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The Honorable French Hill
Chairman
Financial Services Committee
United States House of Representatives
Washington, D.C. 20515

The Honorable Maxine Waters
Ranking Member
Financial Services Committee
United States House of Representatives
Washington, DC 20515

Dear Chairman Hill and Ranking Member Waters:

I am writing on behalf of the Defense Credit Union Council in regard to the Committee's hearing, *"Navigating the Digital Payments Ecosystem: Examining a Federal Framework for Payment Stablecoins and Consequences of a U.S. Central Bank Digital Currency,"* to respectfully share the perspective of our financial institutions and the consumers we serve. We appreciate the Committee's leadership in examining these critical issues. In this letter, we wish to voice support for a prudent federal framework for payment stablecoins that maintains regulatory parity, financial stability, interoperability, and community banking vitality. We also express strong concern about the prospect of a U.S. Central Bank Digital Currency (CBDC), which we believe poses substantial risks – including financial disintermediation, threats to privacy, cybersecurity vulnerabilities, and unclear benefits – that far outweigh any potential gains. Additionally, we offer our views on H.J.Res. 64 and the essential role of Congress in overseeing major changes to our nation's payments and currency systems. DCUC represents credit unions stateside and overseas serving military and veteran communities as well as their families, encompassing over 40 million members and having over $525 billion in assets.

Federal Framework for Payment Stablecoins: We recognize the innovative potential of well-regulated stablecoins to enhance payments speed and efficiency. However, any federal framework for payment stablecoin issuance must be carefully designed to safeguard the financial system and consumers. We urge the Committee to ensure that stablecoin legislation adheres to the following key principles:

- **Regulatory Parity and Consistent Oversight:** Stablecoin issuers and related payment providers should be subject to equivalent regulatory and supervisory standards as traditional depository institutions when performing bank-like functions. The principle of "same activity, same risk, same regulation" is critical to prevent regulatory arbitrage. Without consistent standards, stablecoins issued by loosely regulated non-bank entities could introduce undue risk that might spill over into the broader financial system. A federal framework should establish a strong regulatory floor that applies to all stablecoin issuers, including any state-chartered entities, to avoid a race to the bottom in oversight.
- **Financial Stability and Robust Safeguards:** Maintaining financial stability is paramount. Stablecoin arrangements must be safe and resilient. We recommend requiring issuers to hold high-quality, liquid reserve assets equal to 100% of outstanding stablecoin value, with clear standards for liquidity and asset quality. Strong prudential requirements (capital, liquidity, risk management) and consolidated supervision of stablecoin issuers will help prevent runs or sudden losses of confidence that could have systemic consequences. Proper safeguards will protect investors and consumers and ensure that stablecoins do not become a destabilizing force in times of market stress. Importantly, stablecoins should be readily redeemable one-to-one for U.S. dollars to maintain public trust in their value.

- **Interoperability and Integration:** To fully realize the benefits of digital payments, federally regulated stablecoins should be interoperable with each other and with existing payment networks. We encourage the development of technical and legal standards that enable different stablecoin platforms and traditional financial institutions to connect seamlessly. Interoperability will prevent the fragmentation of the digital payments landscape into isolated silos and ensure that consumers and businesses can transact across platforms with ease. A stablecoin used as "digital cash" should be as universally accepted and transferable as today's bank notes or bank deposits. By promoting common standards and access, Congress can foster a competitive payments ecosystem where innovation thrives without locking users into incompatible networks.
- **Protection of Community-Based Financial Institutions:** Community banks and credit unions are the cornerstones of financial services in towns and neighborhoods across America. Any stablecoin framework must protect these community-based institutions from unintended negative consequences. We urge that new entrants in the payments arena not be given unfair advantages or access privileges that put local banks at a disadvantage. For example, if a non-bank stablecoin issuer were granted direct access to Federal Reserve payment systems (such as a master account) or other federal programs without being held to the same rigorous oversight as insured depository institutions, it would create an uneven playing field and could heighten systemic risk. Likewise, the Committee should be cautious about permitting large technology or commercial firms to dominate stablecoin issuance, as this could blur the line between banking and commerce and concentrate excessive economic power in a few private hands. Community banks and credit unions rely on deposits to fund local lending – mortgages, small business loans, agricultural loans – that drive our local economies. If substantial deposits migrate to privately issued digital dollars outside the banking system, the ability of community lenders to provide credit in their communities will diminish. We therefore encourage a framework that includes community financial institutions as key participants and preserves their role in financial intermediation. In short, stablecoin innovation should not come at the expense of the relationship banking model that has long underpinned economic prosperity in our communities.

In summary, a federal regulatory framework for payment stablecoins is needed and welcome – but it must promote innovation **and** uphold the safety and fairness of our financial system. We believe the principles above (level regulatory parity, strong safeguards, interoperability, and community bank protection) will help strike that balance. With these in place, stablecoins could safely complement our payment system rather than disrupt it. We appreciate the Committee's work on the draft Stablecoin Transparency and Accountability for a Better Ledger Economy (STABLE) Act of 2025 and urge careful attention to these issues as legislation moves forward.

Concerns Regarding a U.S. Central Bank Digital Currency: While we see promise in responsible private-sector digital assets, we have deep concerns about the creation of a U.S. Central Bank Digital Currency. A retail CBDC—essentially a digital dollar issued directly by the Federal Reserve to the general public—would be an unprecedented innovation with far-reaching consequences. After careful consideration, we believe the risks and unintended consequences of a retail CBDC outweigh any theoretical benefits. Our chief concerns are as follows:

- **Financial Disintermediation and Credit Disruption:** A retail CBDC could fundamentally alter the role of private-sector financial institutions in our economy. If individuals and businesses are able to hold deposits directly with the Federal Reserve in the form of CBDC wallets or accounts, banks and credit unions would likely face significant outflows of deposits, especially in times of financial uncertainty. This loss of deposits – the primary source of funding that institutions use to lend to consumers and small businesses – could severely constrain the availability of credit. Community banks in particular, which depend on local deposits to support loans in their communities, would be at risk of disintermediation. In effect, a CBDC could siphon funds away from the banking system, forcing banks to curtail lending or seek more expensive and volatile sources of funding. The end result would be reduced access to credit, especially in rural areas and underserved communities, and higher borrowing costs for families and entrepreneurs. Such an outcome would directly undermine the economic well-being of consumers and small businesses. We note that even in stable times, a widely adopted CBDC could permanently shrink deposits at community institutions, reshaping our financial system in ways that diminish the important role of local lenders. This disintermediation risk is not just a theoretical worry – it is a predictable outcome that many experts and industry leaders have flagged. For instance, the President of the American Bankers Association recently cautioned that the risks of a U.S. CBDC – **"which would disintermediate banking and limit banks' ability to lend and support economic growth"** – *"far outweigh any theoretical benefits"*. We strongly urge Congress to heed these warnings and avoid introducing a mechanism that could needlessly destabilize our banking system and economy.

- **Privacy and Civil Liberties:** We have grave concerns about the implications of a CBDC for financial privacy. By design, a CBDC could give the government (via the central bank or other agencies) an unprecedented window into the day-to-day transactions of Americans. Every digital dollar spent could be traceable, leaving a detailed trail of personal and business activities. Such concentration of data on citizen transactions raises the specter of unwarranted surveillance. Even with the best of intentions, a centrally managed digital currency platform could be misused to monitor individuals' purchasing habits or to restrict transactions deemed undesirable by authorities. Recent commentary has highlighted that an "all-seeing, government-run" CBDC would hand **"unelected federal bureaucrats an unprecedented amount of power to invade Americans' financial privacy"**. The Constitution protects the right to privacy, and we must not erode that right in the digital realm. Unlike cash, which offers anonymity, a CBDC inherently risks becoming a tool of surveillance. This is not a concern limited to hypothetical or foreign regimes; it is a central issue for our own free society. The American people should not have to choose between embracing payments innovation and surrendering their financial privacy. We ask that Congress be extremely cautious about any proposal that could turn the Fed into a monitor of retail transactions. In our view, no convincing case has been made that the potential benefits of a CBDC (if any) would justify this encroachment on privacy and civil liberties.
- **Cybersecurity and Single Point of Failure Risk:** Consolidating a large share of payments into a central bank digital currency platform would create a new high-value target for cyber attackers. Today's financial system, while not immune to cyber threats, at least has a degree of decentralization — thousands of banks and credit unions manage their own ledgers and payment systems, providing a measure of redundancy. A CBDC, by contrast, could centralize much of that activity onto one platform or a small number of infrastructure hubs. Experts have warned that such centralization would **"amplify ... cyber vulnerabilities and increase the surface area of attack"** by introducing new single points of failure. A successful cyber breach or disruption of the CBDC system could have crippling effects on the entire economy, potentially freezing digital transactions nationwide. Even routine operational outages or software bugs in a CBDC network could impact millions of users simultaneously, given the lack of alternative pathways. We are also concerned about the immense cost and challenge for the Federal Reserve to build and continuously protect an IT system of such scale against ever-evolving cyber threats. It is worth noting that many high-profile cyber incidents (from the Equifax breach to payment system hacks) highlight how even sophisticated systems can be compromised. Shifting retail payments onto a government-run digital platform could concentrate risk in ways that our current, distributed banking architecture avoids. In short, a retail CBDC could inadvertently make our financial system less resilient to cyber threats.
- **Lack of Clear Benefits Over Existing Systems:** Finally, we question what unique benefits a retail CBDC would provide that are not already becoming available through improvements in existing payment systems or through properly regulated private innovations. The United States is already modernizing its payments infrastructure – notably, the Federal Reserve's **FedNow** service was launched in 2023 to enable instant real-time payments between banks. Private-sector payment systems and fintech innovations are also delivering ever-faster, more convenient digital payment options to consumers. Payment stablecoins themselves, under an appropriate regulatory framework, could further enhance speed and efficiency for certain use cases (such as 24/7 cross-border remittances) without the need for a government-issued token. In this context, a CBDC appears to be a solution in search of a problem. Even a Federal Reserve Governor has cautioned that we must evaluate *"whether and how the payment system would be improved beyond what instant payment services will achieve"* with a CBDC, and ask what **"current frictions exist or may emerge in the payment system that only a CBDC can solve"**. So far, no such irreplaceable friction has been identified in the U.S. context. Proponents have suggested goals like greater financial inclusion or maintaining the dollar's global status; however, it is unclear that a CBDC is necessary to achieve these aims. For inclusion, strengthening support for community banks and credit unions (which already serve millions of underbanked Americans with affordable financial services) would yield more tangible results than creating a new federal digital currency. For global competitiveness, the dollar's primacy rests on the strength of the U.S. economy and trust in our institutions – a CBDC by itself would not augment those fundamentals. In short, the theoretical benefits of a CBDC remain vague at best, while the risks it poses to our proven financial structure are very real. We therefore do not see a compelling case for rushing into a U.S. CBDC for retail payments.

Stance on H.J.Res. 64 and Need for Congressional Oversight: We strongly support rigorous Congressional oversight and approval for any major changes to U.S. currency and payment systems, especially something as consequential as a retail CBDC. In this regard, we commend the inclusion of **H.J.Res. 64** in the Committee's considerations. This resolution, which would disapprove of the Consumer Financial Protection Bureau's rule on "larger participants" in digital payment markets, is an important assertion of Congress's role in scrutinizing significant regulatory actions in the digital payments space. We believe this action sends a clear message that elected representatives must weigh in on critical policy decisions rather than leaving them solely to regulatory agencies. By the same token, we firmly believe that **no retail CBDC should be implemented without explicit authorization from Congress.** The issuance of currency is a core sovereign function entrusted to Congress by the Constitution, and a central bank digital currency intended for everyday use by Americans would effectively represent a new form of U.S. currency. It is therefore essential that Congress fully debate and set the terms for any such endeavor. We are encouraged those legislative efforts like H.J.Res.64 and the previously proposed **"CBDC Anti-Surveillance State Act"** (to prohibit the Federal Reserve from issuing a retail CBDC absent Congressional approval) recognize the need to restrain unilateral executive or central bank action in this area. In our view, if there is ever to be a U.S. CBDC, it must only come about as the product of careful consideration by Congress, with all appropriate safeguards for privacy, financial stability, and the continued role of credit providers written into law. Until and unless that happens, we support a moratorium or prohibition on the development of a retail CBDC. This measured approach will ensure that we do not inadvertently undermine our financial system or the public's trust through an experiment that has not been democratically vetted.

In conclusion, we respectfully urge the Committee to continue approaching the digital payments ecosystem with great care and prudent oversight. The decisions made now will have lasting impacts on America's financial landscape. A balanced policy framework can harness the benefits of payment innovation – such as the efficiencies of stablecoins – while avoiding perilous missteps – such as an unwarranted foray into a central bank digital currency. By fortifying the regulatory foundation for stablecoins, Congress can promote a safer, more inclusive digital payments future that bolsters our banks and credit unions rather than bypassing them. By insisting on rigorous scrutiny and approval before any CBDC could move forward, Congress will protect consumers' privacy, preserve the vitality of our community financial institutions, and maintain the stability that is the hallmark of the U.S. dollar. We thank you for your leadership in holding this hearing and for inviting a wide range of perspectives. The undersigned financial institutions stand ready to assist you as you navigate these complex issues.

Thank you for considering our views. We would welcome the opportunity to further discuss these matters or to provide additional information as needed. Indeed, we are prepared to engage in continued dialogue and to offer testimony in any future hearings or working groups on these topics. Our goal is to work constructively with you to ensure that U.S. payments innovation proceeds on solid footing and that consumers and communities remain well protected.

We appreciate the committee's leadership on these issues and welcome the opportunity to work collaboratively on solutions that align with the needs of credit union members, particularly those serving in our nation's military.

Should you or your team have any questions or desire additional information, please do not hesitate to contact me at 202.557.8528 or by email at jstverak@dcuc.org.

Sincerely,

Jason Stverak
Chief Advocacy Officer
DCUC

CC: HFSC Members