 29, 2026). The interim final rule further clarified that such charges or fees may be set by, or in consultation with, third parties.

conflicts with the Interchange Fee Prohibition, and thus granted a permanent injunction preventing Illinois from enforcing the Interchange Fee Prohibition against national banks, Federal savings associations, payment card networks, and banks chartered by States other than Illinois “that are subject to Riegle-Neal, 12 U.S.C. § 1831a(j)(1).”⁶

The parties to the litigation have disagreed as to which State-chartered banks are “subject to Riegle-Neal” (*i.e.*, subject to section 24(j) of the Federal Deposit Insurance Act (FDI Act)). While the plaintiffs asserted that section 24(j) of the FDI Act extends national bank preemption broadly to out-of-State State banks,⁷ the Illinois Attorney General argued that section 24(j) of the FDI Act extends such preemption only to out-of-State State banks’ branches “physically located” in Illinois,⁸ which would potentially leave aspects of many State banks’ operations subject to the IFPA. State banks doing business in Illinois without branches in Illinois therefore face substantial legal uncertainty as to the application of the IFPA to their operations. This proposed rule would remove that uncertainty.

Given the IFPA’s significant penalties for non-compliance,⁹ banks may consider options for mitigating this risk, including potentially rejecting payment card transactions in Illinois.¹⁰ Such measures would cause substantial disruption and confusion for both merchants and consumers. Moreover, a number of other States are considering legislation similar to the IFPA,¹¹ meaning that legal uncertainty in the application of State laws to out-of-State State banks may become a more widespread concern.

III. Statutory Authority

⁶ *Ill. Bankers Ass’n v. Raoul*, —F. Supp. 3d—, 2026 WL 1534350, at *12 (N.D. Ill. June 1, 2026). The district court’s opinion and order also granted a permanent injunction prohibiting enforcement of the Data Usage Limitation against the same entities.

⁷ See Pls.’ Mem. Supp. Mot. Summ. J., *Raoul*, 2025 WL 2223710 (Mar. 17, 2025).

⁸ See Def.’s Mem. Opp. Pls.’ Mot. Summ. J., *Raoul*, 2025 WL 2223714 (Apr. 23, 2025).

⁹ The IFPA provides for civil penalties of \$1,000 per electronic payment transaction.

¹⁰ See OCC Interim Final Rule, 91 FR 22989, 22993 (Apr. 29, 2026).

¹¹ The district court’s decision notes that since enactment of the IFPA, eleven other States have begun pursuing similar legislation. See *Raoul*, 2026 WL 1534350, at *1 (N.D. Ill. June 1, 2026).

Congress has granted the FDIC the authority to prescribe rules and regulations as it may deem necessary to carry out the provisions of the FDI Act, as well as to define terms as necessary to carry out the FDI Act, except to the extent that authority to issue such rules and regulations has been expressly and exclusively granted to another regulatory agency.¹² Section 24(j) is a provision of the FDI Act, and no other regulatory agency has been expressly or exclusively granted the authority to issue rules or regulations, or to define terms, with respect to section 24(j) of the FDI Act. Consequently, the FDI Act expressly grants the FDIC the authority to issue rules with respect to section 24(j) of the FDI Act.

Section 24(j) of the FDI Act was added to the statute by the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Riegle-Neal).¹³ While section 24(j) of the FDI Act expressly addresses the application of State laws to a “branch” in a host State of an out-of-State State bank, the FDIC believes the provision must be read in the context of the statutory framework. At the time of Riegle-Neal’s enactment, banks generally conducted banking activities, such as receiving deposits and making loans, through branches. Thus, branches were the central mechanism against which State laws could discriminate against out-of-State banks, and were, naturally, expressly referenced in the Act.

In the years since Riegle-Neal’s enactment, it has become more common for banks to serve their customers through non-branch channels such as online banking and mobile banking. As a result, many State banks serve customers in other States without branches in those States – and may not even maintain branches at all. If a branch was a prerequisite to protection under Riegle-Neal, State banks would either lose parity with national banks with respect to the application of host State laws or be forced into the

¹² 12 U.S.C. 1819(a)(Tenth), 1820(g).

¹³ Pub. L. 103-328.

costly and counterintuitive exercise of establishing branches in host States in order to gain protection from host States' laws, something not required of national banks.¹⁴ As explained below, this would create an irrational result that cannot be squared with the structure of section 24(j) of the FDI Act or congressional intent.

2005 Rulemaking

In 2005, the FDIC proposed a regulation implementing section 24(j) of the FDI Act to clarify the application of host State laws to out-of-State State banks.¹⁵ The 2005 proposal responded to a petition for rulemaking that focused on establishing parity in the application of host State laws to State banks' operating subsidiaries. The scope of the 2005 proposal was limited only to activities conducted at branches of out-of-State banks in the host State and suggested that section 24(j) of the FDI Act only applies to State banks with interstate branches.

The 2005 proposal was never finalized, and importantly, focused on parity in the application of host State laws to operating subsidiaries rather than parity between banks with branches in a host State and those without such branches. Furthermore, the 2005 proposal's interpretation of section 24(j) of the FDI Act does not reflect the broader purpose and structure of the statute, particularly in light of the migration of banking activity away from branches to non-branch channels. Indeed, since 2007 when the first iPhone was released, mobile banking has become commonplace, and banks and other financial institutions commonly provide financial services through mobile applications. The rule now being proposed by the FDIC, discussed in further detail below, adheres to the structure and purpose of section 24(j) of the FDI Act and provides necessary regulatory clarity.

IV. Proposed Rule

¹⁴ State banks would only gain protection from a host State's laws through branching to the extent such laws do not apply to branches of national banks in the host State. 12 U.S.C. 1831a(j)(1).

¹⁵ 70 FR 60019 (Oct. 14, 2005).

Section 24(j) of the FDI Act expressly addresses the application of host State laws to out-of-State State banks that have branched into a host State. The statute provides that host State laws apply to a branch of an out-of-State State bank to the same extent they apply to a branch in the host State of an out-of-State national bank. In other words, if the host State law has been preempted and does not apply to a national bank, then host State law similarly does not apply to the branch of an out-of-State State bank; instead, the chartering State's law applies.

The statute does not, however, explicitly address the application of host State laws where out-of-State State banks provide services in a host State without the establishment of a branch. But it is clear from the statutory scheme that when host State law would not apply to an out-of-State State bank's branch in the State (because State law has been preempted), host State law should similarly not apply to an out-of-State State bank providing services without a branch. Instead, home State law should apply. This is the only result consistent with the structure of section 24(j) of the FDI Act.

Conversely, requiring an out-of-State State bank to establish a branch in a host State to ensure application of its chartering's State law would run contrary to the structure and apparent intent of the 1997 amendments to Riegle-Neal, which was to reestablish parity between interstate State banks and interstate national banks.¹⁶ Thus, the proposed rule ensures consistency with the structure and purpose of section 24(j) of the FDI Act.

The proposed rule provides that for purposes of section 24(j) of the FDI Act, the laws of a host State, including laws regarding community reinvestment, consumer protection, fair lending, and establishment of intrastate branches, shall apply to any branch in the host State of, or any services provided in the host State by, an out-of-State

¹⁶ The sponsor of the Riegle-Neal Amendments Act of 1997 stated that "[t]he essence of this legislation is to provide parity between State-chartered banks and national banks." 143 Cong. Rec. H3088-89 (May 21, 1997) (statement of Rep. Marge Roukema); see also 143 Cong. Reg. H3090 (May 21, 1997) (letter from Independent Bankers Association of America, noting that "[t]he Riegle-Neal Clarification Act clarifies that generally, state chartered banks will operate under the laws of their chartering state wherever they do business, up to the powers of national banks"). See sec. 2, Pub. L. 105-24, 111 Stat. 238.

State bank to the same extent as such State laws apply to a branch in the host State of, or any services provided in the host State by, an out-of-State national bank. Accordingly, host State laws inapplicable to branches of out-of-State national banks or to services provided by out-of-State national banks would not apply to branches of out-of-State State banks or to services provided by an out-of-State State bank in the host State without a branch. In all of these cases, the law of the State bank's chartering State would apply. The proposed rule also includes a conforming edit to the current definition of "host State" to reflect that for purposes of part 331, a host State would be a State, other than a State bank's home State, in which the State bank maintains a branch or provides services.

No Effect on State Banks' Loan Interest Rates

The proposed rule would not affect the interest rates State banks are permitted to charge with respect to any of their loans, which are governed by section 27 of the FDI Act.¹⁷ The proposed rule would apply section 24(j) of the FDI Act, which was added to the statute by Riegle-Neal. Section 111 of Riegle-Neal expressly disclaimed any effect on the application of section 27, stating:

No provision of this title and no amendment made by this title to any other provision of law shall be construed as affecting in any way . . . the applicability of section 5197 of the Revised Statutes or section 27 of the Federal Deposit Insurance Act.¹⁸

Accordingly, section 27 and the FDIC's implementing regulations in the remainder of part 331 would continue to govern the interest rates that State banks are permitted to charge with respect to their loans.

No Determination that Particular State Laws are Preempted

The proposed rule would not constitute a determination by the FDIC that any particular host State law is preempted by Federal law, though preemption of a host State

¹⁷ 12 U.S.C. 1831d.

¹⁸ 12 U.S.C. 1811 note.

law would be relevant in determining which State’s law applies. The proposed rule would merely clarify the application of State law under section 24(j) of the FDI Act in instances where an out-of-State State bank provides services in a host State.

V. Expected Effects

The proposed rule would amend the FDIC’s regulations at 12 CFR part 331 to recognize parity between out-of-State State banks and national banks concerning the application of host State laws when State banks provide services outside of their chartering State. The proposed rule would apply to all “State banks,” as defined in the FDI Act. As of the quarter ending December 31, 2025, there were 3,449 State banks.¹⁹

The FDIC analyzed the proposed rule’s expected effects on State banks relative to a baseline in which 12 CFR part 331 remains unchanged. The baseline further assumes that all current State laws and regulations remain in effect and reflects the financial and economic conditions of State banks as of December 31, 2025.

The proposed rule, if finalized, would primarily affect State banks and their customers. As discussed above, it has become common in recent years for banks to serve their customers outside of branches through non-branch channels such as online banking and mobile banking. Currently, the regulatory framework regarding applicability of host State laws to these activities under section 24(j) of the FDI Act is uncertain. Under the baseline, such uncertainty may impose costs on State-chartered banks by either requiring establishment of a branch or depriving them of parity in the absence of a branch, limiting the availability of products and services to customers. For example, litigation involving the IFPA has created uncertainty that is expected to negatively affect State banks and may result in substantial disruption and confusion for the merchants and consumers they serve once the law takes effect. Although the OCC has preempted this State law and a

¹⁹ Reports of Condition and Income (Call Reports), December 31, 2025. Data from December 2025 are used instead of more recent data because certain information used in the analysis is only reported every six months (in June and December) rather than quarterly.

court has granted a permanent injunction preventing Illinois from enforcing the IFPA against national banks, Federal savings associations, payment card networks, and banks chartered by States other than Illinois “that are subject to Riegle-Neal, 12 U.S.C. § 1831a(j)(1),” State banks without Illinois branches could face uncertainty in light of the Illinois’ Attorney General’s posture. This uncertainty creates a competitive imbalance between national banks and State banks under the baseline. By reducing this uncertainty, the proposed rule would benefit State banks and their customers.

The precise effects of the proposed rule are subject to uncertainty and may vary based upon changes to State laws and the actions of other regulators that the FDIC cannot reasonably anticipate. The analysis below focuses on the IFPA and assumes it will become effective for State banks in July 2027. The FDIC’s estimates rely on available Call Report data, Summary of Deposits data, publicly available economic data, and estimates submitted to the courts by the parties to litigation concerning the IFPA. However, available regulatory data do not comprehensively identify all services that State banks provide in host States where they do not maintain branches, nor do they identify the location of payment card transactions, the tax and gratuity components of those transactions, or the operational arrangements used by banks and third-party service providers to process such transactions.

Scope

Of the 3,449 State banks in existence as of December 31, 2025, the FDIC has identified 3,185 that may be affected by the proposed rule upon the effective date of the IFPA.²⁰ Of the 3,185 affected State banks, the FDIC estimates that there are 111 acquirer banks (which process card payments on behalf of a merchant) and 3,183 issuer banks

²⁰ Of the 3,449 State banks, 235 are headquartered in Illinois and will be required to comply with the IFPA under both the baseline and under the proposed rule. A further 29 are not headquartered in Illinois but operate a physical branch in Illinois and will not be subject to the IFPA under both the baseline and under the proposed rule. Call Reports, December 31, 2025, and Summary of Deposits, June 30, 2025.

(which provide credit or debit cards to consumers); banks may be both acquirers and issuers.²¹ These estimates are based on December 2025 data and may change before the IFPA takes effect in July 2027.

Quantifiable Expected Benefits

As noted above, absent concrete examples, it is difficult to quantify the expected effects of this proposal or its absence. However, the Illinois law and ensuing litigation provide a useful example. Although the OCC has preempted this State law and a court has granted a permanent injunction preventing Illinois from enforcing the IFPA against national banks, Federal savings associations, payment card networks, and banks chartered by States other than Illinois “that are subject to Riegle-Neal, 12 U.S.C. § 1831a(j)(1),” State banks without Illinois branches could face uncertainty in light of the Illinois’ Attorney General’s posture. Under the baseline, both acquirer banks and issuer banks lacking branches would expend significant resources to update their payment processing systems to comply with the IFPA’s requirement to segregate the tax and gratuity portions of transaction amounts in Illinois and exempt these amounts from interchange fees. Under the proposed rule, State banks would not be required to expend these resources because the IFPA has been determined to be preempted with respect to national banks. Accordingly, these foregone costs would be a benefit to State banks relative to the baseline.

In order to estimate these foregone costs, the FDIC relies on estimates from declarations submitted by acquirer and issuer banks to the courts during litigation concerning the IFPA.²² Based on these declarations, the FDIC estimates that: (1) acquirer

²¹ Call Reports, December 31, 2025. Banks with positive balances for Merchant Credit Card Sales - Acquiring Bank (MCRCDACQ) are assumed to be acquirer banks. Banks with positive balances for domestic deposits are assumed to be issuer banks.

²² See Declaration of Mark C. Williams ¶¶ 22 & 15, *Ill. Bankers Ass’n v. Raoul*, No. 24-cv-07307 (N.D. Ill. Aug. 21, 2024) (Decl. M. Williams); Declaration of Christopher Conrad ¶¶ 22 & 19, *Ill. Bankers Ass’n v. Raoul*, No. 24-cv-07307 (N.D. Ill. Aug. 21, 2024) (Decl. C. Conrad); and Declaration of Hope M. Garrett ¶ 16, *Ill. Bankers Ass’n v. Raoul*, No. 24-cv-07307 (N.D. Ill. Aug. 21, 2024) (Decl. H. Garrett).

banks that fully operate their own systems would incur \$16 million per bank to update their systems; and (2) acquirer banks that partially operate their own systems would incur \$8 million per bank to update. For acquirer banks that do not operate any of their own systems, the FDIC assumes that system update costs will be absorbed by core payment service providers.²³ Based on Call Report data as of December 31, 2025, the FDIC estimates three acquirer State banks fully operate their own payment systems, and five partially operate their own payment systems, with the remaining 103 State banks fully outsourcing these operations.²⁴

Issuer banks also would face costs to update their systems, which the FDIC estimates (based on the same declarations) at \$25 million per issuer bank that fully operates its own systems, \$12.5 million per issuer bank that partially operates its own systems, \$45,000 per issuer bank that does not operate its own systems and offers both credit and debit cards, and \$22,500 per issuer bank that does not operate its own systems and offers only debit cards. Of the estimated 3,183 issuer State banks, 516 banks issue both credit and debit cards and 2,667 banks issue only debit cards.²⁵ For those State banks that issue both credit and debit cards, three fully operate their own payment systems and five partially operate their own payment systems, with the remainder fully outsourcing their systems. The resulting total upgrade cost, combined for issuer banks and acquirer banks, is therefore estimated at \$308 million.²⁶

²³ These costs could be passed on to acquirer banks over time, but the FDIC does not have sufficient information to estimate how or when these costs would be passed on.

²⁴ The FDIC identified State banks with in-house payment systems by reviewing institutions within the FDIC's Large Bank Supervision program and from the list of top 20 FDIC-supervised merchant acquirers reported in the former RMS Quarterly Risk Book. Banks in this group were categorized as fully operating, partially operating, or outsourcing their payment systems based on confidential supervisory information. It is possible that State banks other than those reviewed have in-house payment systems.

²⁵ Call Reports, December 31, 2025. State banks with non-zero credit card loans are assumed to issue credit cards, and State banks with non-zero domestic deposits are assumed to issue debit cards. There were no affected State banks with non-zero credit card loans and zero domestic deposits.

²⁶ $(3 \times \$16 \text{ million}) + (5 \times \$8 \text{ million}) + (3 \times \$25 \text{ million}) + (5 \times \$1.25 \text{ million}) + (508 \times \$45 \text{ thousand}) + (2667 \times \$22.5 \text{ thousand}) = \$308,368,000$.

In addition to system upgrade costs, State banks would incur costs if merchants elect to submit tax documentation manually to acquirer or issuer banks. The IFPA requires manual processing of this documentation to determine what portion of the interchange fees must be rebated to merchants, and these costs are likely to scale with volume of transactions. One large acquirer bank with a total credit card sales volume of approximately \$2.379 trillion in 2025 estimated manual documentation processing costs of up to \$50 million annually, or a unit cost of about 2.1 cents per thousand dollars of transactions.²⁷ Across the 111 acquirer State banks affected by the proposed rule, the total credit card sales volume in 2025 was approximately \$305.4 billion, which would result in total annual costs to these banks of \$6.4 million under the IFPA at the same unit cost.^{28,29}

The FDIC also estimated manual tax documentation processing costs to comply with the IFPA for issuer State banks. One large issuer bank with credit card balances of approximately \$215.9 billion estimated that it would require at least 100 analysts to manually process tax documentation, which the FDIC translates to a cost of \$4.5 million per year, or a unit cost of approximately 2.1 cents per thousand dollars in transactions.³⁰ Across the 3,183 issuer banks affected by the proposed rule, total credit card balances as of December 2025 were approximately \$12.5 billion, which would result in estimated annual costs of about \$261,000 under the IFPA at the same unit cost.^{31,32}

Summing the potential foregone compliance costs for both issuer banks and acquirer banks, the proposed rule's total estimated quantifiable benefits would be approximately \$308 million in one-time benefits and \$6.7 million in ongoing annual benefits.³³ This implies annualized benefits over a five-year horizon of \$77 million at a 7

²⁷ Decl. M. Williams, *supra*, ¶ 22.

²⁸ Call Reports, December 31, 2025.

²⁹ $\$305,413,825,000 \times 0.000021 = \$6,413,690$

³⁰ Decl. C. Conrad, *supra*, ¶ 22.

³¹ Call Reports, December 31, 2025.

³² $\$12,529,233,000 \times 0.000021 = \$263,113$.

³³ Ongoing annual benefits of $\$6,413,690 + \$263,113 = \$6,676,804$.

percent discount rate and \$72 million at a 3 percent discount rate. These costs would be avoided under the proposed rule because State banks would have parity with national banks for which the IFPA has been determined to be preempted.

Quantifiable Expected Transfers

If the IFPA were to take effect and apply to State banks, as is assumed under the baseline, issuer State banks would experience a decrease in interchange fee revenue for amounts that represent taxes and gratuities. However, because the lost interchange fee revenue also represents decreased costs from the perspective of merchants, who pay those fees, the FDIC considers this a transfer rather than a cost or benefit to the economy. The total amount of the transfer is comprised of four amounts, each estimated below: (1) revenue from credit card interchange fees on sales tax; (2) revenue from debit card interchange fees on sales tax; (3) revenue from credit card interchange fees on gratuities; and (4) revenue from debit card interchange fees on gratuities.

To estimate these amounts for credit card purchases, the FDIC used publicly available aggregate FR Y-14M data from the Federal Reserve, adjusted to reflect that the proposed rule would only apply to a subset of banks. According to the FR Y-14M data, credit card purchases through large banks in 2025 in the United States totaled \$3.72 trillion.³⁴ This is scaled to the total market for credit card purchases based on the reported share of credit card balances of four-fifths of total U.S. bank card balances from the Federal Reserve Bank of Philadelphia, yielding \$4.65 trillion.^{35,36} Assuming Illinois's share of U.S. Gross Domestic Product, 3.9 percent in 2025, is equal to its share of credit card purchases, the FDIC estimates credit card purchases in Illinois at about \$181.4

³⁴ Federal Reserve Bank of Philadelphia, Large Bank Consumer Credit Card Balances: Total Purchase Volume, <https://fred.stlouisfed.org/series/RCCCBPURCHASETOT>, July 30, 2026.

³⁵ Federal Reserve Bank of Philadelphia, FR Y-14M Data, <https://www.philadelphiafed.org/surveys-and-data/large-bank-credit-card-and-mortgage-data>, July 30, 2026.

³⁶ \$3.72 trillion x 1.25 = \$4.65 trillion.

billion per year.^{37,38} The State banks affected by the proposed rule carried an aggregate of \$12.5 billion in credit card balances in December 2025, or approximately 0.98 percent of the \$1.28 trillion in credit card debt held by households in December 2025.³⁹ Multiplying 0.98 percent by the estimated \$181.4 billion in credit card purchases in Illinois yields annual estimated Illinois credit card purchases of \$1.78 billion at the affected State banks.⁴⁰ The FDIC assumes that Illinois's sales tax of 6.25 percent applies to all purchases and estimates interchange fees for credit card purchases of 2 percent of the transaction amount, resulting in an estimated annual transfer of \$2.22 million of revenue on interchange fees for taxes on credit card purchases under the baseline scenario.^{41,42}

Assuming a ratio of debit card purchases to credit card purchases of 82 percent, total annual debit card purchases in Illinois at affected banks are estimated at \$1.46 billion.⁴³ Applying the 6.25 percent sales tax and an interchange fee of 0.05 percent of the transaction amount results in a total estimated annual transfer of \$45,000 of revenue on interchange fees for taxes on debit card purchases.⁴⁴

To estimate the transfer of revenue created by prohibiting interchange fees on gratuities, the FDIC uses total reported income in Illinois from occupations associated with tips, such as food services, waiters and waitresses, bartenders, and taxi drivers, reported at \$4.24 billion in May 2025.⁴⁵ The FDIC assumes that approximately 55 percent of this income is from tips and that 85 percent of those tips are paid via a payment card, with 55 percent of card tips paid by credit cards and 45 percent paid by

³⁷ See U.S. Bureau of Economic Analysis (BEA), SQGDP1 State Quarterly Gross Domestic Product Summary (accessed July 30, 2026) (indicating Illinois's share of the current United States dollar Gross Domestic Product in 2025 is 3.9 percent).

³⁸ \$4.65 trillion x 0.039 = \$181.35 billion.

³⁹ Call Reports, December 31, 2025 and Federal Reserve Bank of New York Consumer Credit Panel.

⁴⁰ \$181.4 billion x 0.00977 = \$1.771 billion.

⁴¹ See 35 ILCS 105/1 to 105/22. This estimate does not account for the local and excise taxes that are also subject to the IFPA.

⁴² \$1.771 billion x 0.0625 x 0.02 = \$2.214 million.

⁴³ \$1.771 billion x 0.82 = \$1.452 billion.

⁴⁴ \$1.452 billion x 0.0625 x 0.0005 = \$45,382.

⁴⁵ Bureau of Labor Statistics, May 2025 State Occupational Employment and Wage Estimates, <https://data.bls.gov/oes/#/area/1700000/2025>.

debit cards (based on the ratio used above). Affected State banks are assumed to have a 0.98 percent share of these transactions, as calculated above. This calculation yields estimates of \$1.1 million in credit card tips and \$873,000 in debit card tips processed by the affected State banks.⁴⁶ Assuming interchange fees of 2 percent of the transaction amount for credit cards and 0.05 percent of the transaction amount for debit cards yields a total annual transfer of \$21,000 for credit card tips and \$437 for debit card tips for the affected State banks.⁴⁷

Summing these four figures together yields an estimated annual total of \$2.28 million in transfers between merchants and affected banks under the baseline scenario if the IFPA applies to State banks.⁴⁸ The proposed rule would eliminate this transfer. And as noted, this is but one example of the potential disruption caused by the absence of this proposal.

VI. Request for Comment

The FDIC seeks comment on all aspects of the proposed rule. The FDIC also invites comment specifically on the following:

- Are there any other alternatives to the proposed rule, consistent with the FDIC’s policy goals described above, that should be considered?
- Section 24(j) of the FDI Act, by its terms, governs the application of “[t]he laws of a host State, including laws regarding community reinvestment, consumer protection, fair lending, and establishment of intrastate branches.” This broad language includes a variety of host State laws. Would the proposed rule, which implements section 24(j) of the FDI Act, affect settled applications of specific types of host State laws to out-of-State State banks in a way that may have

⁴⁶ $\$4.24 \text{ billion} \times 0.55 \times 0.85 \times 0.00977 \times 0.55 = \1.065 million . $\$4.24 \text{ billion} \times 0.55 \times 0.85 \times 0.00977 \times 0.45 = \$871,474$.

⁴⁷ $\$1.065 \text{ million} \times 0.02 = \$21,300$. $\$871,474 \times 0.005 = \436 .

⁴⁸ $\$2.214 \text{ million} + \$45,382 + \$21,300 + \$436 = \$2,281,118$.

unintended consequences? If so, please provide examples.

- As described above, section 27 of the FDI Act and the implementing regulations in part 331 govern the interest rates State banks are permitted to charge with respect to their loans, and, consistent with the Riegle-Neal Act's provisions, the proposed rule would not affect the application of these provisions to State banks. Should the FDIC make any changes to the proposed rule to better reflect this? If so, why?

VII. Administrative Law Matters

Regulatory Review

Executive Order 12866 directs agencies to assess the costs and benefits of available regulatory alternatives and, if regulation is necessary, to select regulatory approaches that maximize net benefits. This proposed rule was drafted and reviewed in accordance with Executive Order 12866. Within OMB, the Office of Information and Regulatory Affairs (OIRA) has determined that this rulemaking is a “significant regulatory action” under section 3(f)(1) of Executive Order 12866. Accordingly, the draft rule was submitted to OIRA for review.

As noted in other sections of the **SUPPLEMENTARY INFORMATION** of this document, the FDIC has assessed the costs and benefits of this rulemaking and has made a reasoned determination that the benefits of this rulemaking justify its costs. Executive Order 14192, titled “Unleashing Prosperity Through Deregulation,” was issued on January 31, 2025. Section 3(a) of Executive Order 14192 requires an agency, unless prohibited by law, to identify at least ten existing regulations to be repealed when the agency publicly proposes for notice and comment or otherwise promulgates a new regulation. In furtherance of this standard, section 3(c) of Executive Order 14192 requires that the new incremental costs associated with new regulations shall, to the extent permitted by law, be offset by the elimination of existing costs associated with at least ten

prior regulations. This proposed rule, if finalized as proposed, is expected to be a deregulatory action under Executive Order 14192.

Paperwork Reduction Act

This notice of proposed rulemaking has been reviewed for compliance with the Paperwork Reduction Act of 1995 (PRA) (44 U.S.C. 3501 *et seq.*). In accordance with the PRA, the FDIC may not conduct or sponsor, and an organization is not required to respond to, an information collection unless the information collection displays a currently valid Office of Management and Budget (OMB) control number. The FDIC has reviewed the notice of proposed rulemaking and determined that it would not introduce new information collection requirements pursuant to the PRA.

Regulatory Flexibility Act

The Regulatory Flexibility Act (RFA) generally requires an agency, in connection with a proposed rule, to prepare and make available for public comment an initial regulatory flexibility analysis that describes the impact of the proposed rule on small entities.⁴⁹ However, an initial regulatory flexibility analysis is not required if the agency certifies that the proposed rule will not, if promulgated, have a significant economic impact on a substantial number of small entities.

The Small Business Administration (SBA) has defined “small entities” to include banking organizations with total assets of less than or equal to \$850 million.⁵⁰ Generally, the FDIC considers a significant economic impact to be a quantified effect in excess of 5 percent of total annual salaries and benefits or 2.5 percent of total noninterest expenses.

⁴⁹ 5 U.S.C. 601 *et seq.*

⁵⁰ The SBA defines a small banking organization as having \$850 million or less in assets, where an organization's “assets are determined by averaging the assets reported on its four quarterly financial statements for the preceding year.” See 13 CFR 121.201 (as amended by 87 FR 69118, effective Dec. 19, 2022). In its determination, the “SBA counts the receipts, employees, or other measure of size of the concern whose size is at issue and all of its domestic and foreign affiliates.” See 13 CFR 121.103. Following these regulations, the FDIC uses an insured depository institution's affiliated and acquired assets, averaged over the preceding four quarters, to determine whether the insured depository institution is “small” for the purposes of RFA.

The FDIC believes that effects in excess of one or more of these thresholds typically represent significant economic impacts for FDIC-supervised institutions.

The FDIC believes that the proposed rule will not have a significant economic impact on a substantial number of small entities. In particular, the proposed rule of construction would not affect the interest rates State banks are permitted to charge with respect to any of their loans, which are governed by section 27 of the FDI Act as previously discussed.⁵¹ The precise effects of the proposed rule are subject to uncertainty and may vary based upon changes to State laws and the actions of other regulators that the FDIC cannot reasonably anticipate. Therefore, the FDIC is presenting an Initial Regulatory Flexibility Act Analysis in this section. The analysis below focuses on the IFPA and assumes it will become effective for State banks in July 2027.

Reasons Why This Action is Being Considered

Recent litigation involving an Illinois law concerning payment card transactions has created uncertainty as to the application of the laws of States to State-chartered banks which offer services outside their home State. For a more detailed discussion of the reason for the proposed rule, please refer to Section I of this notice, “Policy Objectives” and Section II, “Background.”

Policy Objectives

This rulemaking would address legal uncertainty and recognize parity between out-of-State State banks and national banks doing business in another State without establishing a branch in such host State. For a more detailed discussion of the proposed rule’s policy objectives, please refer to Section I, “Policy Objectives.”

Legal Basis

Congress has granted the FDIC the authority to prescribe rules and regulations as it may deem necessary to carry out the provisions of the FDI Act, as well as to define

⁵¹ 12 U.S.C. 1831d.

terms as necessary to carry out the FDI Act, except to the extent that authority to issue such rules and regulations has been expressly and exclusively granted to another regulatory agency.⁵² For a more detailed discussion of the proposed rule’s legal basis, please refer to Section II, “Background,” Section III, “Statutory Authority,” and Section IV, “Proposed Rule.”

Description of the Rule

The proposed rule would provide that, for purposes of section 24(j) of the FDI Act, the laws of a host State apply to any branch in the host State of, or any services provided in the host State by, an out-of-State State bank to the same extent such State laws apply to a branch in the host State of, or any services provided in the host State by, an out-of-State national bank. Under the proposed rule, when host State laws do not apply to a national bank, those laws would similarly not apply to an out-of-State State bank providing services in the host State with or without a branch. For a more detailed description of the proposed rule, please refer to Section IV, “Proposed Rule.”

Small Entities Affected

As discussed above, as of the quarter ending December 31, 2025, there were 3,449 State banks. Of these State banks, 2,432 were small entities.⁵³ Of these small State banks, the FDIC has identified 2,236 small State banks that may be affected by the proposed rule upon the effective date of the IFPA.⁵⁴ Of the 2,236 affected small banks, the FDIC estimates that there are 42 acquirer banks (which process card payments on behalf of a merchant) and 2,234 issuer banks (which provide cards to consumers,

⁵² 12 U.S.C. 1819(a)(Tenth), 1820(g).

⁵³ Call Reports, December 31, 2025.

⁵⁴ Of the 2,432 small State banks, 193 are headquartered in Illinois and will be required to comply with the IFPA under both the baseline and under the proposed rule. A further three are not headquartered in Illinois but operate a branch in Illinois and will not be subject to the IFPA under both the baseline and under the proposed rule. Call Reports, December 31, 2025, and Summary of Deposits, June 30, 2025.

including debit cards); banks may be both acquirers and issuers.⁵⁵ These estimates are based on December 2025 data and may change before the IFPA takes effect in July 2027.

Effects on Small Entities

The proposed rule, if adopted, would primarily affect State banks and their customers. As discussed above, it has become more common in recent years for banks to serve their customers through non-branch channels such as online banking and mobile banking. Currently, the applicability of host State laws to these activities under Section 24(j) of the FDI Act is uncertain. Under the baseline, such uncertainty may impose costs on small State-chartered banks by either requiring establishment of a branch or depriving them of parity in the absence of a branch, limiting the availability of products and services to customers. For example, litigation involving the IFPA has created uncertainty that is expected to negatively affect small State banks and may result in substantial disruption and confusion for the merchants and consumers they serve once the law takes effect. This uncertainty creates a competitive imbalance between national banks and State banks that may incentivize State-chartered banks to convert to Federal charters under the baseline. By reducing this uncertainty, the proposed rule would benefit small State banks and their customers.

The precise effects of the proposed rule are subject to uncertainty and may vary based upon changes to State laws and the actions of other regulators that the FDIC cannot reasonably anticipate. The analysis below focuses on the IFPA and assumes it will become effective for small State banks in July 2027. The FDIC's estimates rely on available Call Report data, Summary of Deposits data, publicly available economic data, and estimates submitted to the courts by the parties to litigation concerning the IFPA. However, available regulatory data do not comprehensively identify all services that

⁵⁵ Call Reports, December 31, 2025. Banks are assumed to be acquirers if they have a non-zero amount of acquirer bank merchant credit card sales; banks are assumed to be issuers if they have a non-zero amount of domestic deposits (as they are assumed to issue at least debit cards).

small State banks provide in host States where they do not maintain physical branches, nor do they identify the location of payment card transactions, the tax and gratuity components of those transactions, or the operational arrangements used by banks and third-party service providers to process such transactions.

Under the baseline, both small acquirer banks and small issuer banks may expend significant resources to update their payment processing systems in order to be able to segregate the tax and gratuity portions of payment card transactions in Illinois and exempt these amounts from interchange fees. Under the proposed rule, small State banks would not be required to expend these resources because the IFPA has been determined to be preempted with respect to national banks. Accordingly, these foregone costs would be a benefit to small State banks relative to the baseline.

The FDIC estimates that none of the small acquirer or issuer banks operate their own payment systems. Upgrade costs are therefore estimated to be \$45,000 for banks which offer both credit and debit cards, and \$22,500 for banks which only offer debit cards.⁵⁶ The benefits accruing to small banks from foregoing these costs fall well under the threshold for a significant economic impact.

In addition to system upgrade costs, small State banks would incur costs if merchants elect to submit tax documentation manually to acquirer or processor banks. The IFPA requires manual processing of this documentation to determine what portion of the interchange fees must be rebated to merchants, and these costs are likely to scale with volume of transactions. As explained in the “Expected Effects” section above, the FDIC estimates manual documentation processing unit costs are about 2.1 cents per thousand dollars of transactions.⁵⁷ Across the 42 small acquirer State banks affected by the proposed rule, the total credit card sales volume in 2025 was approximately \$5.1 billion,

⁵⁶ Decl. H. Garrett, *supra*, ¶ 16.

⁵⁷ Decl. M. Williams, *supra* ¶ 22.

which would result in total combined annual costs to these banks of \$106,480 at the same unit cost, or \$2,535 on average per small acquirer bank.^{58,59}

The FDIC also estimates manual tax documentation processing costs to comply with the IFPA for issuing State banks of approximately 2.1 cents per thousand dollars in transactions, as explained in the “Expected Effects” section above. Across the 2,234 small issuer State banks affected by the proposed rule, total credit card balances in December 2025 were approximately \$8 million, which would result in estimated annual costs to these banks of \$167 at the same unit cost, or an average of less than one dollar per bank.^{60,61} Both processing costs would be small for small banks, so the benefit from foregoing them would not be significant.

Another potential effect on small State banks is foregone revenue from lost interchange fees on tax and gratuity portions of transaction amounts that are collected under the baseline. While it is not possible to calculate the exact effect for small banks, the overall size of the transfer for all affected banks combined is estimated to be \$2.27 million per year.⁶² Averaged across the 3,185 affected State banks, this would be \$713 per bank per year, again a negligible effect even for a small bank.⁶³

As previously discussed, the proposed rule would not affect the interest rates State banks are permitted to charge with respect to any of their loans, which are governed by section 27 of the FDI Act.⁶⁴

Reporting, Recordkeeping, and Other Compliance Requirements

The proposed rule will not pose reporting, recordkeeping and other compliance requirements on small, State banks.

⁵⁸ Call Reports, December 31, 2025.

⁵⁹ $5,070,491,000 \times 0.000021 = \$106,480$. $\$106,480/42 = \$2,535$.

⁶⁰ Call Reports, December 31, 2025.

⁶¹ $\$7.955 \text{ million} \times 0.000021 = \167 . $\$167/2234 = \0.075 .

⁶² See Section V, “Expected Effects” for this calculation.

⁶³ $\$2.27 \text{ million} / 3185 = \713 .

⁶⁴ 12 U.S.C. 1831d.

Other Federal Rules

The FDIC has not identified any likely duplication, overlap, and/or potential conflict between this proposed rule and any other Federal rule.

The FDC invites comments on all aspects of the supporting information provided in this RFA section, and in particular, whether the proposed rule would have any significant effects on small entities that the FDIC has not identified.

Riegle Community Development and Regulatory Improvement Act

Pursuant to section 302(a) of the Riegle Community Development and Regulatory Improvement Act of 1994 (RCDRIA),⁶⁵ in determining the effective date and administrative compliance requirements for new regulations that impose additional reporting, disclosure, or other requirements on IDIs, each Federal banking agency must consider, consistent with principles of safety and soundness and the public interest, any administrative burdens that such regulations would place on affected depository institutions, including small depository institutions, and customers of depository institutions, as well as the benefits of such regulations. In addition, section 302(b) of RCDRIA requires new regulations and amendments to regulations that impose additional reporting, disclosures, or other new requirements on insured depository institutions generally to take effect on the first day of a calendar quarter that begins on or after the date on which the regulations are published in final form.⁶⁶ The FDIC has reviewed the notice of proposed rulemaking and determined that it would not impose additional reporting, disclosure, or other requirements on IDIs pursuant to RCDRIA. The FDIC welcomes any comments on the application of RCDRIA.

Plain Language

Section 722 of the Gramm-Leach-Bliley Act⁶⁷ requires the Federal banking

⁶⁵ 12 U.S.C. 4802(a).

⁶⁶ 12 U.S.C. 4802(b).

⁶⁷ 12 U.S.C. 4809.

agencies to use plain language in all proposed and final rulemakings published in the *Federal Register* after January 1, 2000. The FDIC invites your comments on how to make this proposed rule easier to understand, including the following:

- Has the FDIC organized the material to suit your needs? If not, how could the proposed rule be more clearly stated?
- Are the requirements in the proposed rule clearly stated? If not, how could the proposed rule be more clearly stated?
- Does the proposed rule contain language or jargon that is not clear? If so, which language requires clarification?
- Would a different format (grouping and order of sections, use of headings, paragraphing) make the proposed rule easier to understand? If so, what changes to the format would make the proposed rule easier to understand?
- What else could the FDIC do to make the proposed rule easier to understand?

List of Subjects in 12 CFR Part 331

Banks, banking, deposits, foreign banking, interest rates.

For the reasons set out in the preamble, the Federal Deposit Insurance Corporation's Board of Directors proposes to amend 12 CFR part 331 as follows:

PART 331—FEDERAL INTEREST RATE AUTHORITY

1. The authority citation for part 331 is revised to read as follows:

Authority: 12 U.S.C. 1819(a)(Tenth), 1820(g), 1831a(j), 1831(d).

2. In § 331.2, revise the definition of "Host State" to read as follows:

§ 331.2 Definitions.

* * * * *

Host State means a State, other than the home State of a State bank, in which the State bank maintains a branch or provides services.

* * * * *

3. Revise § 331.3 to read as follows:

§ 331.3 Application of host State law.

For purposes of section 24(j) of the Federal Deposit Insurance Act, the laws of a host State, including laws regarding community reinvestment, consumer protection, fair lending, and establishment of intrastate branches, shall apply to any branch in the host State of, or any services provided in the host State by, an out-of-State State bank to the same extent as such State laws apply to a branch in the host State of, or any services provided in the host State by, an out-of-State national bank. To the extent a host State's law is inapplicable to an out-of-State State bank in such host State pursuant to section 24(j) of the Federal Deposit Insurance Act, the home State's law shall apply.

Federal Deposit Insurance Corporation.

By order of the Board of Directors.

Dated at Washington, DC, on September 17, 2026.

Hanoi Veras,

Executive Secretary.

BILLING CODE: 6714-01-P

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