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National Association of Federally-Insured Credit Unions

June 29, 2020

The Honorable Mike Crapo
Chairman
Committee on Banking, Housing
& Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing
& Urban Affairs
United States Senate
Washington, DC 20510

Re: Tomorrow's Hearing to Examine the Digitization of Money and Payments

Dear Chairman Crapo and Ranking Member Brown:

I write to you today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) to share our views ahead of tomorrow's Senate Banking Committee hearing on the digitization of payments and money. As you are aware, credit unions work closely with their members and have direct experience with increasing financial inclusion in underserved areas. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 120 million consumers with personal and small business financial service products.

We appreciate the work of the Senate in examining the feasibility of a digital U.S. currency. While NAFCU is supportive of efforts to expand financial inclusion, we are generally concerned that moving the U.S. currency to a federally-backed digital system will have unintended consequences that could affect the privacy of millions of Americans and erode the competitive viability of the U.S. banking system. A governmental digital currency would be a ready target for cyberattacks and could present numerous money laundering problems, especially for smaller financial institutions who are already facing extensive *Bank Secrecy Act* (BSA)/anti-money laundering (AML) regulatory burdens.

In the context of a digital currency, whether tokenized or account based, hypothetical remedies for potential money laundering risks would almost certainly entail substantial loss of individual privacy at a time when many consumers are concerned about the misuse of their personal data. Such a tradeoff would likely undercut one of the desired aims of launching a digital currency, which is to promote financial inclusion among the unbanked. A 2017 FDIC survey noted that “[a]lmost one-third (30.2 percent) of unbanked households cited ‘Don’t trust banks’ as a reason for not having an account,” followed closely by the reason “avoiding bank gives more privacy.”¹ The same survey found that the most commonly cited reason for not maintaining a bank account was simply not having enough money. Digital currencies would not remedy any of these problems.

¹ 2017 FDIC National Survey of Unbanked and Underbanked Households, <https://www.fdic.gov/householdsurvey/2017/2017report.pdf>

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Even assuming that privacy concerns might be overcome, proposed government accounts where consumers can deposit funds in exchange for central bank digital currency would still compete with traditional deposit accounts at financial institutions and undermine the credit forming capacity of credit unions and banks, potentially undermining the safety and soundness of the financial system. Furthermore, the primary convenience of a digital currency—faster payments—is something credit unions and other financial institutions already provide. Credit unions have joined the rest of the financial services industry by offering same day transfers and ACH direct deposit for customers, providing a ready means for electronic transfers of funds between accounts. We have heard from our members that faster payments and fintech disruption are some of the top expectations for the future, and credit unions have been investing in expanding their infrastructure in these areas.

Again, we appreciate the work of the Senate in examining this important topic. As you examine what steps to take, we encourage a well thought out approach that recognizes these concerns and emphasizes the existing capabilities of credit unions and other financial institutions to reach underserved communities.

Thank you for the opportunity to share our thoughts. Should you have any questions or require any additional information, please contact me or Lewis Plush, NAFCU's Associate Director of Legislative Affairs, at 703-842-2836.

Sincerely,

A handwritten signature in cursive script that reads "Brad Thaler".

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the Senate Banking Committee