

Committee of Ways and Means

“Reclaiming ‘Forgotten’ Fraudulent Pandemic Unemployment Funds Frozen by Banks.”

Introduction

This written testimony is separated into two sections.

- The oral testimony will be read at the hearing. Content was limited to fit the five-minute time limit.
- Supplemental information and Endnotes are used to cite sources or provide additional elaboration on concepts that may be beneficial to the committee members. They will not be read.

Oral Testimony

Thank you, Subcommittee Chair LaHood, ranking member Danny Davis and members of the committee. I greatly appreciate the opportunity to present today as part of this panel.

Today, I will provide a brief background on myself, set the context of this funds recovery opportunity, and make several recommendations on how to proceed.

My goal is to help this committee streamline the recovery of money held at financial institutions (FI) associated with Covid-era Unemployment Fraud.

I am Dan Williams, a resident of Ohio and the business owner of Origin Payments. I have spent a 25 plus year career at the complex intersection of money and technology. Specifically:

- I designed solutions focused on automation and secure money movement for State agencies. This included unemployment filing and child support collections.
- I have direct experience preventing card fraud. I managed fraud prevention products for a portfolio of over 65 million debit cards.
- I spent 15 years as a senior leader at two different financial institutions. I have designed governmentally compliant products and am in tune with the fiduciary responsibilities of banks.

The Covid pandemic had a massive impact on the economy and led to governmental action to expand Unemployment programs. Unfortunately, fraud is like water against a damn. It's always there pressuring the system and if there is any opening it will flow through with velocity. Fraudsters applied for benefits at an unprecedented scale¹. Agencies responded to stop fraud but not before significant funds were disbursed to fraudsters, often in the form of prepaid cards.

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Fast forward to today and there are still significant dollars held at financial institutions associated with these Prepaid cards². This is summarized in multiple OIG Alert memorandums³ issued ahead of this hearing and is a potential billion-dollar recovery opportunity. In August of 2025, the state of Maryland recovered \$520 Million⁴.

Funds recovery success is dependent on how widely the funds are spread across the financial system, how many times they may have moved, and the probability of false positives. This leads to varied cost/benefit return making it best to separate potential fraud into narrow groupings or tranches⁵.

The reason I make this point is that by fraud recovery standards, the tranche in front of us has very favorable characteristics for success.

- First, the OIG identified funds are associated with prepaid cards. This means that these funds, instead of being deposited across thousands of financial institutions, are concentrated with the few qualified FIs that service Unemployment Insurance. Prepaid cards use large accounts⁶ held at the card issuing bank.
- Second, the funds identified are dormant. This is evidenced by the amount of money that has already been escheated⁷, which only happens when there is no activity for a multi-year period.

We are fundamentally presented with an opportunity to get big savings that benefit state and federal agencies by asking a few financial institutions for the money back.

The complicated factor; however, is the varied stakeholders involved. Financial Institutions, Federal Regulators, SWAs, Card Holders, and Investigators are all different; however, they all want **finality**.

To achieve finality, my recommendations are as follows:

- Banks returning funds will wish to be indemnified against claims from cardholders and regulatory fines associated with Reg E⁸. Banks should be held harmless when honoring the government’s request to return the funds.
- Data needs to be shared across stakeholders. Banks will require data from state agencies around the specific cards involved so the account can be fully reconciled.⁹
- A process for handling a potential claimant question should be defined. This is to ensure that the fear of impacting one claimant does not prevent recovery of large-scale fraud losses and that the effort is ultimately one that serves the impacted constituency.

The pitfalls to avoid are:

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- Not acting will cause remaining funds to be escheated in the name of the claimant, whether legitimate or not, to local unclaimed property. This would make recovery significantly more complicated by adding new parties and potentially make the funds again accessible to fraudsters. This should be avoided.
- As soon as fraud recovery becomes too broad; it becomes unmanageable because the edge cases multiply. First, keep legislative action focused on the identified prepaid recovery, then separately address the lesser escheated funds as they will be more complicated to return.

Technology is touching every aspect of society and fraud is changing at a rapid rate because of it. As we solve this past fraud, we must also prepare for a future that is different. Continual investment and an adaptive framework are necessary ongoing topics.

Fraud is a societal problem hurting honest beneficiaries. It impacts red, blue, and purple states. It requires collaboration between federal, state, and local authorities. It is certainly a domain where teamwork wins out over partisanship and polarization.

The opinions expressed in this statement are entirely my own and do not represent any prior employer. I will do my best to answer any questions about this oral testimony or the written submission as succinctly and directly as possible. Thank you.

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Supplemental Information and Endnotes

¹ Why Unemployment Fraud Surged During the Pandemic

<https://www.oversight.gov/sites/default/files/documents/reports/2024-04/Why-Unemployment-Insurance-Fraud-Surged-During-Pandemic.pdf>

² Understanding Prepaid Cards

- Prepaid cards are one way a claimant may receive benefits, with the alternatives being direct deposits to an existing account, or a mailed check.
- Prepaid cards support the unbanked because they do not require the claimant to have a bank account already. The funds are in a central account associated with the card and are spent by the claimant using the card issued to them. The unbanked population is estimated at 4.2%. Additionally, the “underbanked” population is estimated at 14.2%. <https://www.fdic.gov/household-survey>.
- Fraudsters will target any source of funds but tend to gravitate to the “path of least resistance.” They may focus on prepaid as a preferred disbursement method because prepaid cards do not require the fraudster to have established a bank account. Banks are required to conduct “Know your customer” security checks when opening depository accounts.

³ OIG press release and alert memorandum regarding UI funds recovery issued within the last 45 days

https://www.oig.dol.gov/public/Press%20Releases/DOL%20OIG_Press%20Release_Alert%20Memos_20260211.pdf

https://www.oig.dol.gov/public/Press%20Releases/PUBLIC%20ALERT%20MEMO_Financial%20Institution%201.pdf

https://www.oig.dol.gov/public/Press%20Releases/PUBLIC%20ALERT%20MEMO_Financial%20Institution%202.pdf

⁴ Link to the DOL press release regarding Maryland’s funds recovery from August 2025

<https://www.dol.gov/newsroom/releases/eta/eta20250814-0#%3A~%3Atext=WASHINGTON%20%E2%80%93%20The%20U.S.%20Department%20of%20Cduring%20the%20COVID-19%20pandemic>

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⁵ Separating potential fraud into groupings and the concept of diminishing returns due to false positives

- When managing a portfolio of 65 million cards, we used the probability of fraud to decide where to invest our time and money for fraud prevention.
- Certain situations were very likely fraud (a 99% probability). An example of this would be a single physical debit card being used in Cincinnati, Ohio in person to buy gas and within seconds that same physical card being used in Brooklyn, NYC to buy gas. We knew that one of the transactions must be from a counterfeit card. We would then temporarily block the card and contact the card holder.
- In other situations, we would be less certain of fraud (say a 75% probability). An example here might be an overseas transaction for a person who travels or a series of online transactions. We may leave the card open and monitor the card in this situation.
- The probability of fraud was informed by “false positives” which were the times we suspected fraud but later found out it was not fraud. In our two examples above, 1 out of 100 could be legitimate in the first example whereas 1 in 4 could be legitimate in the second example.
- This is why one should not generalize fraud when acting. It is best to group fraud into like categories. If the evidence is strong, it is cost efficient to act swiftly. If the probability is less certain and the false positives are high, then it becomes much more costly and ineffective. There is a natural diminishing return.

⁶ Understanding Prepaid Card Account Structures

- The balances associated with prepaid cards are maintained by the bank that issued the card.
- Funds are held in one large account at the card issuing bank. The account holds funds for all the cards and the prepaid processing system updates balances at the card level as transactions authorize (i.e. when someone swipes a card) and settle (when money moves from bank-to-bank the next day). The central account may have different industry jargon associated with it (FBO account, omnibus account, processing account, etc.), but all these terms still denote a central account representing many cardholders. The centralization of funds makes funds recovery comparatively easier.

⁷ Understanding Escheatment

- Escheatment is a critical concept for this discussion because it is the default path the funds will take if there is no other action.
- Financial Institutions are heavily regulated and have fiduciary responsibilities. No matter what, they cannot keep people’s money indefinitely nor ever spend it as their own.

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- Escheatment laws vary by state and require the money associated with dormant accounts to be transferred by the bank to state unclaimed property after a designated multiyear period (typically 3-5 years). This may be to the state of the last known address of the account holder or where the bank is domiciled depending on information available.
- The SEC’s overview of escheatment is here: <https://www.investor.gov/introduction-investing/investing-basics/glossary/escheatment-financial-institutions>
- In the case of prepaid when there is a central account, funds may be returned to the funding entity when requested.
- The banks may not give the money to some other entity not titled to the account. (For example, the bank would not give me money in my neighbor’s account if I asked.)

⁸ Regulation E and Consumer Protections

- Regulation E grants consumer cardholder rights and allows them to dispute transactions
- Fraudsters will take advantage of Regulation E by spending the money on a card fraudulently obtained and then contact the bank issuing the card to dispute that transaction was not them. The bank may then have to credit the account back and absorb the fraud loss. This puts the bank in the middle of tough decisions; either credit the account back because the card holder is honest or do not credit the account back because they believe the card holder is dishonest and risk regulatory penalties.
- Bank of America was fined by the CFPB for its handling of fraud rules tied to unemployment. (Provided only as an example of complexity and competing pressures.)
 - <https://www.consumerfinance.gov/about-us/newsroom/federal-regulators-fine-bank-of-america-225-million-over-botched-disbursement-of-state-unemployment-benefits-at-height-of-pandemic/>
- FDIC information about Regulation E
 - <https://www.fdic.gov/consumers/consumer/news/october2018.html>

⁹ Reconciliation

- Reconciliation is the daily processes that banks go through to ensure accurate balances in accounts.
- Data is required to ensure all individual card balances and the transactions in the account are accurate and can be reported upon.