

NLWJC - Kagan

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**Urban Policy - Electronic Funds
Transfer**

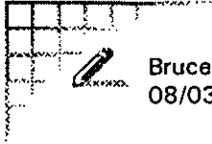
▶ Paul J. Weinstein Jr.
10/05/98 02:57:29 PM
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Record Type: Record

To: Elena Kagan/OPD/EOP, Bruce N. Reed/OPD/EOP
cc: Jonathan Orszag/OPD/EOP
Subject: EFT '99

Based on some additional discussions with Treasury, Jon and I think we should include a paragraph about EFT '99 in the IDA/Head Start Reauthorization bill signing event. This is in part because Treasury has already announced the overall approach and is on the air with public service announcements. EFT '99 is complementary to IDAs, and we could have the President announce that shortly Treasury will be issuing regulations and guidelines describing the EFT account.

Urban - elec benefits transfer



Bruce N. Reed
08/03/98 10:59:38 AM

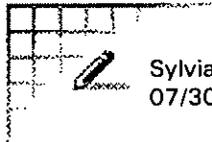
Record Type: Record

To: Elena Kagan/OPD/EOP

cc:

Subject: Unbanked

----- Forwarded by Bruce N. Reed/OPD/EOP on 08/03/98 10:59 AM -----



Sylvia M. Mathews
07/30/98 08:04:04 AM

Record Type: Record

To: See the distribution list at the bottom of this message

cc:

Subject: Unbanked

I checked with Treasury about whether there is an opportunity here and found that they think and I agree that the downside outweighs the upside.

When they announce their rule on implementing the Electronic Funds Transfer (which forces folks to use direct deposit) they will announce ideas for banks to create accounts that will be simple for those without accounts to get and use. The AARP and other groups are not happy with the implementation of the EFT (we have to do by law) because old people like to take their check to the bank once a month. And while the proposals to help with accounts are good, they don't feel they are enough.

Message Sent To:

Bruce N. Reed/OPD/EOP
Ann F. Lewis/WHO/EOP
Michelle Crisci/WHO/EOP
Maria Echaveste/WHO/EOP
John Podesta/WHO/EOP



● Paul J. Weinstein Jr.

09/11/97 07:41:29 PM

Record Type: Record

To: Elena Kagan/OPD/EOP

cc:

Subject: EFT '99

Sarbanes office and in general the Dems on the Hill seem to feel good about Treasury's preliminary regulation on EFT '99. I think we have been successful in our initial efforts to make this a positive issue rather than a negative one.

One matter of concern is an ad being put out by Western Union in advance of the final regulation promoting an EFT-type AMT card which would charge \$7.50 for every transaction! Definitely price gouging.



● Paul J. Weinstein Jr.

08/08/97 04:34:50 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Gene B. Sperling/OPD/EOP, Elena Kagan/OPD/EOP

cc: See the distribution list at the bottom of this message

Subject: Electronic Funds Transfer 1999

Introduction

The Administration has an opportunity this Fall to provide 10 million "unbanked" Americans with access to regulated, insured financial institutions. This September, Treasury will be putting forth new regulations to implement Electronic Funds Transfer (EFT) 1999. Under this new law, all federal benefits must be delivered electronically to recipients. To access these electronic funds, recipients need a financial service institution. In order to insure that those individuals who lack bank accounts can access their funds, Treasury is developing a plan to link insured financial institutions with unregulated alternative financial providers such as check cashing operations. However, many community groups, the AARP, unions, and certain Democratic Senators such as Paul Sarbanes are very concerned about allowing what they call "fringe bankers" from serving as the conduit for Electronic Benefits Transfers (EBT). Chiefly, because such institutions are non-insured and unregulated, charge higher fees than insured institutions, and do not provide full banking services.

Background

The Omnibus Consolidated Rescission and Appropriations Act of 1996 mandates that, as of 1/1/99, all federal payments must be made by electronic funds transfer. This includes all payments to businesses, as well as all direct federal payments to individuals under benefits programs such as Social Security, Supplemental Security (SSI), Veterans (VA), Railroad Retirement (RR), etc. Only federal income tax refunds are statutorily exempt, although the Secretary of the Treasury has the authority to grant waivers for other individuals or types of payments.

The near elimination of printed government checks is intended both to cut costs to the federal government and to reduce fraud. Treasury issued roughly 850 million payments in 1996. Of these, about 450 million were electronic and about 400 million were by printed check. About 80 million of those checks were tax refunds, leaving the remaining 320 million checks to be converted to EFT under the new law. Because the cost of each EFT (less than 2 cents) is less than 5% of the cost of printing and mailing a check, converting from checks to EFT is expected to save roughly \$100 million per year.

Treasury's program to implement the new law for payments of all types is called EFT-99. A large part of this task will be conversion of all direct federal benefit payments to EFT. In a few weeks, Treasury is expected to issue regulations for comment for this conversion. Under the law, these regulations must ensure that individuals have access to their funds at "reasonable cost" and with the same consumer protection provided to other holders of bank accounts.

The Unbanked

Roughly ten million individuals who received federal benefit payments are "unbanked": they do not have accounts at depository institutions. Of these individuals, 8 million are Social Security beneficiaries, while 2 million receive benefits under other federal programs. (This is out of a total 44 million individuals who receive Social Security benefits, 6.6 million who receive SSI, and 26 million who receive veterans benefits.) Currently, these individuals often cash their monthly checks at grocery stores, check cashers, money transfer agents, etc.: clearly they cannot receive payments by direct deposit unless they obtain bank accounts. Detailed information about the unbanked and their financial practices is lacking. Treasury states that their reasons for not having accounts are various, but may include the cost of maintaining a bank account, a prior bad experience in dealing with banks, or lack of a convenient banking location.

In May, Treasury officials stated that they intend to use the new law to bring unbanked benefit recipients into the banking system. To serve unbanked benefits recipients, Treasury has proposed that banks offer a new type of account, called Direct Deposit Two. It would be limited to debit card access at automated teller machines and point of sale terminals. There would be no minimum balance requirement, monthly statement, or check books, thereby eliminating overdraft problems and other expenses associated with conventional bank accounts. In addition, the banks would not pay any interest on these accounts and would receive the benefit of the monthly "float" of deposits. This is a bare-bones option which Treasury believes could serve these ten million unbanked recipients.

This raises the question: What charges will the benefit recipients be required to pay? Treasury's existing pilot programs for EFT are suggestive. In the Direct Payment Card program conducted in Houston, approximately 22,000 individuals were issued electronic access cards. Clients are charged \$3 monthly and receive one free ATM withdrawal per month. Subsequent ATM withdrawals cost 95 cents each, and point-of-sale (POS) transaction fees are set by the merchant. Printed statements are optional at \$1.00 per month. The average client performs 2.7 ATM transactions and 2.0 POS transactions per month.

The fee structure is a significant concern. In several ways it could mitigate or counteract any possible advantage of EFT for the benefit recipient. First, the fact an individual may receive only one free ATM withdrawal per month may encourage him/her to make fewer, larger cash withdrawals at each trip to ATM. This may expose him/her to an enhanced risk of loss, theft, or robbery. Second, the individual is presumably subject to ATM surcharge fees if he/she withdraws cash from an ATM that is not operated by his/her bank. If the local bank ATMs are in an unsafe location and the recipient chooses to visit another bank's ATMs, he/she could be paying a surcharge for every cash withdrawal. This is in addition to any monthly charges and per-withdrawal fees charged by her own bank. Third, the recipient may have to choose between paying ATM surcharges or traveling to a distant or inconvenient location. ATM charges could add up significantly: the *NY Times* recently estimated that the average ATM user now pays \$155 in ATM fees each year. Since the average Social Security benefit is approximately \$700 per month, ATM fees could draw off a significant portion of an individual's benefits.

In response to Treasury's proposal, community groups and others have suggested through design changes to EFT 99:

- 1. Only federally regulated and insured, depository institutions should be permitted to be the conduits for federal payments.** This would not mean that recipients could not access their funds through an ATM or POS device at an alternative financial provider such as a money transmitter or a finance company -- just that they would never be required to go to that alternative provider to access their money.

2. Recipients who do not voluntarily participate in electronic transfer program must be provided individual accounts at insured, depository institutions, which are affordable, reasonably accessible, include basic consumer protections and provided access to essential banking services. These accounts must provide least-cost access to their federal entitlement; encourage savings; and foster financial relationships between the unbanked federal recipients and the mainstream financial institutions.

3. Treasury's use of "authorized agents" as alternative conduits of federal payments should be limited to those individuals and entities who have a fiduciary duty to the recipient.

Recommendation

Treasury has asked to brief you on this issue. I believe EFT 99 has the potential to be the Administration's most important economic development issue of the next six months. I recommend we set up a meeting with Treasury before they issue the regulations in September.

Message Copied To:

Ellen S. Seidman/OPD/EOP
Emil E. Parker/OPD/EOP
Charles R. Marr/OPD/EOP
Jose Cerda III/OPD/EOP
Thomas L. Freedman/OPD/EOP
Mary L. Smith/OPD/EOP



Ellen S. Seidman

08/08/97 05:33:26 PM

Record Type: Record

To: Paul J. Weinstein Jr./OPD/EOP
cc: See the distribution list at the bottom of this message
Subject: Re: Electronic Funds Transfer 1999

I don't want to sound like a Treasury flack, and I do think there's a big opportunity here, but I also think it's critical that we understand certain facts of life.

- First, compared to what??? Currently, recipients are at full risk of having their checks stolen (generally they get the money, but there's a delay), and they spend lots of money at check-cashing outlets. They do not get free money from ATM machines any time they feel like it. Reasonable fees are fees that are reasonable in comparison to what people are paying now, not in comparison to zero.
- Second, it is only a matter of time before the split among the community groups on this issue becomes obvious. There are a group of community groups that have been working with -- and against -- banks for years, and view this as a wonderful opportunity to jointly force poor people to use banks and banks to welcome poor people. That's a nice objective, but there will be others in the low-income community -- particularly in places like NY where check-cashing outlets are regulated -- who feel comfortable with what they've always used, heartily dislike banks (for good reason), don't have access to banks, and don't want to be forced to use them. Treasury's proposal, as I understand it, would always have the money going INITIALLY to a depository institution, but then the recipient would have the ability to direct the depository institution to send it elsewhere.
- Finally, some of the folks who get really carried away with this turn it into an unfunded mandate for banks. It's quite clear from the existing programs that the float on what are small and extremely fast-moving accounts does not pay the cost of setting up and servicing an account with lots of transactions. We should press for maximum competition and really work to get the best pricing, but I'll bet that in the end, the only way to get the cost down to where some want it is to add some sort of subsidy. Perhaps we should -- after all, we're saving lots of money from doing this -- but that's a totally separate issue from whether the banks should subsidize the operation.

Ellen

Message Copied To:

Bruce N. Reed/OPD/EOP
Gene B. Sperling/OPD/EOP
Elena Kagan/OPD/EOP
Emil E. Parker/OPD/EOP
Charles R. Marr/OPD/EOP
Jose Cerda III/OPD/EOP
Thomas L. Freedman/OPD/EOP
Mary L. Smith/OPD/EOP



● Paul J. Weinstein Jr.

08/08/97 06:22:30 PM

Record Type: Record

To: Ellen S. Seidman/OPD/EOP

cc:

Subject: Re: Electronic Funds Transfer 1999

Oww. What are you on their payroll or something.

Just kidding. Of course you are right to note that we are starting from scratch for the 10 million unbanked. But we should be careful not to institutionalize the current system. I agree though, that Treasury has done a lot of good work on this and we really need a presentation from them so we can make the right decision. Plus, this is a pretty big deal, so the White House folks need to get up to speed. My memo was only an attempt to raise the debate.

electronic funds transfers
multib



● Paul J. Weinstein Jr.

08/08/97 06:24:23 PM

Record Type: Record

To: Ellen S. Seidman/OPD/EOP

cc:

Subject: Re: Electronic Funds Transfer 1999 

I also totally agree that we need to raise the issue of using the \$500 million in savings from moving to EFT to subsidize the unbanked initiative rather than placing an unfunded mandate on the banking industry. }

8-12-97: Treasury briefing on EBT

11/99 - all payments made electronically
later - new recip. who have bank acc'ts for elec.
we've already issued a rep. saying quite well. Dec 1990
of new recip. coming easily into this program.

EBT pops already in existence involving specific benefits
in particular w/ states
There are provisions of EFT ??

EFT broader - covers all payments, not just ^{payments.} salary benefit
Everything except tax refunds

Looking toward 1/1/97, working on:

- 1) draft reg - waivers, rep. superstructure as a whole
- 2) figure out how to bill mandate to say that we assure
all persons have access to acc'ts at a financial inst.
w/ consumer protections "default opti-"

[About 10m fed recip are unbanked now -
detailed demog study

primarily minorities + low-income }
Don't have enough \$ to warrant bank acct,
given bank charges.]

How to bill default opti-

- 1) stimulate activ in private sector to provide unbanked.
Not really taking. Most don't see this as op.

2) we have to ~~provide~~ ^{define an} acct - may be quite complex - all of
attributes of acct. Monthly service charge.

Then-in competitive bidding process - ask how much insts would
charge. What monthly fee??

Build in more free w/drawals in acct.
← Contractor - probably by state - will need to have coverage
of whole area - at least thru AFMs (but that raises
issues of AFM charges).

Third-party add-on to the distrib. syst? i.e. ancillary arrange-
ments!

Receipt of course can access \$ directly thru bank. And bank
would need to show ^{branches/pt-of sale ops / AFM network} coverage through

Check cashers - add-on to distrib. syst - so receipts can go to
Western Union or liquor stores, etc + get cash. This is the tough
issue. Some of these entities are hi-priced providers. May address
by requiring all-in price - we need to know what it will
cost to access funds at ancillary inst.

If no add-on cost - then hard to see how to
Even then, eliminate 3rd-party providers, but they'll be
unscrupulous operators.
Practical effect is to limit severely.

Waivers - not-certainly

take into acct variety of carriers.

For banked, there will not include financial computer
for non-banked, there will also be fin. hardship waiver
who's getting free ch. cashing now.

Consumer groups concerned about -

Non-fin access points / monthly service jobs
of AFM w/drawals - 4 prob & d / attachments <