

# Payment Cards Center Conference Philadelphia Federal Reserve Bank

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# Early EFT Efforts

- 1996 – Debt Collection Improvement Act (DCIA) of 1996 requires that all Federal payments be made by EFT
- 1998 – FMS publishes final rule at 31 CFR Part 208 that implements provisions of DCIA to require that Federal payments be made electronically, with certain exceptions
  - Self certifying hardship waivers for individuals
- 1999 – FMS publishes requirements of Electronic Transfer Account (ETA) to ensure Federal recipients have access to a low cost account with consumer protections, as required by DCIA

# EFT Challenges

- Despite 1998 EFT regulation, a significant number of payments continue to be made by check
  - Over 4 million benefit recipients unbanked
  - Electronic Transfer Account (ETA<sup>SM</sup>) not offered in all areas
  - Individual hardship waivers were self-certifying
  - Many recipients do not understand the benefits of electronic payments
    - Safe
    - Secure
    - Convenient
- The Government's cost of delivering payments by check is substantially higher than delivering payments by direct deposit
  - Each check payment is about a dollar more expensive than an EFT payment
- The number of checks that Treasury prints and mails each year is expected to increase significantly over the coming years, primarily as a result of the aging of the baby boomer generation.



# Treasury Efforts to Increase EFT

- Direct Express Debit MasterCard<sup>®</sup>
  - Low cost debit card developed exclusively for Federal benefit recipients
  - No monthly fees and most services are free
  - Can be used to make purchases and/or get cash at retail locations, ATMs, and financial institutions
  - Provides an electronic payment solution for unbanked Federal benefit recipients
  - Close to 2 million Federal recipients have signed up for the card since June 2008
  - High customer satisfaction rate

# EFT Final Rule

- On June 17<sup>th</sup>, Treasury issued a Notice of Proposed Rulemaking (NPRM) to amend 31 CFR Part 208 to tighten provisions of the EFT requirement
  - Proposed to remove individual hardship waivers
  - 33 comments received
- On December 22<sup>nd</sup>, Treasury issued a final rule amending 31 CFR Part 208
- Key provisions
  - New recipients on or after May 1, 2011, will be required to receive payments electronically
    - Treasury delayed effective date from March to May to allow time for outreach/public education; address NPRM comments
  - Current check recipients on March 1, 2011 and individuals applying for benefits prior to March 1, 2011 that request payment by check would not be required to receive payments electronically until March 1, 2013
  - Limited waivers available to recipients
    - Based on comments received in response to the proposed rule
  - Refers public to interim prepaid card rule at 31 CFR Part 210 to address concerns expressed about payments to prepaid cards with high fees/"Pay Day" loans/lack of consumer protections

# Prepaid Card interim rule at 31 CFR Part 210

- In response to 208 NPRM, Consumer advocate groups commented that Treasury must regulate provisions of prepaid cards receiving Federal payments
  - Prevent “Pay Day” loans
  - Reasonable fees
  - Consumer protections added

# Prepaid card interim rule at 31 CFR Part 210 (cont.)

- Issued on December 22, 2010 with request for comment
- Treasury determined that prepaid cards can, in many cases, provide unbanked Federal recipients with a cost-effective way to receive their benefit payments
  - Important consumer protections must be afforded to the cardholder
- Treasury permits Federal payments to prepaid cards if the following requirements are met:
  - Provide the cardholder with pass-through deposit or share insurance
  - Provide the cardholder with the same consumer protections afforded by Regulation E for Payroll Cards
  - Card accounts cannot have an attached line of credit or loan feature that triggers an automatic repayment from the card account
- Entities offering prepaid cards that accept Federal deposits must meet the above requirements
- FMS may refer any violations of this regulation to the appropriate State or Federal regulator, as FMS is not a Regulatory agency
- Comment period was extended until April 25<sup>th</sup>, 2011
  - Treasury currently reviewing comments received from the public

# Implementation of the EFT Rule

- Treasury is in a position to mandate that all Federal payments be made electronically
  - 31 CFR Part 208 requires that Federal payments be made by EFT, with few exceptions under unique circumstances
    - No waivers for vendor payments
  - The Direct Express Card® provides an electronic payment solution for unbanked Federal benefit recipients
  - The Prepaid Card interim rule permits Federal payments to prepaid cards if certain Treasury requirements are met affording cardholders important protections
  - The Garnishment Interim Rule requires financial institutions to identify and protect exempt Federal funds from garnishment



# Contact

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