

December 14, 2018

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

Re: Docket No. OP-1625, Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments

Dear Chairman Powell, Members of the Board, and Board Secretary Misback:

The undersigned consumer, civil rights and community advocates write to support a role for the Federal Reserve Board (FRB) as an operator of a new faster payments system and to urge the FRB to ensure rigorous consumer protections in faster payments systems.

Background. Electronic payments seem instantaneous, but they are not. The primary electronic payment system today, the ACH system, was adopted decades ago, and payments can take one to three days to clear. The Clearing House, an organization owned by the largest banks, is building a new, real time faster payment system. We support the Federal Reserve Board in creating its own faster payment system in order to provide competition and to ensure that the broader interests of consumers and the public at large are protected in new payment systems.

Benefits of faster payments. More modern and faster, close to real-time payments hold a number of potential benefits for consumers. Families living paycheck to paycheck will be able to receive their wages more quickly and more easily pay bills when due without late fees. Faster payments based on good funds, without the delayed clearing time experience today for checks and ACH payments, will give consumers greater certainty about their balance, helping them manage their money and avoid overdraft fees. More ubiquitous, free or low-cost person-to-person payment options will make it easier to pay landlords, split rent, receive money from family members or a community organization for an emergency, or be paid electronically for household employment.

Risks of faster payments and of a system controlled by the big banks. A single dominant faster payment system controlled by the biggest banks may lack strong consumer protections, lead to monopoly pricing, or disadvantage smaller institutions. Moving money instantly brings real risks of fraud, errors, and weakened consumer protections. The benefits of faster payments will not be fully realized if faster payments are not ubiquitous, reaching all consumers and even the smallest financial institutions. Institutions that are dependent on overdraft fee revenue may find a way to preserve those fees even in a system predicated on good funds.

Importance of FRB role to promote competition. Normally, the private market can provide competition for financial services. But the development of a real-time, ubiquitous payment system is a complex, expensive undertaking that is unlikely to arise in the private market outside of the current collaboration among the largest institutions. A FRB faster payment option will ensure competition, making it more likely that faster payments will remain low cost and serve everyone equally. The FRB's role as an operator of the current ACH electronic payment system has helped to keep that system very low cost and to avoid the risks of giving The Clearing House, the other operator, a monopoly position.

Importance of FRB role in ensuring consumer protections. Another important benefit if the FRB provides faster payments is that a neutral agency charged with protecting the public at large – and not solely an industry group – will shape the development of and rules governing that payment systems. The FRB would have a duty to seek notice and comment from all stakeholders in the development of rules and to objectively consider the costs and benefits to all, unbiased by the profit motive of an industry-led group. The voices and concerns of consumers are less likely to be disregarded.

Here are some of the critical consumer protection issues that the FRB must ensure are addressed in a faster payment system:

- **No overdraft fees.** Overdraft fees originated as a courtesy to cover a check that might bounce due to the delay between writing and clearing. Overdraft fees have no place in a faster payment system, yet some institutions are considering ways to preserve overdraft fee revenue. The rules governing faster payment systems must require good funds and prohibit overdraft fees.
- **Faster payment can't mean faster fraud without recourse.** Systems that make it faster and easier to pay anyone can be exploited by scammers. We have already seen rising fraud in Venmo, Zelle and other faster payment services. Yet the providers of these faster payment systems, who are allowing fraudsters to receive funds, are taking no responsibility for the fraud and telling consumers they are on their own, with no recourse. Systems should not prize speed over safety. All faster payments systems should have rules to prevent, detect, remedy and punish fraudulent uses, even if the consumer was fraudulently induced to send money to a scammer.
- **Privacy and data security.** Faster payment services often give providers access to sensitive financial data and private information. The FRB must play a role to ensure that data is held securely, that only data necessary for the transaction is collected, for the minimum time necessary, that the data is not used or shared in ways that violate consumer privacy, and that consumers can easily terminate access to their data.
- **Ubiquity, inclusion and equal access for all.** While the percentage of consumers who are unbanked has been dropping, many remain outside of the financial system. Faster payment systems may pose different issues for distinct communities, such as those with limited English proficiency, individuals with disabilities, and older consumers. The FRB must take the needs of all consumers into account to make sure that faster payment systems are accessible and work well for all.

We appreciate the FRB's effort to include the consumer community in dialogue about the development of faster payment systems. We support the FRB in taking the next step by creating and operating an independent faster payment system of its own and in ensuring that consumer protection concerns are fully incorporated into the rules and development of all faster payment systems.

Thank you for the opportunity to submit these comments. If you have questions, please contact Lauren Saunders at lsaunders@nclc.org or 202-595-7845.

Yours very truly,

Allied Progress
Americans for Financial Reform Education Fund
Arkansans Against Abusive Payday Lending
Arkansas Community Organizations
Atlanta Legal Aid Society, Inc.
California Reinvestment Coalition
Center for Digital Democracy
Center for Economic Integrity
Center for Responsible Lending
Consumer Action
Empire Justice Center
Florida Alliance for Consumer Protection
Latino Leadership, Inc.
Legal Aid Service of Broward County
Mississippi Center for Justice
Mobilization for Justice
NAACP
National Association of Consumer Advocates
National Center for Law and Economic Justice
National Consumer Law Center (on behalf of its low income clients)
National Consumers League
National Fair Housing Alliance
Public Citizen
Public Justice Center
Reinvestment Partners
U.S. PIRG
Virginia Citizens Consumer Council
Virginia Poverty Law Center
Woodstock Institute
WV Center on Budget and Policy