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MEMORANDUM

TO: House Committee on Commerce and Economic Development
Senate Committee on Finance

FROM: Department of Financial Regulation

SUBJECT: Status Report on Section 17 of Act No. 23 of 2025 (Suspicious Transaction Holds)

DATE: November 15, 2025

Section 17 of Act 23 of 2025, *An act relating to the regulation of insurance products and services*, requires the Department of Financial Regulation (DFR) to study regulatory models that would allow a financial institution to take measures to protect account holders from fraudulent transactions and to recommend a model for legislative consideration. The study shall include a review of regulatory models enacted or proposed in other jurisdictions.

Act 23 requires DFR to submit a status report on preliminary findings and recommendations to the Chairs of the House Committee on Commerce and Economic Development and the Senate Committee on Finance no later than November 15, 2025, with a final report in draft form due to both committees no later than January 15, 2026. This memo serves as the required status report.

DFR held two virtual stakeholder meetings, in June and October, to hear from the organizations specified in the statute: the Vermont Bankers Association, the Association of Vermont Credit Unions, AARP Vermont, the Office of the Attorney General, and Vermont Legal Aid. DFR also consulted with the Office of Adult Protective Services (APS) within the Agency of Human Services. DFR continues to conduct research and incorporate stakeholder feedback, and is on track to submit a final report on or before the January 15, 2026 deadline.

Preliminary Findings and Recommendations

Banks and credit unions in Vermont routinely encounter situations where a customer is coerced into a potentially suspicious transaction as the result of scams or fraud. Once a customer has executed a transaction and subsequently recognizes that they have been defrauded, in most cases it is too late to regain lost funds. Many potentially suspicious transactions involve in-person activity, such as cash withdrawals or transfers, where frontline staff have the ability to intervene if given the tools to pause a transaction. DFR continues to explore how similar authority would effectively apply to online, mobile, and other types of remote transactions.

The ability to place a hold on suspicious transactions gives the customer time to reflect and step away from the urgency of a perpetrator's demands, and if necessary, gives the financial institution and other parties, such as law enforcement and APS, time to investigate. However, in some cases, transaction holds may also be viewed by customers as hostile acts, and in response, customers may close an account or attempt to execute a transaction by other means.

In general, DFR recommends that the General Assembly adopt a statute that provides banks and credit unions with the general discretion to voluntarily place a hold on a potentially suspicious transaction, along with appropriate liability protection. The criteria for placing such a hold should be consistent with statutes in other jurisdictions that have acted in this area, and should be flexible, based on the nature of the individual's behavior and the nature of the transaction. While general patterns of behavior may suggest potentially suspicious activity, scam and fraud practices change regularly. An overly prescriptive approach may not be able to keep up with emerging threats.

The following are preliminary recommendations for the specific items (1-8) in Act 23:

1. Financial institutions subject to the proposed model

A suspicious transaction hold law should apply to all banks and credit unions operating in Vermont, including Vermont-chartered, out-of-state, and national institutions. DFR continues to explore whether other types of financial institutions should be subject to similar requirements, if they are not already.

2. Whether specific account holders should receive heightened protection

DFR recommends that suspicious transaction holds apply to any customer or transaction meeting the institution's discretionary criteria, regardless of age or other status. Institutions must also comply with existing APS statutes to ensure vulnerable adults are protected.

3. Notification and consultation requirements

DFR does not recommend imposing any new requirements for notification or consultation with third parties connected to an account, such as joint account holders, fiduciaries, or trusted contacts. DFR supports banks and credit unions offering the option to add a trusted contact—an individual the customer knows, but who does not have access or control over the account—recognizing that it is a complex individual decision. In case of a suspicious transaction, the bank or credit union may then notify the trusted contact about the transaction. If the customer does provide a trusted contact, the institution should annually revisit whether the trusted contact is up to date.

4. Reasonable time periods for transaction holds

DFR recommends that a reasonable transaction hold last a minimum of 15 days, to be extended up to 30 days upon request by law enforcement or APS. There may be circumstances in which a 30-day hold is insufficient to complete an investigation, which may warrant an extended hold. For cases under referral to APS, the hold should be sufficiently long enough to complete an assessment.

5. Notification to DFR, law enforcement, and other third parties

DFR recommends notification of specific suspicious transaction holds to law enforcement, with referral to APS when appropriate in the case of a vulnerable adult. DFR also recommends anonymous reporting of holds to appropriate state authorities. Anonymous reporting should only be used for monitoring and tracking purposes, and should not be burdensome on the

financial institution. To the extent possible, summaries of anonymous reporting should be made available to financial institutions, policymakers, and the public.

6. Continued account holder access to funds

DFR recommends that a suspicious transaction hold only apply to suspicious transactions, and not to the remaining balance in an individual's account or any other accounts at that institution.

7. Immunity from civil liability

DFR recommends that financial institutions and employees placing suspicious transaction holds receive some form of civil immunity, which will encourage voluntary reporting. However, DFR defers to the General Assembly to determine the particular categories and levels of immunity, and any applicable exemptions. (For example, in some states, financial institutions and their employees are immune from criminal, civil, and administrative liability.) Immunity provisions should not conflict with DFR's existing direct enforcement authority over chartered institutions.

8. Other provisions

DFR recommends periodic training requirements for financial institution employees to recognize potentially suspicious transactions and their options and obligations to resolve them. DFR also recommends continued outreach and coordination between banks, credit unions, and organizations outside of the financial industry so that they may better identify, prevent, and resolve suspicious activity.

We look forward to continuing our work on this topic, and presenting final analysis and recommendations to you in the final report.