Credit Union National Association
CUNA

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Ann Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551
regs.comments@federalreserve.gov

Re: Docket No. OP-1670

Dear Ms. Misback:

The Credit Union National Association (CUNA) appreciates the opportunity to submit comments to the Board of Governors of the Federal Reserve System (Federal Reserve or Board) in response to the request for comment regarding potential Board actions to support interbank settlement of faster payments. CUNA represents America's credit unions and their 115 million members.

CUNA strongly supports the Board's decision to develop an interbank 24x7x365 real-time gross settlement service with integrated clearing functionality and looks forward to working with the Federal Reserve Banks on the development of the system, which is to be called FedNow. Credit unions have long encouraged the Board to extend the Federal Reserve System's role as the foremost payments system operator into the nascent U.S. faster or real-time payments market. The Board's decision, as detailed in the notice and request for comment, is welcomed by credit unions and is an important step forward in the development of a ubiquitous real-time payments system.

Credit unions appreciate the Board's strong and continued leadership through the public comment process, which officially started with a November 2018 request for public comment on "potential action that the Federal Reserve could take to advance the development of faster payments," but with its beginnings rooted in 2013's Strategies for Improving the U.S. Payment System initiative. We would be remiss in addressing the Board's decision-making process without also mentioning the effort that The Clearing House (TCH) has put into derailing the Board's decision. We note that CUNA and credit unions have supported TCH in their efforts to develop their real-time payments network, which is called RTP; however, we clearly disagree with TCH, its large bank owners and allies in their efforts to lobby Congress with the goal of causing the Board to back away from developing a complementary real-time payments network. Credit unions welcome privately owned participants in the system, but only as an option and not as the sole operator of a real-time payments network. The Federal Reserve Banks' role as a leader in payments services is too important to abdicate to a single private operator.

TCH has worked well with CUNA and our member credit unions during the development of RTP, but 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. While TCH has created an advisory committee for credit unions and community banks, these institutions have no ownership of TCH and no formal voice in its operation. Absent the 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 to the whims of TCH's bank owners for a critical aspect of their infrastructure. Our members find this unacceptable and clearly it would be business suicide.

Although credit unions do not want to be solely reliable on TCH as their real-time payments provider, the primary reason for CUNA supporting the Board's decision is that the Federal Reserve is the only payments operator with the bandwidth and expertise to provide payments services to the entire financial services sector. Furthermore, the Federal Reserve's reach gives FedNow the best chance to reach ubiquity, which we believe is the single most important issue in the development and operation of a real-time payments solution. It is likely that ubiquity cannot be reached without Board involvement, as there are challenges to achieving ubiquity that the private sector likely cannot overcome.

While CUNA strongly believes that ubiquitous U.S. access to real time payments must be achieved as rapidly as possible- and encourages the Federal Reserve to take steps to accelerate FedNow's release date wherever appropriate- the impact of the FedNow decision in slowing such progress should not be overstated. With well under one percent of U.S. banks presently live on RTP (the majority of those being TCH owners), it was already clear that TCH would fall far short of its goal of ubiquity by 2020. TCH has continued to announce gradual additions of new banks to RTP, arguably at a pace similar to what would have occurred absent FedNow. An argument could be made that the heightened visibility afforded real time payments through FedNow attention prompted some players to jumpstart analysis of their needs in the space. Given the stated unwillingness of many credit unions and community banks to entrust their infrastructure to an entity controlled by their largest competitors, FedNow is poised to ultimately speed rather than hamper the achievement of U.S. real time payments ubiquity.

Real Time Payments Will Help Credit Unions Deliver Necessary Financial Services to Those Most in Need

Immediate access to funds 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. This problem of unavailable funds is not only hurting those living paycheck to paycheck, but small business owners too.

While the vast majority of Americans receive prompt access to their paychecks through direct deposit by ACH, this system does not 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.

Timeline for Development and Implementation

The Board indicates that the goal is to roll out FedNow in 2024. This lengthy development timeframe is a major criticism among CUNA members along with many other stakeholders and critics. We understand that many critics claim that the Board's decision-making process and five-year development cycle could "freeze" the market by prompting financial institutions to wait for FedNow, and could also slow innovation among third party providers building ancillary solutions. Because the Federal Reserve Banks are a dominant player in the current payments system, it is perfectly reasonable that payment participants' decisions will be impacted by the Board's decision and we expect this to continue during the development phase. The Federal Reserve Banks already serve as a primary provider of wire and ACH transactions and we expect this to continue during the development of FedNow.

We encourage the Federal Reserve Banks to work closely with key credit union service providers during all phases of the development of FedNow. Most credit unions will rely on service providers to help them connect and use FedNow. The timeframe for service providers to develop their offerings is nearly as important as the Federal Reserve Banks' development of the timeframe for FedNow, which is why service providers should be involved in all phases of the development of FedNow.

We are encouraged by the Board's outreach to key vendors necessary to help credit unions use FedNow. The 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 essential for ensuring the 2024 release date represents the point at which financial institutions have access to FedNow, as opposed to the date at which stakeholders begin to build the necessary plumbing for access to FedNow.

The Federal Reserves Solution Must Be Interoperable with Other Networks

Interoperability across all available U.S. in-market solutions is essential to achieving ubiquity, which is a key criterion for real-time payments success. That has, of course, been the case for decades with regard to ACH transactions, where the Federal Reserve and TCH operate competitive yet complementary network alternatives. An agreed set of procedures- governing dispute resolution, transaction limits, etc.- will be required, as exists today for ACH via Nacha.

This requirement does not apply solely to FedNow and RTP; there is no assurance these will remain the only two U.S. real-time payment solutions. It is quite possible that the Federal Reserve's entry will ultimately speed the achievement of ubiquity, as a segment of financial institutions unwilling to entrust its payments infrastructure to an entity owned by its largest competitors may be more comfortable enlisting with a Federal Reserve operated alternative- at which point interoperability paves a path to the finish line. Comment letters submitted by several industry groups support this line of reasoning. And should another real-time processing network option ultimately enter the market, the rules for engagement will already be established.

Small Institutions Have Resource Constraints Which Must Be Considered

Although we believe that 24x7x365 availability is an essential feature of a successful real-time payments system, it is also true that smaller credit unions (and banks) are not presently staffed to support such capabilities. These institutions will face additional costs in establishing real-time payment processes, particularly in the areas of fraud prevention and liquidity. For this reason, simplicity is a key to any solution. If the cost/effort is deemed too onerous, small financial institutions could elect not to adopt, thereby impeding the goal of ubiquity. Assuming financial institutions price these services to recoup incremental costs, higher price points could also become a barrier to broad market adoption. It seems plausible that many financial institutions will elect a service bureau model- such as through a corporate credit union- to address "after hours" needs. Any solution should accommodate enablement of such a model.

Conclusion

CUNA looks forward to working with the Federal Reserve Banks on the development of FedNow. The development of FedNow is imperative to the continued success of credit unions, and likely the only way that all credit unions will be able offer Americans of modest means critical financial services in the future.

Should you have any questions about CUNA's comments, please feel free to contact me at 202.508.6705.

Sincerely,

J. Lance Noggle

Lance Noggle
Senior Director of Advocacy and Counsel Senior Counsel for Payments and Cybersecurity