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**National Association of Federally-Insured Credit Unions**

September 19, 2023

The Honorable Patrick McHenry  
Chairman  
Committee on Financial Services  
United States House of Representatives  
Washington, DC 20515

The Honorable Maxine Waters  
Ranking Member  
Committee on Financial Services  
United States House of Representatives  
Washington, DC 20515

**Re: Tomorrow's Committee Markup**

Dear Chairman McHenry and Ranking Member Waters:

I write to you today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) in conjunction with tomorrow's markup. As you know, NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 138 million consumers with personal and small business financial service products. NAFCU appreciates your work to ensure the United States financial system remains competitive and up to date with the most recent technological systems, and we would like to share the credit union perspective in advance of your markup.

**Central Bank Digital Currency (CBDC)**

NAFCU is pleased that the Committee is set to tackle legislation to address issues related to the potential creation of a central bank digital currency (CBDC). We believe that the Federal Reserve should not proceed with the development of a CBDC at this time. The hypothesized benefits of a CBDC are difficult to pinpoint given the lack of specific policy direction in current proposals. Moreover, many of the speculative benefits associated with a CBDC, such as greater payments efficiency or financial inclusion, can be achieved through less costly and more reliable alternatives: the existing financial sector infrastructure of credit unions or the Federal Reserve's own payment systems. Despite recent appraisals of various CBDC use cases by different Federal Reserve Banks, many questions remain unanswered. CBDC design features necessary to achieve cash-like functionality come with serious tradeoffs that could negatively impact credit unions and pose broader financial stability risks. In some cases, those tradeoffs are difficult to anticipate because underlying regulatory policies—such as what balance to strike in terms of protecting consumer privacy, or how to guard against retail deposit substitution—are not yet developed.

Offering CBDC directly to consumers through government accounts would constitute a radical expansion of the Federal Reserve's mission and involvement in the economy, and NAFCU strongly discourages any model for issuing CBDC that relies upon such an arrangement. Even in an intermediated model, where financial institutions act as providers of CBDC accounts, there is a risk that CBDC would displace commercial bank money, and the Federal Reserve has

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acknowledged that this substitution could “increase bank funding expenses and reduce credit availability or raise credit costs for households and businesses.” Credit unions would also be affected. Even if the Federal Reserve were to design CBDC to be non-interest bearing or impose limits on individual balances, CBDC could still be seen as a safe haven in times of crisis and this would have serious consequences on the liquidity of financial institutions, especially credit unions, if consumers substitute commercial deposits for CBDC.

NAFCU expects that the net costs of a CBDC will exceed the benefits, and that administration of a CBDC will distract from the Federal Reserve’s dual mandate of achieving both stable prices and maximum sustainable employment. Accordingly, the Federal Reserve should not proceed with further development activities at this time. Additionally, the Federal Reserve should not allocate resources towards investigating hypothetical models of CBDC until it has identified clear regulatory parameters, with the authorization of Congress and input from key stakeholders, that are the necessary foundation for understanding CBDC design limitations and tradeoffs.

It is with these concerns in mind that NAFCU supports the goals of the CBDC legislation before the Committee at this markup. We urge the Committee to advance this effort.

We thank you for the opportunity to share our thoughts in advance of tomorrow’s markup. Should you have any questions or require any additional information, please contact me or Chad Adams, NAFCU’s Senior Director of Legislative Affairs, at 703-842-2265.

Sincerely,

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

Brad Thaler  
Vice President of Legislative Affairs

cc: Members of the Committee on Financial Services