DCUC
DEFENSE CREDIT UNION COUNCIL

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The Honorable Tim Scott, Chairman
Committee on Banking, Housing, and Urban Affairs
520 Hart Senate Office Building
Washington, DC 20510

The Honorable Elizabeth Warren, Ranking Member
Committee on Banking, Housing, and Urban Affairs
309 Hart Senate Office Building
Washington, DC 20510

Dear Chairman Scott and Ranking Member Warren:

I am writing on behalf of the Defense Credit Union Council (DCUC), which represents over 200 defense and veterans focused credit unions with assets over $525 billion and serving over 40 million members (including servicemembers, veterans, and their families), to submit this letter for the record of this hearing with Federal Reserve Chair Jerome H. Powell. DCUC appreciates the Committee's attention to the issues at hand. America's credit unions – and defense credit unions in particular – play a crucial role in promoting financial readiness and access to affordable services for millions of Americans. As the Committee examines monetary policy and financial regulation with Chair Powell, we respectfully urge consideration of several key policy issues that directly impact credit unions' ability to serve their members and maintain a safe, sound financial system.

1. Regulation II (Interchange Fees): DCUC urges caution regarding **Regulation II**, the Federal Reserve's rule capping debit interchange fees for large issuers and governing payment card routing. Interchange revenue is vital for credit unions (particularly smaller institutions) to cover the costs of offering cutting-edge payment services, fraud protection, and convenient access that members expect. While credit unions under $10 billion in assets are exempt from the Fed's interchange cap, the realities of the marketplace mean **all** issuers, large and small, have felt the effects of downward pressure on interchange income since the Durbin Amendment's implementation. Past regulatory interventions in interchange have yielded unintended consequences for consumers – for example, after the initial debit interchange cap took effect, many institutions were forced to scale back free checking accounts and rewards programs, and low-income consumers experienced higher account fees as a result. We ask policymakers to heed this history. Proposals to further regulate interchange (such as expanding routing mandates to credit transactions via the so-called Credit Card Competition Act) would similarly disrupt the economics of card programs that consumers and military families rely on. DCUC strongly believes that a **balanced approach** is needed – one that recognizes the value interchange provides in funding fraud prevention and member benefits. We encourage the Federal Reserve to avoid changes to Regulation II that could disproportionately harm community-based issuers and their ability to serve consumers. Instead, any payments system reforms should ensure **all** participants (from the largest banks to the smallest credit unions) can compete on a level playing field, and that costs are not unfairly shifted onto everyday Americans. Protecting credit unions' interchange income ultimately means protecting our members from higher fees and reduced services. We therefore urge the Committee and the Federal Reserve to resist calls for onerous interchange restrictions that would weaken smaller financial institutions and deliver dubious gains to merchants, and we applaud recent legislative efforts that have recognized the harm such measures could inflict.

2. FedNow (Instant Payments): DCUC and its member credit unions applaud the Federal Reserve for launching the **FedNow Service**, a 24/7 real-time payments network that has the potential to benefit consumers and financial institutions of all sizes. The introduction of FedNow in 2023 marked a major milestone in modernizing America's payments infrastructure. We are pleased that many credit unions – including several defense credit unions – have already connected or are preparing to connect to FedNow in order to offer members instant access to funds and faster payment options. For military families and those in the defense community, real-time payments can be especially valuable: whether it's a deployed servicemember quickly sending money home in an emergency, or a veteran entrepreneur receiving immediate payment from a customer, the ability to transfer and receive funds instantly, around the clock, is a game-changer. FedNow's promise of **ubiquitous nationwide reach** for instant payments, regardless of an institution's size or geographic location, is a welcome development in ensuring rural, underserved, and on-base communities are not left behind as payments innovation progresses. We encourage the Federal Reserve to continue working closely with community-based institutions on FedNow's rollout – for example, by providing technical assistance and keeping participation costs affordable – so that credit unions and small banks can readily utilize the service. It is also important that the FedNow Service maintain strong resiliency and security features (as discussed further under cybersecurity below) given its critical role in the financial system. Furthermore, DCUC urges the Fed to coordinate with private-sector instant payment systems to seek **interoperability** and standardization where possible, which will maximize the utility of real-time payments for all Americans. In summary, DCUC supports FedNow as a tool to enhance financial access and efficiency, and we appreciate the Fed's efforts to ensure this new payments network is inclusive. We stand ready to help promote FedNow adoption among credit unions so that our members – including those serving our nation's military – can fully benefit from instant payments innovation.

3. CLF Access via Corporate Credit Unions: A robust emergency liquidity backstop is essential for the safety and soundness of the credit union system. For credit unions, the **Central Liquidity Facility (CLF)** administered by the NCUA is the equivalent of the Federal Reserve's Discount Window – a vital source of contingency loans in times of economic stress. During the early months of the COVID-19 pandemic, Congress wisely took steps to broaden CLF access. Temporary provisions enacted in 2020 allowed corporate credit unions to act as agent members of the CLF on behalf of hundreds of their member credit unions, greatly extending the reach of the CLF's liquidity protection. This expanded access was **critical**: it meant that even the smallest credit unions serving remote bases or local communities could quickly tap emergency liquidity if needed, without each having to join the CLF individually amidst a crisis. The CLF's enhanced capacity and reach during that period helped ensure credit unions continued lending confidently and meeting members' needs despite the economic turmoil. Unfortunately, those temporary measures (including the ability for corporates to facilitate CLF access for small credit unions) expired in 2022. We are now back to a situation where many credit unions – especially smaller ones – face barriers to CLF membership, leaving gaps in the system's liquidity backstop. DCUC strongly supports legislative and regulatory efforts to **permanently restore** corporate credit unions' role in the CLF. Allowing corporate credit unions to once again serve as agents for their members in the CLF would leverage the existing credit union network to bolster system-wide resilience.

In this regard, we respectfully pose the following question: **Would the Federal Reserve support legislative efforts to reinstate and permanently authorize corporate credit unions' ability to act as agents in the Central Liquidity Facility for their member credit unions, thereby strengthening the liquidity safety net for smaller institutions?** We believe that cooperation between the Federal Reserve and NCUA on this front – with Congress's support – would greatly enhance financial stability. Empowering corporate credit unions as gateways to the CLF is a **proven solution** (as demonstrated in 2020) that can ensure no credit union is left stranded from vital liquidity in times of need. DCUC urges the Committee to explore this issue and remove any unnecessary hurdles to emergency liquidity access for the credit union community.

4. Central Bank Digital Currency (CBDC): DCUC appreciates the Committee's thoughtful oversight of emerging financial technologies, including the concept of a U.S. **Central Bank Digital Currency**. While innovation in payments is important, we have serious **concerns about the potential issuance of a retail CBDC** (a digital dollar that would be held directly by the public as a liability of the Federal Reserve). In our view, the risks and unintended consequences of a retail CBDC outweigh any speculative benefits. Chief among our concerns is the risk of **financial disintermediation**. If American consumers and businesses were able to move their deposits out of community institutions and hold them in accounts or wallets at the Federal Reserve, credit unions (and community banks) would likely face significant outflows of the deposits that we use to fund loans to families, homebuyers, and small businesses. During times of financial stress, this dynamic could become acute – people might rush to move funds into a perceived "safe" central bank digital wallet, draining deposits from local lenders exactly when communities most need credit. Even in normal times, a widely available CBDC could siphon away deposits over time. The result would be a reduction in the lending capacity of credit unions and community banks, translating into **less access to credit** for consumers, higher borrowing costs, and a destabilizing shift of financial resources away from local economies. This disintermediation threat is not merely theoretical; it is a predictable outcome that many experts (across the financial industry and even within the Federal Reserve System itself) have noted in cautioning against a retail CBDC. DCUC is deeply concerned that introducing a government-run digital currency for general public use could **undermine the role of traditional financial intermediaries** that have long been the backbone of consumer and small business lending in this country.

Beyond the impact on credit and community lenders, a retail CBDC also raises profound **privacy and cybersecurity** issues. By design, a central bank digital currency could create an unprecedented aggregation of sensitive financial data. Every digital transaction might be recorded on a centralized ledger, potentially giving government authorities significantly greater visibility into citizens' day-to-day financial lives. **Strong privacy protections** would be essential, yet even the best-intended safeguards could erode over time under pressure to use data for law enforcement or other purposes. Such concerns cannot be taken lightly – Americans' right to financial privacy must not be jeopardized by a new technology. Additionally, consolidating payments into a single central infrastructure could present a **new high-value target for cyberattacks** or operational failures. The Federal Reserve and our financial institutions have made great strides in cybersecurity, but no system is immune. A CBDC network breach or disruption could have **crippling effects** on the economy if the digital currency became widely used – potentially freezing transactions for millions. Even routine software bugs in a CBDC platform could impact countless users simultaneously, given the lack of alternative payment channels in that scenario. We must be extremely cautious about creating a single point of failure in an era of sophisticated cyber threats. Lastly, we question whether a retail CBDC is even necessary or offers benefits beyond what the private sector and existing improvements are already accomplishing.

The United States is not standing still – we are **modernizing payments** through initiatives like the FedNow instant payment service and private-sector innovations including real-time payment networks and well-regulated stablecoins. These developments are delivering faster, more efficient digital payments within the existing two-tier banking system. In contrast, a CBDC could be a solution in search of a problem – an attempt to replicate functionalities that are, to a large extent, already being handled by emerging technology in the private sector. For example, proponents often cite financial inclusion or preserving the dollar's global status as reasons for a CBDC. We believe there are more direct and less risky ways to achieve those goals: supporting credit unions and community banks in reaching underserved populations, and fostering trust in the U.S. currency through sound economic policy. In short, DCUC does **not** see a compelling case for rushing into a U.S. retail CBDC. We support recent legislative efforts to require formal congressional authorization before the Fed could implement any kind of retail CBDC. We urge continued rigorous oversight and debate on this issue, to ensure that we do not inadvertently destabilize our financial system or encroach on Americans' privacy in the name of a theoretical technological innovation.

5. Federal Reserve Transparency: We believe that a **transparent Federal Reserve** is crucial for maintaining public confidence and ensuring accountability in our financial system. DCUC supports efforts to improve transparency at the Fed in ways that enhance oversight without compromising the Fed's independence in conducting monetary policy. In particular, greater openness in the Fed's regulatory, supervisory, and operational activities can help lawmakers and institutions like credit unions better understand the rationale behind decisions and adapt accordingly. For example, the Federal Reserve could provide more clarity around its supervisory expectations and rulemaking processes that affect community-based lenders – this would allow credit unions to prepare and comply more effectively, ultimately benefiting their members. We also encourage continued transparency in monetary policy deliberations and communications: Chair Powell's press conferences and the Fed's periodic reports to Congress (such as the Monetary Policy Report) are valuable practices that should be maintained and expanded upon. Furthermore, DCUC is supportive of measures that would subject the Federal Reserve to **reasonable Congressional oversight** of its budget and activities (for instance, regular public reporting on the operating expenses of the Federal Reserve Banks and Board of Governors, and on the usage of emergency lending facilities or the Discount Window, in aggregate terms). Such transparency can be achieved while still preserving the Fed's ability to make policy decisions free from political interference. Striking that balance – independence with accountability – will strengthen the credibility of the Federal Reserve. In summary, we urge the Fed to continue increasing its transparency wherever possible, and we commend the Committee's interest in monitoring the Fed's actions closely. An open and communicative Federal Reserve fosters better policy outcomes and allows stakeholders like credit unions to plan with certainty in serving their communities.

6. Credit Union Tax Exemption: We strongly urge Congress to **preserve the federal tax-exempt status of credit unions**, a policy that has been foundational to the credit union mission for decades. Credit unions are not-for-profit financial cooperatives, owned by their members and existing to serve those members' needs – a fundamentally different model from taxed, profit-driven banks. The tax exemption recognizes this difference and enables credit unions to return earnings to their members in the form of lower loan rates, higher savings yields, and low or no fees. The value of this structure far exceeds any corporate tax revenue that might be raised by taxing credit unions. Were credit unions taxed equivalently to banks, much of that member value would be lost – effectively amounting to a tax on 142 million consumers who count on their credit unions for affordable financial services. Moreover, the credit union tax status enables smaller and defense-oriented credit unions to remain viable and competitive, even as they serve challenging markets like rural areas, military bases, and low-income communities where profit margins are slim.

It is important to emphasize that the credit union tax exemption is not a special loophole or favor – it is a reflection of the unique role credit unions play. Every dollar not paid in federal taxes by a credit union is a dollar that, by design, is passed on to its member-owners in some tangible way. This structure has been consistently recognized and upheld by Congress because it works: it expands access to financial services and drives community development at a modest cost. DCUC and the entire credit union industry stand united in **strong opposition to any proposals that would threaten our not-for-profit tax status**. Such proposals, often pushed by banking industry critics, ignore the tremendous public benefit that credit unions provide. We thank this Committee for, thus far, rejecting past efforts to undermine the tax exemption, and we urge continued vigilance on this issue. Undermining credit unions' tax status would jeopardize our ability to serve those who need it most – including our nation's servicemembers and veterans who disproportionately rely on defense credit unions for support. In sum, preserving the credit union tax exemption is an investment in community finance, financial inclusion, and consumer choice that pays dividends far greater than its cost.

7. Opposing CRA Expansion to Credit Unions: DCUC respectfully but firmly opposes any move to subject credit unions to the requirements of the **Community Reinvestment Act (CRA)**, which historically has applied only to profit-making banks. While we share the underlying goal of CRA – ensuring that financial institutions meet the credit needs of all communities, including low- and moderate-income (LMI) areas – the fact is that credit unions are already **meeting and exceeding** that goal through our structure and mission, without being mandated by CRA. Credit unions were not part of the redlining problems that led to the CRA's enactment in 1977, and in the years since, they have consistently served LMI and underserved populations voluntarily as part of their DNA. Notably, more than **70% of credit union branches** are located in low- or moderate-income communities, filling crucial service gaps left in areas where many large banks have closed branches. Defense credit unions, in particular, often operate on military installations or in areas near bases, ensuring military families have access to fair and affordable financial services wherever they are stationed. Imposing CRA examination and compliance regimes on credit unions would be a classic case of "fixing" something that is not broken – and in the process, creating new burdens. Every hour and dollar a credit union must spend on CRA compliance paperwork is time and money **not** spent on serving members or developing new community programs. Moreover, credit unions are member-owned and operate under field-of-membership rules that inherently tie them to defined communities or groups (such as residents of a local area, employees of a certain employer, members of the Armed Forces, etc.). This built-in focus often ensures that credit union lending is **already targeted to the communities and populations** that CRA intends to reach. In essence, credit unions practice community reinvestment by virtue of who and what we are. Imposing additional, bank-style CRA regulations on credit unions would be redundant at best, and counterproductive at worst – potentially discouraging the very activities we want to encourage by layering on formalities and bureaucratic costs. DCUC urges lawmakers and regulators to **recognize the credit union difference** in this context. Rather than subject credit unions to bank-centric CRA rules, policymakers should celebrate and leverage the voluntary community commitment that credit unions demonstrate every day. Our recommendation is that Congress focus CRA modernization efforts on the institutions for which it was designed, and not extend it to credit unions, which have a clear record of serving underserved areas without the stick of regulation. We will continue to work closely with this Committee to find ways to expand access to financial services for all – but we maintain that extending CRA to credit unions is unnecessary and would ultimately harm our members by diverting resources away from service and towards compliance.

8. Cybersecurity and Financial Infrastructure Resilience: In today's environment of escalating cyber threats, **cybersecurity investment** is an essential priority for the financial sector. Credit unions, banks, and the Federal Reserve alike must continually strengthen their defenses against cyberattacks, data breaches, and systems disruptions. DCUC recognizes and appreciates the Federal Reserve's efforts to secure the payment systems (including Fedwire, ACH, and the new FedNow Service) and to communicate threats through channels like the Financial Services Information Sharing and Analysis Center (FS-ISAC). We urge continued vigilance and **investment in cybersecurity** at all levels – from the largest federal systems down to the smallest community institutions. Many credit unions, especially modest-sized ones serving military communities, have limited resources and personnel to dedicate to cybersecurity. Ensuring that these institutions can access tools, best practices, and support to harden their cyber defenses is a role where regulators and Congress can help. For example, DCUC would support federal initiatives that provide grants or technical assistance to community financial institutions specifically for cybersecurity enhancements and workforce development. Public-private partnerships are also crucial: improved information sharing about threats, and collaborative cybersecurity exercises involving regulators, core service providers, and credit unions can greatly improve readiness. Additionally, as the Fed continues to roll out advanced payment services like FedNow, we encourage a mindset of security-by-design – building robust fraud mitigation and cyber protections into these systems from the outset. A single successful attack on a real-time payments platform or a major credit union's database can have ripple effects on confidence in the financial system. Therefore, dedicating resources to **preventive security measures** is not only prudent, it is imperative. DCUC commits to working with our member credit unions to promote cybersecurity awareness and resilience. We ask that Congress and the Federal Reserve likewise continue to treat cybersecurity as a top priority and to consider the needs of smaller institutions in any new cybersecurity regulations or guidance. Protecting member data and ensuring the uninterrupted operation of payment networks are essential to financial stability – and ultimately, to national security as well. By investing in cybersecurity, we safeguard the hard-earned savings of our servicemembers, veterans, and all American consumers from those who would do harm.

9. Veterans Member Business Loan Act: Finally, DCUC strongly supports the **Veterans Member Business Loan Act**, and we urge Congress to advance this bipartisan, bicameral initiative (which has been introduced in both the House and Senate). This commonsense legislation would amend the Federal Credit Union Act to **exclude loans made to veteran-owned small businesses from the aggregate member business lending cap** that currently applies to credit unions. Under existing law, most credit unions face an arbitrary cap that limits member business loans to 12.25% of the credit union's total assets. This cap, unchanged for decades, severely restricts the ability of credit unions to extend capital to America's small businesses – including many startups and entrepreneurs in the military and veteran community – even when those loans are sound and in demand. America's veterans have bravely served our nation, and many return home with the skills and leadership to launch businesses of their own. They deserve access to affordable credit to turn their plans into reality. Defense credit unions and other credit unions are eager to lend to these veteran-owned enterprises, which in turn create jobs and strengthen our local economies. However, the outdated member business lending cap can force credit unions to turn qualified borrowers away once the cap is reached, or to scale back their small business lending programs altogether, to the detriment of economic opportunity. The Veterans Member Business Loan Act would smartly address this issue by carving out veteran-related small business loans from the cap calculation. In practical terms, this means a credit union could lend more freely to a veteran entrepreneur without worrying about bumping up against a regulatory ceiling that was never tailored for such circumstances. Importantly, this bill maintains safety and soundness: credit unions would still underwrite loans prudently and be subject to all the usual credit risk management expectations. The change simply removes an artificial barrier to serving a special category of borrowers who have earned our support.

DCUC views this bill as a **win-win** – it's pro-veteran, pro-small business, and pro-community development. We appreciate the bipartisan leadership behind it, and note that it aligns with the Department of Defense's broader goals of supporting servicemembers transitioning to civilian life. We ask that the Committee give favorable consideration to this legislation and help move it forward. Empowering credit unions to better meet the credit needs of veteran-owned businesses is not only the right thing to do for those who served, but it will also spur job creation and innovation in communities nationwide.

In closing, thank you for the opportunity to share the Defense Credit Union Council's perspective on these critical issues. Each of the nine topics discussed above – from interchange fees to cybersecurity – plays a part in shaping the environment in which credit unions operate and in determining how effectively we can serve our members. We are encouraged that the Committee is engaging with Federal Reserve leadership and other stakeholders to address these matters. DCUC and our member credit unions stand ready to work with you, Chairman Powell, and all policymakers to find solutions that strengthen our financial system while preserving the unique role of member-owned credit unions within it. We are **committed** to ensuring that America's servicemembers, veterans, and their families – as well as all consumers who rely on credit unions – continue to have access to safe, affordable, and fair financial services. We appreciate the Committee's leadership and oversight, and we urge you to consider the above recommendations as you move forward.

If you have any questions, please do not hesitate to email me at jstverak@dcuc.org or contact me via the phone at 202.557.8528.

Sincerely,

Jason Stverak
Chief Advocacy Officer
DCUC

CC: Members of the Senate Banking, Housing and Urban Affairs Committee