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National Association of Federally-Insured Credit Unions

June 24, 2019

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

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

Re: Tomorrow's Hearing, "Overseeing the Fintech Revolution: Domestic and International Perspectives on Fintech Regulation"

Dear Chairman Lynch and Ranking Member Hill:

I write to you today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) ahead of tomorrow's hearing on "Overseeing the Fintech Revolution: Domestic and International Perspectives on Fintech Regulation" to share our thoughts regarding the growing role of fintechs in the financial services marketplace. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 117 million consumers with personal and small business financial service products. NAFCU and our members encourage the Task Force to continue to scrutinize the growing fintech sector, and we stand ready to work with you as you examine this important topic.

This emergence of fintech in the financial services marketplace presents new opportunities. However, it can also present new threats and challenges as entities emerge in an environment that can be unregulated or underregulated. As such, NAFCU believes that Congress and regulators must ensure that when fintechs compete with regulated financial institutions, they must do so on a level playing field where smart regulations and consumer protections apply to all actors in that space.

Just recently, we saw another example of the growing role of fintech in the financial services marketplace with Zillow officially entering the mortgage business through their new "Home Loans" division. We urge the Task Force to keep a watchful eye on developments such as this, where fintechs could end up benefitting from regulatory arbitrage and competing with fewer supervisory protections than regulated depository institutions.

It is important to note that credit unions do not view fintech companies in adversarial terms. There is no doubt that the responsible use of financial technology can have positive effects for consumers, and credit unions have always sought to leverage new technologies to make it easier for members to manage their finances, including through the development of new financial literacy tools. Credit unions continue to work with fintech companies to improve efficiency in traditional financial

services, and any future regulatory framework must recognize the value of these partnerships. At the same time, Congress should guard against the risk of unsupervised market disruptors who may be prioritizing time to market over transparency and consumer protection.

Consumers today have come to expect technological developments from their financial institution – from online banking to mobile bill pay. However, credit unions are concerned when unregulated fintech companies exploit supervisory gaps to obtain a competitive advantage in the marketplace. Although non-bank lenders are subject to the enforcement and rulemaking authority of the CFPB, they are not always supervised in the same way as credit unions or banks.

Certain fintech companies can also magnify data security concerns when they collect large quantities of consumer financial data. For example, a fintech company that consolidates or aggregates transactional and account information on a single platform elevates the risk of fraud and may not be subject to regular cybersecurity examination in the same way that credit unions are under the *Gramm-Leach-Bliley Act* (GLBA). The 2017 Equifax data breach exemplifies this risk, but the reality is that poor data security practices exist in virtually all unregulated industries. This is one reason why NAFCU strongly believes that Congress must establish a strong national data security standard akin to the GLBA's requirements for financial institutions that applies to all entities that handle consumer financial data. We hope that this issue will be on the Financial Services Committee's agenda this year as well.

Ultimately, credit unions view advancements in technology in holistic terms, and the adoption of new services, products or features is driven primarily by the not-for-profit, cooperative mission of prioritizing member service. As new companies emerge and compete in this area, it is important that they engage with traditional financial institutions on a level playing field of regulation – from data security to consumer protection. Finally, I would note that it is equally important that laws are modernized to allow credit unions to keep up and compete with technological advances that have altered both consumer expectations and business models.

Thank you for your attention to this important issue. We look forward to continuing to work with the Committee on this and other issues of importance to credit unions. Should you have any questions or require any additional information, please contact me or Janelle Relfe, NAFCU's Associate Director of Legislative Affairs, at 703-842-2237.

Sincerely,

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

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the House Financial Services Committee