



December 4, 2023

The Honorable French Hill
Chairman
Subcommittee on Digital Assets, Financial
Technology and Inclusion
Financial Services Committee
United States House of Representatives
Washington, DC 20515

The Honorable Stephen Lynch
Ranking Member
Subcommittee on Digital Assets, Financial
Technology and Inclusion
Financial Services Committee
United States House of Representatives
Washington, DC 20515

Re: Tomorrow's Hearing: "Fostering Financial Innovation: How Agencies Can Leverage Technology to Shape the Future of Financial Services"

Dear Chairman Hill and Ranking Member Lynch:

On behalf of America's credit unions, we are writing regarding tomorrow's hearing entitled "Fostering Financial Innovation: How Agencies Can Leverage Technology to Shape the Future of Financial Services" to share our thoughts. The Credit Union National Association (CUNA) and National Association of Federally-Insured Credit Unions (NAFCU) represent America's credit unions and their 138 million members.

Credit unions face extraordinary competition from big for-profit banks, droves of online-only banks, and financial technology companies (fintechs). Rapid technological advancements in the last two decades have enabled credit unions' competitors to effectively commoditize traditional consumer and small business financial services products and introduce a dizzying array of new retail banking products. Yet, credit unions, by and large, have weathered these marketplace headwinds well.

We are pleased that the National Credit Union Administration (NCUA) has taken steps, such as its recent financial innovation rule, to do more to recognize technological advances and the additional flexibility that they can provide credit unions. Still, more needs to be done to ensure credit unions have the tools and mechanisms to reach new consumers who are not currently being served.

Technology Can Help Credit Unions Do More to Help the Underserved

The NCUA has identified modernization of the chartering process and field of membership (FOM) requirements as an important piece of its own Advancing Communities through Credit, Education, Stability and Support (ACCESS) Initiative for good reason—the current field of membership process is burdensome, difficult to navigate, and unnecessarily strict. Field of membership is a part of what makes credit unions unique, but it should not be used as a stricture against healthy credit union growth and improving access to credit unions for underserved communities.

Without regulatory and legislative relief, we are concerned that credit unions will be unnecessarily and unjustifiably obstructed in their ability to invest in appropriate technology and perform in the consumer finance sector, which is increasingly competitive and innovative. The federal charter must keep pace with changes in state laws, technology, and the services and practices of a digital financial services industry. To that end, the NCUA must take every regulatory opportunity to streamline and simplify FOM requirements to ensure the long-term health and survival of America's credit unions, including through meaningfully incentivizing and facilitating credit union investment in mobile and online technologies.

For example, The Federal Credit Union Act (FCU Act) states that when adding a select group to a multiple common bond credit union's FOM, the credit union must be "within reasonable proximity to the location of the group whenever practicable and consistent with reasonable standards for the safe and sound operation of the credit union." In the past, the NCUA has interpreted this language to refer to close geographic proximity meaning that the group is within the service area, a 25-mile radius, of one of the credit union's service facilities. However, the development of technology has altered the relationship between geography and proximity significantly, so the NCUA should reconsider its interpretation. We have long maintained that the NCUA needs to either eliminate the service area requirement or alternatively revise the definition of service area to include "facilities that are accessible to groups within the FOM through online services." The NCUA should revise the definition of "service facility" to include an online internet channel or mobile application that otherwise meets the definition of a service facility, meaning it is capable of accepting shares and loan applications, or disbursing loan proceeds.

Third-Party Vendor/Credit Union Service Organization Authority

Over the past several years, the NCUA Board has continued to push for Congressional amendments to the FCU Act to provide the agency with direct supervisory authority over third-party vendors (TPVs) and credit union service organizations (CUSOs).

We strongly disagree with the need for an unlimited grant of such authority. The NCUA has effectively managed risks associated with TPVs/CUSOs within the agency's current regulatory authority. Credit unions are required to perform due diligence on their TPV/CUSO relationships, and this due diligence is already subject to supervision by the NCUA. Further, we are concerned that a significant increase in the agency's budget will certainly be required to obtain and train qualified, experienced examiners.

We understand there may be limited instances where the NCUA's involvement is warranted for supervising critical TPVs/CUSOs that present material risks to the credit union system. Specifically, while it may be appropriate in limited circumstances for the NCUA to have authority over Bank Secrecy Act-related service providers and cybersecurity service providers, we oppose the NCUA having unlimited authority to supervise all TPVs/CUSOs. As such, we oppose legislative changes aimed at establishing NCUA authority in this area.

Conclusion

On behalf of America's credit unions and their 138 million members, thank you for holding this important hearing. Unlike other sectors of the financial services industry, credit unions embody the collaborative *people helping people* philosophy. As such, we urge this Subcommittee and regulators to work with the credit union industry to pursue an approach, both legislatively and regulatorily, aimed at ensuring credit unions can use technology to continue to serve their millions of members across the country.

Sincerely,



Jim Nussle
President and CEO
Credit Union National Association



Dan Berger
President and CEO
National Association of Federally-Insured Credit Unions

cc: Members of the Subcommittee on Digital Assets, Financial Technology and Inclusion