



Submitted via email to: [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)

Dec. 12, 2018

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

Re: Docket No. OP-1625

Dear Ms. Misback:

The Wisconsin Credit Union League, representing Wisconsin's credit unions® and their 3 million plus members, is pleased to offer its comment on actions that the Federal Reserve could take to promote ubiquitous, safe and efficient faster payments in the U.S.

The Federal Reserve is considering developing a service for 24x7x365 real-time interbank settlement of faster payments, and to support that service, developing a liquidity management tool that would enable transfers between Federal Reserve accounts on a 24x7x365 basis. The League fully supports both actions and urges the Federal Reserve to proceed with all due speed.

The request for comments asked a series of specific (and often technical) questions. We would like to focus on what we consider the key over-arching question: #2. Should the Reserve Banks develop a 24x7x365 Real-Time Gross Settlement (RTGS) settlement service? Why or why not?

Our answer is an emphatic yes. The Federal Reserve Banks should develop a 24x7x365 RTGS service (and a liquidity management tool to support it) for two important reasons: 1) it would provide a societal benefit to all Americans, and particularly those of modest means; and 2) it would benefit the financial services industry and credit unions in particular, by offering a service to that the Federal Reserve is uniquely qualified to provide and that all financial institutions (regardless of size) should be able to access.

#### Societal benefits

The Request for Comment asks that commenters weigh the societal costs vs. societal benefits inherent in developing an RTGS service:

The Federal Reserve's longstanding public policy objectives for the payment system are that payment systems are safe, efficient, and accessible to all eligible banks on an equitable basis and, through them, to the public nationwide. Based on its analysis, the Board believes the Reserve Banks' development of a 24x7x365 RTGS settlement service could yield societal benefit by advancing these objectives and serve as an important part of the foundation for the nation's future payment system. The Board is requesting comment on whether the Federal Reserve's provision of a 24x7x365 RTGS settlement service will indeed offer these potential benefits.

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#### **The Wisconsin Credit Union League**

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While a 24x7x365 RTGS settlement service provided by the Reserve Banks would consume societal resources and could duplicate certain costs that may already have been incurred to set up other settlement arrangements for faster payments, its net effect on the efficiency of the faster payment environment would depend on the extent to which it generates societal benefits by improving bank participation in a real-time interbank settlement infrastructure and, ultimately, public access to safe and secure faster payment services.

The societal benefits would be immense. The United States' outdated payment system can delay settlements for days, draining billions from the U.S. economy. Sen. Chris Van Hollen (MD) stressed this point when he wrote to Federal Reserve Chairman Jerome Powell on Aug. 28, 2018: "The United States' outdated payment system imposes significant and unnecessary costs on Americans, leading consumers to incur billions of dollars a year in fees associated with the delayed movement of funds."

Who bears these costs? Most often, Americans who live paycheck to paycheck and can least afford it – the very consumers that not-for-profit, member-owned credit unions are proud to serve. According to a report from the Brookings Institution's Center on Regulation and Markets:

Real-time payments could save billions of dollars for American families living paycheck to paycheck. ... [T]he lower bound faced by American households is easily breached. One cup of coffee on your debit card can break it. When you go negative, the penalties are severe: \$35 or more on average in overdraft fees. These fees add up, to the tune of over \$15 billion a year. ... People who face short-term cash crunches also turn to small dollar loans, often called "payday" loans.<sup>1</sup>

The Federal Reserve 24x7x365 RTGS service could go far in resolving this inequality and freeing many low-income Americans from the grip of payday lenders and other unscrupulous financial services. Wisconsin credit unions have long led the fight against predatory lending, which targets the poorest in our society, charging usurious interest rates and high fees to trap customers in endless cycles of repeat borrowing. These loans are routinely targeted at low-income Wisconsinites and people of color, with devastating impacts for already vulnerable communities, according to Wisconsin Public Interest Research Group (WISPIRG).<sup>2</sup> The statistics are shocking. For example, payday borrowers in Wisconsin paid an average 595.50% APR in 2017, according to the Wisconsin Department of Financial Institutions.<sup>3</sup>

A real-time payments system would help American consumers avoid these kinds of financial pitfalls and save billions. "A faster payments system would provide immediate access to funds and could offer relief for those who overdraw simply because their deposits are not available quickly enough," according to the Pew Charitable Trusts.<sup>4</sup>

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<sup>1</sup> Aaron Klein, "How the Fed can help families living paycheck to paycheck" (Nov. 22, 2017). <https://www.brookings.edu/research/how-the-fed-can-help-families-living-paycheck-to-paycheck/>

<sup>2</sup> "Stop Payday Predators" (May 2016). <https://wispirg.org/reports/wip/stop-payday-predators>

<sup>3</sup> "Wisconsin Guide to Payday Loans" (Feb. 2018), which is based on "data reported to the Wisconsin Payday Loan Database by licensed Wisconsin payday lenders." <https://www.wdfr.org/resources/indexed/site/dfs/pdl/dfs-lfs-001P.pdf>

<sup>4</sup> Thaddeus King & Rachel Siegel, "Faster Payments System Could Give Consumers and Businesses Better Access to Their Money" (March 9, 2018). <https://www.pewtrusts.org/en/research-and-analysis/articles/2018/03/09/faster-payments-system-could-give-consumers-and-businesses-better-access-to-their-money>

The Congressional Black Caucus stressed these issues in its Oct. 29, 2018 letter to Chairman Powell: “The increased prevalence of overdraft fees, high cost small dollar credit and check cashing has cost our constituencies tens of billions of dollars that a real time payments system would help ameliorate. With the public benefit so clear and costs of delay so dire, we reiterate our strong desire for the Board to move expeditious toward implement a faster payments system.” The League agrees.

### Benefits to the credit union industry

America’s financial service providers need ubiquitous and equally accessible faster payments services, and The League believes that the Federal Reserve’s involvement is essential to the development of such a system.

Private industry is working to develop faster payments systems, but it is critical that the Federal Reserve take the operational lead in developing and hosting a 24x7x365 RTGS system. The Federal Reserve is uniquely positioned to minimize settlement risk, given its history of providing payment services to clear and settle payments between financial institutions on an equitable basis including check, ACH and wire transfer payments.

The Federal Reserve is also uniquely positioned to help assure that all financial institutions – regardless of size – may enjoy access to a new faster payments system. The Federal Reserve has recognized that it may be difficult for the private sector to create an infrastructure that on its own could provide equitable access to enough small financial institutions (like credit unions) to achieve ubiquity. We agree. In providing faster payments services, the private sector has not fostered relationships with many smaller institutions, and it likely would have trouble establishing the relationships required for ubiquity.

The need for ubiquitous, nationwide access to safe and efficient faster payments is an especially pressing concern for credit unions because of their relatively small size in the financial services industry. As of June 2018, Wisconsin’s 130 credit unions had a median asset size of just \$52.9 million.

The U.S. Treasury has underscored the need for credit unions to have options for participation in new and faster payments services:

Treasury recommends that the Federal Reserve move quickly to facilitate a faster retail payments system, such as through the development of a real-time settlement service, that would also allow for more efficient and ubiquitous access to innovative payment capabilities. In particular, smaller financial institutions, like community banks and credit unions, should also have the ability to access the most-innovative technologies and payment services.<sup>5</sup>

We believe that the need for efficiency and ubiquity demand that the Federal Reserve take the lead in developing a new RTGS system.

We also believe that the Federal Reserve needs to act quickly. As the Federal Reserve’s Request for Comments acknowledges, “Both advanced and emerging economies have undertaken efforts to develop faster payment services, and those services are now broadly accessible to the general public in an increasing number of countries.” The United

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<sup>5</sup> U.S. Department of the Treasury, “A Financial System That Creates Economic Opportunity: Nonbank Financials, Fintech, and Innovation” (July 2018). <https://home.treasury.gov/sites/default/files/2018-07/A-Financial-System-that-Creates-Economic-Opportunities---Nonbank-Financi....pdf>

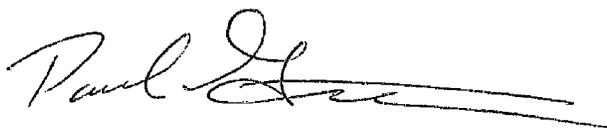
Kingdom adopted real-time payments in 2008. Japan, Poland, Mexico and South Africa all have the technology in place today.<sup>6</sup> It's long past time for the U.S. to catch up.

### Conclusion

To resolve the inefficiencies and the inequalities inherent in the outdated U.S. payments settlement system, it is vital that the Federal Reserve take the lead. Too many payments system participants now take a "wait and see" approach. Only the Federal Reserve can succeed in developing a successful 24x7x365 RTGS system that will achieve the ubiquity, efficiency and security Americans need.

Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul E. Guttormsson", with a long horizontal flourish extending to the right.

Paul E. Guttormsson  
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Wisconsin Credit Union League & Affiliates  
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<sup>6</sup> Klein, supra note 1.