One Mission. Community Banks.

September 18, 2025

Artificial Intelligence in Financial Services: The Community Bank Perspective

The Independent Community Bankers of America (ICBA), representing nearly 50,000 community bank locations nationwide, appreciates the opportunity to provide this statement for the record for today's House Financial Services Subcommittee on Digital Assets, Financial Technology, and Artificial Intelligence hearing titled "Unlocking the Next Generation of AI in the U.S. Financial System for Consumers, Businesses, and Competitiveness."

Community banks recognize the transformative potential of artificial intelligence (AI) to enhance financial services, particularly in areas such as lending, fraud detection, compliance, and customer service. However, as AI adoption accelerates, it is critical that the legal and regulatory frameworks evolve in a way that supports innovation while safeguarding consumer protections, financial stability, and the viability of community banks.

ICBA supports H.R. 4801, the *Unleashing AI Innovation in Financial Services Act,* and thanks Chairman Hill for introducing this important legislation. Regulatory sandboxes would allow banks to innovate and test AI products and services without the concern of regulatory scrutiny. These controlled environments would enable community banks to explore emerging technologies while maintaining compliance with existing laws, fostering responsible innovation. By reducing regulatory uncertainty, sandboxes can help level the playing field for community banks and accelerate the adoption of AI tools that enhance customer service, risk management, and operational efficiency.

ICBA urges policymakers to ensure that community banks are included in all AI-related policy discussions to ensure that resulting legislation is proportionate, fair, and practical for institutions of all sizes.

Tailored Legislation, Regulation and Definitions

ICBA recommends that any legislation avoid a monolithic definition of AI. Instead, definitions should be tailored to specific use cases and business lines. Overly broad definitions risk subjecting routine technologies to unnecessary scrutiny and could discourage innovation. Furthermore, any legislation should require the regulators to apply a risk-based approach with higher-risk applications receiving more oversight while routine uses are subject to lighter touch.

Community Bank Use Cases and Opportunities

Community banks have long used AI in meaningful ways: back-office automation to detect fraud and streamline operations; chatbots and virtual assistants to improve customer service while maintaining personal relationships; AI-driven underwriting to expand access to credit, especially for underserved communities; cybersecurity tools to detect and prevent sophisticated threats; and Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) compliance through enhanced transaction monitoring and risk assessments.

These innovations offer significant benefits, including cost savings, improved efficiency, and expanded financial inclusion. However, they must be implemented with care to ensure compliance with fair lending, privacy, and consumer protection laws.

Barriers for Small Institutions

Community banks face unique challenges in adopting AI, including limited in-house technical expertise and reliance on third-party vendors. Examiner scrutiny of third-party relationships can be a barrier to innovation, especially when partnering with non-traditional providers. ICBA recommends legislation include safe harbors for banks using industry standard AI tools and encourages regulators to support innovation through pilot programs, advisory opinions, and clear supervisory expectations. H.R. 4801 should reduce barriers for banks to develop innovative use cases for AI.

Fair Lending and Explainability

AI-based underwriting must comply with fair lending laws, including the Equal Credit Opportunity Act's (ECOA) adverse action notice requirements. AI models must be designed for "explainability" so that decisions and predictions can be understood by humans. Explainability helps to prevent discrimination.

ICBA supports the use of tested and validated models and recommends that regulators provide safe harbors for institutions using AI models that meet established standards. This would encourage adoption while maintaining consumer protections.

Alternative Data and Credit Access

AI enables the use of alternative data, such as cash flow, rental payments, and utility bills to assess creditworthiness. This can expand access to credit for the 65 million unbanked and underbanked Americans. ICBA recommends a trial program that grants a presumption of compliance with the Fair Credit Reporting Act (FCRA) and ECOA when positive credit decisions are based on alternative data.

Consumer Protection

AI systems used for disclosures or customer interactions must be carefully monitored to avoid unfair, deceptive, or abusive practices. Human oversight is essential to ensure accuracy, timeliness, and compliance with evolving regulations. Chatbots and natural language systems must be designed to provide clear, accurate, and responsive information.

Data Privacy and Security

Community banks are committed to protecting customer data in compliance with GLBA requirements. AI systems must be designed with privacy in mind, and banks must conduct thorough risk assessments before deployment. Transparency and accountability will become increasingly important as AI adoption grows.

Combatting AI-Enabled Fraud

AI presents both opportunities and risks in fraud prevention. While it can enhance detection, it also enables more sophisticated attacks. Community banks must implement robust authentication systems and continuously assess vulnerabilities, especially in biometric technologies.

AML/CFT Compliance

AI can improve AML/CFT compliance through real-time monitoring and automated reporting. However, banks must ensure data quality and maintain control over third-party systems. ICBA urges regulators to clarify expectations and support responsible adoption through guidance and safe harbors.

Closing

Thank you again for convening this hearing. ICBA believes that AI has the potential to help community banks meet regulatory burdens and expand access to credit. However, thoughtful regulation is essential to ensure that innovation does not come at the expense of consumer protection or financial stability. We look forward to working with Congress and regulators to ensure that community banks can safely and effectively leverage AI technologies.