DCUC
DEFENSE CREDIT UNION COUNCIL

1627 Eye St, NW
Suite 935
Washington, DC 20006

202.734.5007
www.dcuc.org

Jason Stverak
Chief Advocacy Officer

October 31, 2024

The Honorable Chuck Schumer
Senate Majority Leader
322 Hart Senate Office Building
Washington, DC 20510

The Honorable Mitch McConnell
Senate Minority Leader
317 Russell Senate Office Building
Washington, DC 20510

Dear Senators Schumer and McConnell,

As we approach the upcoming lame-duck session of Congress, I am writing on behalf of the Defense Credit Union Council (DCUC) and our nearly 200 members and 40 million members of defense credit unions to outline our key legislative priorities. This period represents a critical time for us to address pressing issues that directly impact credit unions, particularly those serving our nation's military personnel, veterans, and their families. Our advocacy focuses on five primary areas:

Preventing the Passage of Interchange Legislation (Durbin-Marshall Proposal)
Preventing the Passage of Legislation to Allow Non-Member Share Insurance Coverage
Passing the Veterans Member Business Lending (MBL) Bill
Protecting the Credit Union Tax Status
Passing Permanent CLF Reform

Preventing the Passage of Interchange Legislation (Durbin-Marshall Proposal)

The Durbin-Marshall proposal seeks to cap and regulate interchange fees for credit cards, following the framework of the Durbin Amendment which placed limits on debit card interchange fees. While this may appear to offer short-term savings to merchants, it poses significant threats to credit unions and their ability to serve their members effectively, particularly in the military community.

Reasons to Oppose:

Loss of Revenue for Credit Unions: Interchange fees are critical to covering the costs of credit card services, including fraud prevention, cybersecurity, and providing rewards programs that benefit consumers. For defense credit unions, these revenues directly fund services for military families, including financial readiness programs and lower-cost credit options. Caps on these fees will reduce revenue streams, forcing credit unions to make difficult decisions about the services they can offer.

Potential for Increased Costs to Consumers: When debit card interchange fees were capped under the Durbin Amendment, there was little to no evidence of widespread consumer benefit. In fact, many financial institutions responded by increasing fees or reducing services to account for lost revenue. A similar outcome with credit card fees could lead to higher costs for military families who rely on credit unions for affordable financial services.

Impact on Fraud Prevention: Interchange fees help credit unions invest in sophisticated fraud detection and prevention systems. Lowering these fees could weaken these defenses, exposing military families to higher risks of fraud and data breaches, a particularly concerning prospect given their mobile lifestyles and frequent deployments.

We urge Congress to reject any effort to move forward with the Durbin-Marshall interchange legislation in the lame-duck session, preserving the ability of credit unions to continue offering high-quality, secure services to their members.

Preventing the Passage of Legislation to Allow Non-Member Share Insurance Coverage
There have been recent legislative proposals that would extend National Credit Union Share Insurance Fund (NCUSIF) coverage to non-member deposits. This change would dramatically alter the credit union model, which is built on member ownership and cooperative principles.

Reasons to Oppose:

Erosion of the Member-Owner Model: Credit unions are distinct from banks because they are not-for-profit financial cooperatives owned and controlled by their members. Extending share insurance to non-members undermines this fundamental principle, diluting the cooperative structure that ensures credit unions prioritize the needs of their members above profit motives.

Increased Risk to the NCUSIF: Expanding share insurance coverage to non-member deposits introduces additional risk to the NCUSIF, which could be forced to cover a broader base of insured deposits. This could strain the fund, increasing the likelihood of assessments on credit unions, thereby imposing additional financial burdens on member-owned institutions.

Unintended Consequences for Military Families: For defense credit unions, this change could complicate their mission of serving military members and their families, potentially diverting resources and focus away from their core membership. This could also reduce the quality of service or increase fees as credit unions face higher costs to cover the broader insurance base.

We strongly oppose any legislative efforts to expand share insurance coverage to non-members and urge Congress to protect the integrity of the credit union system.

Passing the Veterans Member Business Lending (MBL) Bill

The Veterans Member Business Lending Bill is a crucial piece of legislation that would exempt loans to veteran-owned businesses from the statutory cap on credit union business lending. This bill would provide much-needed support to veterans who seek to start or expand their businesses.

Reasons to Support:

Support for Veteran Entrepreneurs: Many veterans face significant challenges when transitioning from military service to civilian life. By exempting veteran-owned businesses from the MBL cap, credit unions can extend more affordable credit to these individuals, helping them establish businesses that not only support themselves but also contribute to local economies.

Alignment with Credit Union Mission: Defense credit unions are deeply committed to supporting veterans and military families. This bill allows credit unions to continue fulfilling that mission by extending credit to veteran entrepreneurs without being constrained by outdated lending limits.

Economic Benefits: Providing veteran-owned businesses with access to affordable credit can help stimulate job creation and economic growth, particularly in communities that are home to large military populations. This is a win-win for both veterans and the broader economy.
We urge Congress to prioritize and pass the Veterans MBL Bill during the lame-duck session to provide essential support to our nation's veterans.

Protecting the Credit Union Tax Status

The tax-exempt status of credit unions is a cornerstone of their ability to provide affordable financial services to their members. Despite periodic challenges, the tax-exempt status reflects credit unions' unique role as not-for-profit financial cooperatives that return earnings to their members in the form of lower rates, fewer fees, and improved services.

Reasons to Protect:

Military Families Benefit from Lower Costs: Defense credit unions return value to their members—largely military families—through lower interest rates on loans, higher interest on savings, and reduced fees. Removing the tax-exempt status would force credit unions to shift these costs to members, diminishing the financial advantage that military personnel currently enjoy.

Credit Unions Are Not-for-Profit Cooperatives: Unlike banks, which are for-profit institutions, credit unions operate solely for the benefit of their members. This cooperative structure justifies their tax-exempt status, as any income generated is reinvested in providing better services to members, rather than being distributed to shareholders.

Preserving Financial Inclusion: Credit unions often serve underserved populations, including low-income and rural communities. Stripping away the tax exemption would reduce the financial flexibility of credit unions, potentially limiting their ability to serve these vulnerable populations, including military families.

We urge Congress to uphold the credit union tax status during the lame-duck session to ensure that these member-focused institutions can continue to serve military families and underserved communities.

Congress should pass and make permanent Central Liquidity Facility (CLF) reform to ensure credit unions have a stable and reliable liquidity backstop, which is critical for the long-term resilience of the credit union system.

Reasons to Support:

Economic Stability for Credit Unions: The CLF provides credit unions with a vital safety net during periods of economic stress or unexpected liquidity challenges. By reforming and making the CLF permanent, credit unions can better manage liquidity risks, which is particularly important during times of financial uncertainty or economic downturns.

Support for Member Communities: Credit unions, especially those serving underserved and low-income populations, depend on the CLF to meet the needs of their members during crises. A permanent CLF ensures that credit unions can continue to lend to their members and maintain affordable financial services, even when facing liquidity constraints.

Preventing a Future Crisis: The COVID-19 pandemic demonstrated the importance of access to reliable liquidity for financial institutions. Reforming the CLF and making it permanent would help prevent a liquidity crisis within the credit union system, protecting members' deposits and preventing broader financial instability.

Fostering Growth and Competition: A permanent CLF would encourage credit union growth by providing the financial stability necessary for credit unions to expand their services and compete with larger financial institutions. This benefits consumers by fostering competition and improving access to affordable credit.

Strengthening Regulatory Flexibility: The CLF reform would grant the National Credit Union Administration (NCUA) greater flexibility in managing liquidity needs within the credit union system, enhancing the overall safety and soundness of the financial system while avoiding regulatory disruptions.

In short, permanent CLF reform would ensure that credit unions can continue to serve their members effectively, safeguard financial stability, and remain a competitive force in the financial services industry.

The lame-duck session presents Congress with an opportunity to protect the credit union industry and ensure that these not-for-profit financial institutions can continue to serve their members effectively, particularly those in the military community. Each of these priorities is essential to maintaining the health of the credit union system and supporting the financial readiness of our nation's military personnel and veterans.

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: Democratic and Republican Members of the US Senate