



DCUC
DEFENSE CREDIT UNION COUNCIL

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Anthony Hernandez
President/CEO

October 20, 2021

The Honorable Michael J. McCord
Under Secretary of Defense
Office of the Under Secretary of Defense
(Comptroller)
1100 Defense Pentagon
Washington, DC 20301-1100

The Honorable Gilbert R. Cisneros Jr.
Under Secretary of Defense
Office of the Under Secretary of Defense
(Personnel and Readiness)
4000 Defense Pentagon
Washington, DC 20310-4000

Re: Proposed IRS Reporting Rule and Financial Readiness

Dear Mr. McCord and Mr. Cisneros:

On behalf of America's 181 Defense Credit Unions and over 30 million members, I am writing to express our concerns regarding a proposal for the Internal Revenue Service to increase its tax information reporting requirements on all financial institutions. The Defense Credit Union Council advocates for all defense credit unions located on every United States military installation around the world and champions the financial safety and inclusion of our military members as our top advocacy goal.

Credit unions have always held the needs of their members and their communities at the forefront of everything we do. This has been especially true during the last 18 months in response to the pandemic. As part of our foundational mission of financial inclusion we continue to do all we can to attract and retain the unbanked and underbanked. However, this proposal directly strikes at privacy concerns, which is one of the main reasons individuals avoid opening a personal checking account. It is a slippery slope without any safeguards on disclosing or leaking personal information, purchase history, or charitable donations.

Apart from privacy concerns, we believe this proposal also imposes significant compliance costs on our member credit unions in terms of hiring and retaining additional regulatory and compliance staff. This affects all credit unions as the cost of doing business continues to escalate. Yet, when lawmakers and regulators add new rules it disproportionately impacts smaller credit unions, where financial inclusion effort matter most.

The regulatory burden is accelerating at small credit unions faster than the rest of the industry. Between 2016 and 2018, the cost of regulations for small credit unions climbed 5% to \$814 million, according to Cornerstone Advisors. For the rest of the credit union industry, the cost rose by roughly 2%.

Regulatory costs as a percentage of average assets at small credit unions totaled 73 basis points in 2018, compared with 47 basis points for the rest of the industry. Additionally, in 2018 return on assets (ROA) for small credit unions came in at 60 basis points. In other words, regulatory costs were 25% higher than their ROA. This is on top of heavy labor shortages and rising personnel costs as a result of the pandemic.

Then there is the issue of data security. In light of the fact that the IRS already experiences nearly 1.4 billion cyberattacks each year, we are also concerned with potential data breaches such as the ones the Treasury and Commerce Departments experienced in 2020 on top of the one OPM experienced a few years ago. Since we serve military members who serve in harm's way, these data breaches also put individuals and critical military missions at risk.

Despite recent reports to raise the reporting threshold from \$600 to \$10,000 and/or to exclude direct pays, the government has still not demonstrated its ability to adequately build and maintain databases that can actively protect private individual financial data. Plus, there is little evidence to show how this proposal narrows the "tax gap" between federal outlays and revenues. It is simply cost prohibitive relative to the gain. Then there are costs to repair the damage once private data is breached—both material and in terms of mission failure.

We hope the department will acknowledge and champion these concerns as we continue our efforts in crafting a regulatory environment focused on protecting Americans and our financial system. Raising marginal revenues while risking the security of our military families does not serve our defense communities. They deserve our support.

Thank you for your consideration into these matters. Our member credit unions take great pride in the serving those who serve our country. It is a vital role and one credit unions have cherished for over 100 years. If there is anything more we can do to provide additional information on this proposed rule, please let us know. My office can be reached at (202) 734-5007 or at ahernandez@dcuc.org.

Sincerely,



Anthony R. Hernandez

cc: The Honorable Lloyd James Austin III, Secretary of Defense
Director, Defense Finance and Accounting Service
Deputy Assistant Secretary of Defense for Force Education and Training