



DCUC
DEFENSE CREDIT UNION COUNCIL

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Anthony R. Hernandez
President/CEO

May 15, 2024

The Honorable Sherrod Brown
Chairman
Committee on Banking, Housing, and
Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Tim Scott
Ranking Member
Committee on Banking, Housing, and
Urban Affairs
United States Senate
Washington, DC 20510

Dear Chairman Brown and Ranking Member Scott:

On behalf of America's 182 Defense Credit Unions and over 37 million members, I am writing to share our views on your May 16, 2024, hearing entitled, ***Oversight of U.S. Financial Regulators: Accountability and Financial Stability***. The Defense Credit Union Council (DCUC) advocates for all defense and veteran related credit unions located around the world. Everything we do is in support of our military and veteran communities, no matter which credit union they join.

While, National Credit Union Administration Chairman Todd Harper will not be in attendance, we believe it is important to remind and to educate committee members on the important issues facing defense and veteran related credit unions across the United States and the globe during this important hearing.

Credit Card Late Fees

We are always concerned when unsuspecting consumers are subject to unfair and deceptive trade practices. In fact, defense credit unions have a rich history of providing safe financial programs to help make ends meet. This is why it is hard to support the CFPB new rule because of the adverse impacts to military families.

First, issuers will be forced to increase costs to offset delinquencies and charge offs. In fact, CFPB admits that the final late fee rule will cause harm to 74 percent of consumers who pay their credit cards on time. Higher principal and interest payments will increase the burden on all military consumers. This is in addition to current challenges such as food insecurity, spouse employment, and rising childcare costs. This is especially troubling since more military families rely on credit cards to make ends meet.

Second, CFPB's new rule makes it much more difficult for military leaders to establish good order and financial discipline. When credit card late fees are significantly reduced, there is less incentive to pay on time. Although military members are instructed to honor their credit card commitments DoD lack the mechanisms to prevent, intervene, or enforce standards until it is too late. Thus, it is hard to see how imposing government controls on late fees will improve financial discipline and responsibility. We fear CFPB's rule will make both worse.

Finally, while we are against absurdly high late fees, we believe the market can and will regulate what people can and are willing to pay. The credit card market is already competitive. Especially when marketing access for consumers with lower credit scores or little to no credit history Those who can offer better terms and access to credit cards will prevail. Military families are very perceptive when it comes to additional costs.

Serving Those Who Serve Our Country

Changes to the Current Credit Card Interchange Fee System

The “Credit Card Competition Act,” S. 1838, as proposed does nothing to reduce additional costs for consumers and harms working-class Americans. All it really does is secure another round of windfall profits for big box retailers and e-commerce giants.

According to a 2014 survey conducted by the Federal Reserve Bank of Richmond, there is a clear disconnect between what was promised during the 2010 Durbin Amendment and what actually occurred. In fact, the survey highlights a sizable portion of merchants who raised their prices or imposed restrictions on debit card use to avoid paying debit interchange fees.

Few merchants were found to have reduced prices or removed debit restrictions, even as debit costs decreased. Frankly, they were keeping the money for themselves. Additionally, no one is monitoring compliance with the original 2010 Durbin Amendment with respect to debit cards and as a result, consumers continue to lose. There is nothing to suggest that things will be any different for credit cards.

Worse, these groups have attempted to exploit military members, while targeting Medal of Honor recipients, Purple Heart recipients, former POWs, and Disabled Veterans among others in their flawed study proposal. Not only would savings be kept by the merchant, but this legislation would also increase the cost of basic banking services for consumers – hitting lower-income families the hardest. Our service members and veterans deserve better as they use credit cards for traveling home for the holidays, to buy their uniforms, and to establish a responsible credit history.

Not to mention, there is a security concern. If the Federal Government imposes price controls on interchange, credit card transactions will likely become less secure, using less reliable networks that do not provide a suite of rewards and protections for consumers. Instead of choosing the best option, retailers will likely route transactions over the cheapest networks – many of which have underinvested in their platforms with little concern for security innovations or consumer benefits.

In terms of military personnel’s financial readiness, nobody wants to deal with cash in a deployed environment. Additionally, in terms of personal security compromises, dealing with a security breach while in combat is a recipe for disaster. These all negatively impact the operational campaign and accomplishing already difficult and hazardous missions.

While the bill contains a cynical carve-out for smaller institutions, we all know that regulating the largest institutions and payment networks forces changes to the whole credit card payments ecosystem. As a result, finding the resources to pay for technology updates and re-issuance of cards becomes much more difficult for smaller institutions all while driving increases in fees everywhere else. This is exactly what happened with debit cards in 2010.

Finally, allowing merchants and retailers to select payment networks eliminates another stream of non-interest income used to keep basic financial services affordable for credit union members. Thus, free checking accounts, low fees, and interest rates, and financial wellness programs become less sustainable. At a time of rising inflation, this is not the time to raise the cost of financial services for our hardworking members.

Very few Americans want to read that Congress voted to increase merchant profits by exploiting Medal of Honor recipients, Purple Heart recipients, former POWs, and Disabled Veterans. Our nation’s credit unions understand that now more than ever we need to put our nation’s military and veterans first and reject the hollow call for new laws that would make basic financial services even more expensive for them as well as working-class Americans.

Overdraft Fees and NSF

The Defense Credit Union Council has always advocated for laws and regulations that protect the financial readiness of our servicemembers stationed across the country, overseas, and in harm's way. While we applaud efforts to eliminate Unfair, Deceptive, or Abusive Acts or Practices (UDAAP) at all levels of government. There are several innovative financial products and services that are meant to protect our servicemembers from harm. NSF fees can continue to be an effective program and there are always creative ways to implement a healthy overdraft program. However, burdensome regulations can stifle such innovation and eliminate worthy programs.

Eliminating such programs invites financial predators onto the scene. Defense credit unions work very hard to keep such predators off the installation and away from vulnerable servicemembers.

Veterans Member Business Lending

We support exempting business loans made to veterans from current credit union business lending caps. Our member credit unions, along with virtually every credit union in the United States, proudly serve many veterans in their communities.

Our member credit unions are uniquely positioned and structured to offer this kind of support given branch offices located on the installation and in the community. Plus, with every credit union across the United States having at least one veteran member, the nationwide impact would be far and wide. Our industry sees many of our veterans starting their own businesses as they transition out of the military. As part of our ethos in serving the underserved, we believe we can assist where other lenders refuse.

We also note that not much has changed since Federal Reserve Bank of New York and the U.S. Small Business Administration (SBA) published a study in 2018 titled, "Financing their Future: Veteran Entrepreneurs and Capital Access." The study found that military veteran business owners applied for more funding, submitted more loan applications per business, and yet were denied loans at a much higher rate than non-veteran business owners. Thus, it is imperative to keep our veterans borrowing from institutions they trust versus referring them elsewhere.

More can and should be done. Although the SBA's 7(a) program has grown in recent years, SBA guaranteed loans have benefited veterans far less than non-veterans (48% growth compared to 82%)- a point the author personally pointed out in on-the-record SBA meetings at the time. According to the study, veterans are denied for two reasons.

First, veterans are looking for "micro business loans" (under \$100,000). Commercial banks cannot underwrite these smaller loans in a cost-effective way and as such rarely offer these products. Additionally, no bank lobby narratives should ever prevent our veterans from wanting to succeed. Credit unions can and should be able to fill any gaps throughout the country.

Second, according to the report, underwriting veterans is complicated due to insufficient credit histories and little collateral. As any veteran knows, prolonged military service comes with unique stressors, such as frequent relocations and deployments which complicate the process.

Exempting business loans made to veterans from the artificial member business lending caps is a great government policy. It makes it much easier to extend business credit to America's Veteran-Owned Businesses. Plus, it sends a clear signal that our nation recognizes their impact in fostering entrepreneurship successfully building our economy.

Veterans Housing

We appreciate the Department of Veterans Affairs' (VA) efforts to implement and expand the loss mitigation options available under the VA Home Loans Guaranty program to help veteran borrowers avoid foreclosure. We share the same goal as the VA, to keep our veterans in their homes, but we believe it is evident that the VA Home Loan Program needs an upgrade. Additional resources and better loss mitigation tools in the program will help ensure veterans and servicemembers are not faulted during a time of financial hardship. We also believe that the VA Home Loan Guaranty Program would benefit from aligning its VA Minimum Property Requirements (MPRs) with the property condition standards established by Fannie Mae and Freddie Mac (the GSEs), the most widely used financing programs in the market, and the most common alternatives used by veterans.

Our members have advised us that the MPRs can make the VA program more difficult for prospective homebuyers without reducing risk to credit union lenders or their members. Credit unions have told us that MPRs can inject uncertainty into the homebuying process, delaying closings or stigmatizing VA financing-based offers as less desirable than those financed by conventional mortgage loans. Aligning the VA Home Loan Program with the property condition standards from conventional financing will better assist veterans in realizing their homeownership goals.

Defense credit unions are responsible lenders and have always offered quality products and services to keep predatory lending away from our military and veterans. This is why our member credit unions are dedicated to serving those who serve our country, and we are proud of their efforts.

If there are further questions regarding this matter, please contact me at (202) 734-5007 or at ahernandez@dcuc.org.

Sincerely,

A handwritten signature in blue ink, appearing to read "Anthony Hernandez". The signature is fluid and cursive, with the first name "Anthony" and last name "Hernandez" clearly distinguishable.

Anthony R. Hernandez, Colonel, USAF (Ret)