America's Credit Unions

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The Honorable Sherrod Brown
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Tim Scott
Ranking Member
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, DC 20510

**Re: Today's Hearing: "Examining Scams and Fraud in the Banking System and Their Impact on Consumers"**

Dear Chairman Brown and Ranking Member Scott:

On behalf of America's Credit Unions, I am writing regarding the Committee's hearing entitled, "Examining Scams and Fraud in the Banking System and Their Impact on Consumers." America's Credit Unions is the voice of consumers' best option for financial services: credit unions. We advocate for policies that allow the industry to effectively meet the needs of their nearly 140 million members nationwide.

**Investing in Payment Technologies**

Credit unions invest significantly in both security and compliance management systems to prevent unauthorized electronic fund transfers (EFTs) and support faster, innovative payment options for their members. The credit union industry's commitment to relationship banking also gives members confidence that if they have a problem, they can count on their credit union to make every effort to resolve the issue. This emphasis on high touch service means that members will often seek and receive the help of their credit union even when a transaction primarily implicates the services of a third party with which the credit union has no formal, direct relationship. Member interaction with such services, particularly nonbank payment platforms, can complicate error resolution procedures, place strains on a credit union's compliance resources, and magnify exposure to fraud.

These relationships are also important and necessary because credit unions are committed to supporting consumer payment choice. Many credit unions provide their members with peer-to-peer (P2P) payment services as a convenient, value-added service for which they do not charge exorbitant fees. Credit unions are eager to embrace seamless payment technologies, but to compete effectively against large banks and nonbank financial giants with similar service offerings requires a fair regulatory environment. The costs borne by credit unions stemming from payments-related fraud are growing exponentially and cannot be sustained without limit. Expanding the liability for financial institutions for payments-related fraud would put a major strain on credit union resources and their ability to collaborate with payments platforms and expand consumer choice.

As member-owned, not-for-profit financial cooperatives, credit unions exist to provide credit at competitive rates and offer low-cost services that assist their member-owners in meeting their individual financial needs. Credit unions support efforts to stop fraudulent schemes and invest in robust compliance programs to limit this activity, but an expansion of credit unions' liability for the misdeeds of fraudulent actors would have the unintended effect of limiting consumer choice and access to services. We believe that legislative efforts are better directed at steps to prevent fraud before it occurs, educate consumers about fraud and risks associated with unregulated technologies, and create a level playing field for currently underregulated fintech companies and insured depository institutions.

**Impact of Interchange on Fraud Prevention**

Another area of concern is S. 1838, the Credit Card Competition Act of 2023. Proponents of this bill say that it targets large banks and will not hurt others. They are wrong. The reality is that it will hurt community financial institutions and consumers. This bill would require financial institutions to allow credit card transactions to be routed via an alternative network. Additionally, the bill contains an explicit requirement that card issuers enable all types of transactions and security protocols, even if a credit union finds that these methods are unnecessary, unaffordable, or unsecure. Each time a network is added or changed to keep up with merchant demands, hundreds of millions of new cards would have to be issued which would expose consumers to identity fraud through mail theft and increase the cost of the payments system.

Additionally, Visa, Mastercard, American Express, and Discover credit cards issued in the U.S. generated $5.451 trillion in purchase volume in 2022. All credit card issuers route transactions from their credit cards through their networks which enables them to monitor fraud with a single view of cardholders' activity. Card processing with multiple payment networks will create a fragmented fraud detection system instead of the holistic, global payment system with a single view of the accountholder and global fraud trends that exists today. The ability to identify fraud requires a vigilant and ongoing investment by payment networks. Fraud losses under the current payment processing model are expected to grow and introducing additional payment networks will only make the task of fraud identification harder and increase the overall cost of fraud to issuers.

Credit unions help to cover consumers' costs when fraud occurs. Any reduction in interchange fees would directly affect credit union investment in fraud management systems and processes that are dedicated to reducing fraud risk in the system—forcing credit unions to increase costs to cover these necessary expenses. This would limit the consumers' choice when it comes to credit cards and would allow big box retailers to pick which network will process transactions—resulting in the cheapest and least secure networks handling consumers' personal financial information. Critical consumer protections such as fraud protection could disappear by using these third party, less secure networks.

On behalf of America's Credit Unions and the 140 million credit union members, thank you for holding this important hearing and considering our views on the subject.

Sincerely,

Jim Nussle, CUDE
President & CEO

cc: Members of the Committee on Banking, Housing, and Urban Affairs