Credit Union National Association
CUNA

Jim Nussle
President & CEO

Phone: 202-508-6745
jnussle@cuna.coop

99 M Street SE
Suite 300
Washington, DC 20003-3799

September 26, 2019

The Honorable Stephen Lynch
Chairman
House Financial Services Committee
Task Force on Financial Technology
Washington, DC 20515

The Honorable French Hill
Ranking Member
House Financial Services Committee
Task Force on Financial Technology
Washington, DC 20515

Dear Chairman Lynch and Ranking Member Hill:

On behalf of America's credit unions, I am writing to express our views ahead of the hearing titled "The Future of Real-Time Payments." The Credit Union National Association (CUNA) represents America's credit unions and their 115 million members.

We thank the FinTech Task Force for holding this important hearing. Real-time payments will help credit unions provide necessary financial services to their members and improve member access to their funds. Credit unions exist to help their members, but cannot do it alone. Credit unions rely on networks of key vendors to provide service to members and no current vendor is more critical than the Federal Reserve.

Real-time payments will allow credit unions to better serve members by giving them greater access to their funds and more flexibility when using funds. Immediate access to funds by consumers is increasingly important to ensure that consumers' have necessary access to their money, especially for the middle- and lower-income consumers that comprise the majority of credit union membership. This is particularly demonstrated in "gig economy" settings with income arriving from multiple sources at irregular intervals, or workers with paychecks of varying amounts. Some gig works, such as Uber drivers, can choose to be paid after a day's work through an electronic transfer from Uber to the gig worker's account. Unfortunately, the current payment networks do not allow for immediate transfer of the funds, so the worker must wait additional time to receive funds. In this example, a real-time payments network would allow for immediate credit of the gig worker's account.

This problem of unavailable funds isn't only hurting those living paycheck to paycheck, but small business owners, too. In the book "The Unbanking of America," professor Lisa Servon shares stories of small contractors who chose to spend nearly two percent on check cashing fees to have immediate access to funds so that they aren't beholden to this outdated waiting period, allowing them to pay workers or buy stock to immediately start the next job. While that vast majority of American's do receive instant access to their paychecks through direct deposit by ACH, this system doesn't give instant access to pay cited in the example above. Although it is not a panacea, immediate funds access- as well as better transparency into funds outflow- will help reduce penalty fees incurred by consumers from financial institutions as well as billers, enabling better management of balances.

Real-time payments will simplify money management, which could lead to consumers better understanding their immediate financial situation. In a payments system where deposits and debits occur in real-time, a consumer's balance would truly reflect the funds that can be accessed and have to be spent at a given time. With real-time payments, there would be no funds in an account that are unavailable for use because they are on hold and no funds shown in an account are to be used for a payment such as a check or ACH that have not cleared or been transmitted. This real-time accounting would eliminate mistakes of thinking funds were available when they have been committed to payments and thus enable consumers to make the most informed daily financial decision possible.

Consumers are already becoming conditioned to making instant transfers and payments when using apps and specialized services. For example, consumers are using nonbank applications for person-to-person transactions, such as PayPal's Venmo and Square's Cash. These service apps allow for the transfer of funds in real-time at the app level but the transfer of funds to and from the user's financial institutions can take several days.

The immediacy of receiving credit for funds transferred along with other innovative features available when funds are transferred immediately has led to the enormous growth in these apps, which is also driving demand by consumers for immediate movement of funds no matter what the service or payment method. Some of this demand for immediate credit of funds has led to even more apps from FinTech companies that aim to find other ways to give consumers immediate access to funds either through loans or manners that act similarly to loans. Of course, since nothing in life is truly free, consumers bear the cost of trying to gain immediate access to funds before the system for doing so is completely developed.

As credit unions enter into partnerships with The Clearing House and Early Warning Systems, they remain concerned about the overlapping ownership of these entities. The nine banks that jointly own Early Warning Services are also among TCH's 25 owners. There are roughly 10,000 financial institutions in the US that do not have ownership stakes in the above entities. That's not to say that this ownership structure will prevent credit unions from providing services to members through RTP and Zelle, but it does show the vertical dominance of a few financial institutions, which is one reason why credit unions and community banks have pushed the Board of Governors of the Federal Reserve (Federal Reserve Board) so hard to develop a real-time payments system.

CUNA members strongly support the Federal Reserve Board's decision to develop and operate a real-time payments network that the Federal Reserve Board proposes to call FedNow. CUNA and our members have also supported TCH's efforts to develop their real-time payments network, which is called RTP. We think the efforts by the Federal Reserve Board and the TCH will help to bring real-time payments to consumers, who will benefit from the innovation and clarity of a faster payment system.

From a pure public policy standpoint having multiple real-time payments networks will ensure a more robust banking system. As the plumbing of the payments systems is essentially a utility, having multiple operators will help make the system more robust against a cyber-attack or other unforeseen technical glitches. Also, competition breeds innovation, and not just in product features but in other aspects such as the security and robustness of the system.

CUNA's members' primary concerns with relying only on the TCH are more prosaic. Although, TCH has worked well with CUNA and our member credit unions in developing RTP, doing so is clearly in their best interest. The 25 or so banks that own TCH can dominate real-time payments policy and operation if TCH is the sole operator of a real-time payments network. Although TCH has created an advisory committee for credit unions and community banks, community institutions have no ownership of TCH and no voice in the operation of TCH. Absent the Federal Reserve Board or another entity operating a real-time payments network, the more than 10,000 credit unions and community banks that are not owners of TCH would be beholden through the TCH to the whims of TCH's bank owners. Our members find this unacceptable and clearly it would be business suicide.

Why trust the Federal Reserve Board?

Luckily both the Federal Reserve Board and TCH's current payments offerings clearly demonstrate why the Federal Reserve Board is a trusted partner in the delivery of payments. Both TCH and the Federal Reserve Board provide automated clearing house (ACH) payments services to financial institutions. TCH provides ACH services for a small percentage of financial institutions while the Federal Reserve provides these vital services to the other 10,000 financial institutions. Through experience in working with the Federal Reserve and Federal Reserve's demonstrated capability in providing service to the wide variety of financial institutions that do not use TCH for ACH, CUNA members feel confident that the Federal Reserve has the infrastructure and capacity to provide services to more than 10,000 financial institutions. TCH has not demonstrated this capability through any current or past product or service.

We acknowledge that TCH has committed that they will operate RTP as a "utility" with uniform pricing for users regardless of whether the user is a TCH owner. Unfortunately, TCH backed off this pledge in a public document.

In that document TCH wrote that their commitment to charge uniform pricing is conditioned on TCH being the sole operator of the U.S. real-time payments network. We can only take TCH for their word in a written document. Further, we believe that this statement sheds light on the impermanency of a promise from TCH, especially from a vendor owned by competitors with a strong business incentive to work with all stakeholders while doing so suits their needs and likely only to last until competitors are vanquished.

We have heard concerns that the Federal Reserve Board's decision will freeze the market for TCH. We understand this concern as any properly functioning market would wait for a decision by the major player in the market. We are sure that the market would not freeze if the situation were reversed and the market had to wait for a decision by TCH. The Federal Reserve is the payments vendor most capable of developing real-time payments network and providing support to all financial institutions and thus a properly functioning market should wait for decision by the leader.

We acknowledge the FedNow's 2024 rollout seems far in the future. Nonetheless, we are encouraged by the Federal Reserve Board's outreach to key vendors necessary to help credit unions use FedNow. The Federal Reserve Board's commitment to develop FedNow in conjunction with credit union partners will help ensure a rapid rollout of FedNow to credit unions. Thus, working in conjunction with stakeholders at every step is key to making sure that 2024 date is the date that financial institution have access to FedNow and not the date in which stakeholders begin to build the necessary plumbing for access to FedNow.

CUNA looks forward to continuing to work with Federal Reserve Board leadership and staff on FedNow and will continue to support TCH's efforts as well. Nonetheless, the development of FedNow is imperative to the continued success of credit unions and community banks and is likely the only way that all credit unions will be able offer Americans of modest means critical financial services in the future.

Both TCH and the Federal Reserve are credit union vendors for payments clearing services. Currently one works with nearly all credit unions and banks while the other serves a small number of financial institutions. Having both vendors is a luxury but only the Federal Reserve is critical because they are the only vendor with the bandwidth and expertise to provide payments services to the entire financial services sector. Encouraging the Federal Reserve Board to leave real-time payments to TCH would cause the demise of many community financial institutions and deprive many Americans of the financial service provider that they know, trust and need.

On behalf of America's credit unions and their 115 million members, thank you for the opportunity to share our views.

Sincerely,

Jim Nussle
President & CEO