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America's Credit Unions

December 14, 2018

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

regs.comments@federalreserve.gov

Re: Docket No. OP-1625

Dear Ms. Misback:

The Georgia Credit Union League (GCUL) appreciates the opportunity to provide comments to the Board of Governors of the Federal Reserve System (the "Fed") in response to the request for comment regarding potential Fed actions to support interbank settlement of faster payments. As a matter of background, GCUL is the state trade association and one member of the network of state leagues that make up the Credit Union National Association (CUNA). GCUL represents the interests of the approximately 100 Georgia credit unions that have more than 2.12 million members.

GCUA and Georgia credit unions support the Fed's leadership in convening a diverse group of payments stakeholders to work together on improving the U.S. payments system. We believe this effort has enabled parties to exchange ideas that will shape the future of the payments system by improving speed and security. The Fed's sponsorship of the Faster and Secure Payments Task Forces, the governance Framework Formation Team and the Faster Payments Council demonstrates the Fed's strong commitment to ensuring that the U.S. payments system continues to develop and tackles the critical issues of speed and security.

As GCUA engaged in dialogue with our members and stakeholders that support our members, it has become clear that there is a role for the Fed to play in a new real-time payments system or payments "rail." The credit union system is aware of several real-time or near real-time payments systems that are operational or near operational, some of which have embraced credit unions and the participation of our national association, CUNA, as they build out their systems. The concern of Georgia credit unions and credit unions in general is that these private sector solutions may not be able to reach ubiquity, <u>which we believe is the single most important issue in the development and operation of a real-time payments solution</u>. In our discussions with credit unions, the consensus is the it is very likely that ubiquity cannot be reached without Fed involvement, as there are challenges to achieving ubiquity that the private sector likely cannot overcome.

Georgia Credit Union's supports the Fed developing a real-time payments network and we also think that the Fed's real-time payments network should be interoperable with private sector real-time payments rails. The Fed must also ensure that any system it develops is cost competitive with other types of payments, such as ACH, or adoption will be slow and ubiquity difficult to achieve.

Comments to the Fed's Published Request

This comment letter will focus on the topline questions asked by the Fed as they impact support for a real-time payments network.

In most discussions within the credit union system, the most principal issue shared was practical access to a real-time payments network that is ubiquitous in operation. Credit unions are diverse financial institutions that vary greatly in size, product offerings, resources and technical sophistication to implement new technologies. Most credit unions- regardless of size- rely on vendors and partners to implement, support and provide technology for many of their operations; payments and liquidity are frequently among the areas of focus. The Fed should ensure that it develops its real-time payments network with industry service providers' role in mind, to ensure that credit unions have a clear path toward implementation. This is true for both the payments network and liquidity tools that the may be Fed developing.

A top priority for credit unions is access to a real-time payments network on equal terms with other financial institutions. Georgia credit unions believe that the best chance for credit unions to ensure access is for the Fed to develop and operate a real-time payments network that is both ubiquitous and interoperable with other real-time payments systems. Ubiquity ensures that consumers and businesses will realize the benefits of seamless transactions without worrying what system the receiver of a payments system is using.

Time to market is important for a Fed real-time payments solution; however, the Fed's decision to enter the market with firm commitments on its major details is even more central to moving the market toward faster payments in an orderly manner. Uncertainty in Fed direction poses the greatest risk of a market freeze or inefficient use of resources, as early market entrants would risk incurring additional development costs to meet future requirements.

Decisions on key details such as interoperability, settlement and the development of a liquidity management tool by the Fed are just as important as speed to market with a real-time payments solution.

We believe that 24x7x365 availability is an essential feature of a successful real-time payments system, we are concerned that smaller credit unions (and banks) are not presently staffed to support such capabilities. 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/effort is deemed too onerous, small financial institutions could choose to not adopt the new solution, thereby impeding the goal of ubiquity. Assuming financial institutions price these services to recoup incremental costs, higher price points could also become a barrier to broad market adoption. It seems plausible that many financial institutions will elect a service bureau model- such as through a corporate credit union- to address "after hours" needs. Any solution should accommodate enablement of such a model.

Fraud, in particular, is a concern of credit unions, as the downside of faster payments is a limited timeframe to react- particularly if "payment finality" is a feature of the scheme. We believe this concern could become a barrier to ubiquity and must be addressed. Fortunately, the "credit push" model alleviates these concerns to some extent. In the interest of ubiquity, the Fed should consider making receipt of real-time payment transactions mandatory for all financial institutions- like the Same Day ACH model- at least after a "proving period." Institutions would retain discretion on whether to initiate payments, however.

As real-time payments are rolled out, it will also be necessary to revisit and likely revamp various regulations to account for the new operating environment- credit unions have pointed to Regulation D, Regulation E and daylight overdraft rules in particular. Such issues will need to be addressed even if the Fed elects not to embrace an operator role.

Conclusion

We encourage the Fed to move forward on the development of a real-time payments rail and liquidity management tools. Action by the Fed will help credit unions plan for the future as they explore offering real-time payments to members.

Should you have any questions about GCUA's comments, please feel free to contact me at 770-476-9625.

Respectfully submitted,

Cindy Connelly

Cynthia A. Connelly
Sr. VP/ Government Influence
Georgia Credit Union Affiliates

Summary

Thus, we support the regulatory relief direction NCUA is indicating by delaying the RBC rule and increasing its complex credit union definition threshold. However, since we question the necessity and advisability of the rule itself, OCUL encourages NCUA to press further in providing relief for credit unions from a credit union RBC scheme that is of questionable utility and value for financial cooperatives.

We appreciate the opportunity to present comments on the proposed rule on behalf of Georgia's credit unions. We urge NCUA to continue to study the effectiveness and functionality of the rule. Thank you for your consideration. If you have questions about our comments, please feel free to contact me at (770) 476-9625.

Respectfully submitted,

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