

# Cooperative Credit Union Association

*Creating Cooperative Power*

November 7, 2019

Ms. Ann Misback  
Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, N.W.  
Washington, DC 20551

**BY EMAIL ONLY**

**Re: Comments on Federal Reserve Actions to Support Interbank Settlement of Faster Payments  
Docket No. OP – 1670**

Dear Ms. Misback:

On behalf of the member credit unions of the Cooperative Credit Union Association, Inc. (“Association”), please accept this letter relative to the Federal Reserve’s Notice and Request for Comment on its Actions to Support Interbank Settlement of Faster Payments. The Association is the state trade association representing credit unions located in the states of Delaware, Massachusetts, New Hampshire, New Jersey and Rhode Island, serving approximately 200 credit unions which further serve approximately 3.6 million consumer members.

The Federal Reserve Board (“Federal Reserve”) has set forth a proposal to develop and operate a new interbank 24/7/365 real-time gross settlement (“RTGS”) service, also to be known as the “FedNow Service,” with integrated clearing functionality to support faster payments in the United States. The Association is fully supportive of this measure, appreciates the agency’s request for stakeholder comment, and remains eager to assist and support the development of such a system however possible.

Credit unions are in support of a system which will provide people with access to the money they have earned in real-time. A faster payments system will yield benefits to both credit unions and their members, such as fewer overdrafts, payday loans, late fees, and interest charges. Its impact will result in financial institutions, including credit unions, recognizing funds in real time. This will provide economic benefits of speed and convenience, as well as the ability for individuals and businesses to more flexibly manage their money and make time-sensitive payments whenever needed, or, for a business, receive payments immediately assisting in cash flow management.

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The Association believes that the Federal Reserve, as the foremost payments system operator, is in the best position and contains the expertise necessary in the area of payments to develop a RTGS service. In addition, the Federal Reserve has access to resources on potential security and other issues that may arise as a result of this proposal.

### **Benefits of Proposed System Changes**

The Association's member credit unions strongly believe that making the payments process more efficient benefits everyone involved. This is especially true for individuals who do not have conventional work schedules and are paid over the weekend. The various payments rules and clearing schedules make it nearly impossible for people with volatile incomes and limited reserves to avoid overdraft and other fees. Immediate access to funds could be especially important to working families that live paycheck to paycheck, which may incur overdraft fees or late fees as they wait for funds to become available. Small businesses also stand to benefit since immediate access to funds from a sale may eliminate the need for expensive short-term financing.

The Association is supportive of a system that will ensure that fast payments are available to everyone, regardless of size. As smaller institutions, credit unions often express discomfort with relying on an entity owned by competitors for a critical component of payments infrastructure. The Association believes that the Federal Reserve is uniquely placed to deliver a balanced and fair outcome.

Finally, it has been well established that the United States has significantly lagged behind other countries in the payments processing area. In fact, credit unions have consistently been encouraged to gauge the need of their members and potential value-add for real-time capabilities within their strategic plans.

### **Proposed Issues for Consideration**

The proposed system will bring instant payments closer to a reality, promoting consistency and efficiency in payments processes. However, as the Federal Reserve moves forward with finalizing such a system, the Association raises the following issues and suggestions for consideration:

- Universality of an RTGS service is of primary importance. The current infrastructure of Reserve Banks allows for such universality, as many financial institutions already maintain a relationship with Reserve Banks based on trust and service. This must be leveraged to provide equitable access and competitive fairness to an RTGS service to all eligible financial institutions, regardless of size. A system that results in numerous settlement processes would create unnecessary complexity. It is also likely that universality cannot be reached without involvement from the Federal Reserve, as there are challenges to universality that the private sector likely cannot overcome. The proposed system has the potential for nationwide reach. The Federal Reserve is encouraged to make compatibility changes wherever necessary such that market adoption of an RTGS service can be done quickly and efficiently.



- Interoperability, the process of integrating the Federal Reserve systems into other infrastructures operated by private companies, remains an ongoing concern. The success of any RTGS system relies on the participation of all stakeholders, as was the case at the origination of ACH transactions. The Federal Reserve is encouraged to engage with “aggregators,” such as corporate credit unions, who presently perform interbank settlements every day through “respondent” accounts. Additionally, an agreed set of procedures, such as governing dispute resolution, transaction limits, and the like, should be established.
- It is unknown at this time the full impact on the uniqueness of credit union shared branching, credit payment and fintech ecosystem, and the timeliness of implementation and integration. Credit unions seek faster payments without the risk of inconsistencies or errors caused by incompatible processes. To simply enforce faster payments using a top-down approach is likely not beneficial to smaller institutions such as credit unions. Rather, all entities in the payment space, including private companies must collaborate, motivating payments innovation while preserving competition.
- Credit unions support the establishment of a pilot program prior to full launch of the FedNow system. Institutions of all sizes and types should be engaged for trial runs to ensure that payment is complete and that all processes work as intended. Any such pilot program must not delay, however, the full development of a properly functioning FedNow service. As such, the Association encourages the Federal Reserve to appropriately balance the importance of full functionality of the system with its timely delivery, and work as expeditiously as reasonable in the development of the service.
- Any final system must take into account smaller institutions. While the 24/7 availability of a necessary feature of an RTGS system, small financial institutions may not have the resources or the staff to support such features. 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 will be a key to any solution. If the cost and/or effort is too significant, small financial institutions could elect not to adopt, thereby impeding the goal of universality. These issues must be considered prior to final implementation.
- The Clearing House (“TCH”) has undergone an effort to develop its own real-time payments network, known as RTP. The Association does not object to and in fact welcomes the participation of privately owned participants and businesses in the payment system universe, but in no way supports such as the sole operator of a real time payments network. The Association is of the opinion that the Federal Reserve’s proposed system can be and is complementary to any other system. Additionally, the Federal Reserve’s system is the only payments operator with the bandwidth and expertise to provide payments services to the entire financial services sector. Privately owned systems such as RTP would face challenges to universal adoption that likely could not be overcome. Finally, the Association suggests that FedNow be fully compatible with RTP upon

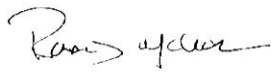
operation to minimize complexity, avoid confusion, and create collaborative efforts among financial institutions.

- Finally, the Association encourages the Federal Reserve to finalize development of its FedNow system before the target years of 2023-2024 given the pressures in the marketplace for rapid payments. However, such finalization should not be done at the expense of quality and operability. Again, a pilot program prior to the targeted finalization date could be instituted to address problem areas prior to full implementation.

The Association looks forward to working with the Federal Reserve as well as other stakeholders on this important issue of mutual concern for the benefit of local credit unions and their members and remains available to assist wherever helpful, particularly in response to the suggestions and issues raised in this letter.

Thank you for the opportunity to share our member's views on the proposal and for your consideration of the Association's comments. If you have any questions about these comments or require further information, then please do not hesitate to contact me.

Sincerely,



Ronald McLean  
President/CEO  
Cooperative Credit Union Association, Inc.

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