



FINANCIAL SERVICE CENTERS OF AMERICA, INC.
A NATIONAL TRADE ASSOCIATION

Statement of

**Joseph Coleman, Chairman
Financial Service Centers of America**

**Submitted to the
House Committee on Ways and Means
Subcommittee on Social Security**

Hearing on Direct Deposit of Social Security benefits

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Mr. Chairman and members of the Subcommittee on Social Security, I serve as Chairman to the Financial Service Centers of America, also known as FiSCA. FiSCA is a national trade association representing nearly 6,500 neighborhood financial service providers operating throughout the United States. Our membership is comprised of community-based financial service providers, who serve millions of customers from all walks of life, including those with bank accounts as well as the “unbanked.” We provide a range of financial services and products, including check cashing, remittances, money order sales, and utility bill payment services, to name a few. And many of our members offer prepaid debit cards.

I would like to take a moment to consider the impact of the impending electronic payments rule on our customers who receive federal benefits. Many have good reasons why they do not maintain a bank account or a debit card. I ask you to urge the Treasury Department to expand the list of exceptions to include payments to low-income beneficiaries who find that a payment by check is more convenient or less costly than an electronic payment.

FiSCA members, which we call “Financial Service Centers” or “FSCs,” make up an economically significant industry that conducts more than 350 million transactions each year, providing more than \$100 billion in various products and services to over 30 million customers. Our customers understand and appreciate the services we offer. An industry survey showed that 95% of customers rated our services as “good to excellent.”

As an organization, FiSCA advocates transparency in consumer transactions. We understand that our low and moderate-income customers need to manage tight budgets and cannot be subject to surprise fees and incomprehensible charges. Our members post fees in easy-to-understand menu-style signs posted in store lobbies. That way, consumers know exactly what each transaction will cost before the transaction begins.

I want to first commend Chairman Johnson for convening this hearing. The timing is perfect. On March 1, 2013, a mere six months from now, millions of Americans will be denied the choice of how they receive their social security, veterans, and other federal benefits. They will be forced to either open a potentially-costly bank account or receive their benefits on a government-selected prepaid debit card.

For the vast majority of Americans, receiving federal government benefits via either direct deposit or prepaid debit card is simply not an issue. They have bank accounts, and they are familiar with how to use debit cards. And they already receive their benefits electronically.

However, for a sizable number of government beneficiary recipients, many of whom are from vulnerable low income and minority populations, estimated at seven million, this loss of choice in receiving their benefits via paper check will cause a major, painful disruption in their lives.

Every day we see the uncertainty, distrust and misunderstanding in the eyes of our customers when they are presented with their government benefits on debit cards. They bring these cards to our stores and always ask the same questions: What is this? How do I use it? Why are there

so many fees attached to it? How can I “cash the card?” For these individuals, paper checks are best.

The millions of Americans who still receive their benefits by check do so for many reasons. Most simply feel comfortable with this form of payment. Millions more do not have bank accounts. These unbanked Americans have either chosen not to open bank accounts due to banking fees or other cultural reasons or, in many cases, have become "debanked" by actions of the banks themselves. Furthermore, these individuals have repeatedly elected not to receive their benefits on a prepaid card. Again, this election is a conscious choice on their part.

The companies that comprise FiSCA take great pride in outstanding customer service. As such, we are constantly working with our customers, helping them navigate this new world. However, we are very concerned about the impact of this policy on our constituents. Millions of people, especially the elderly and those who are low- and moderate-income, have no idea how to use a card and to effectively navigate its fee structure so as to ensure that their benefits end up being spent on necessities, not ATM and other fees.

A recent incident in one of my stores highlights the challenge. A customer walked into my store lobby and went to use his ATM card. It was the first time he was using it. He did not know how to navigate the ATM so that he could check his account balance and then make a withdrawal at the same time. Instead, he would check his balance and then stop the transaction. Every time he accessed his account his bank charged him \$1.50. Finally, after three separate attempts, \$4.50 in fees, and some help from one of my tellers, he was able to withdraw the cash he needed. This is but one example of a story that is doubtless repeated thousands of times a day across America. For these individuals, you can see the challenges they will face when forced to use the Direct Express prepaid card.

Many of our customers do not live near a bank or a participating ATM. In order to access their benefits, they will need to take time off from work and pay bus fare to the closest bank. In the alternative, they will need to pay ATM convenience fees. The debit card doesn't seem very convenient or cost-effective to these customers.

What will happen to our customer who just got paid and needs to pay his rent the next day? How will they cash their debit card at 7pm? And what if their rent is higher than the maximum ATM withdrawal?

What about the physically-disabled veteran who lives across the street from a financial service center but nowhere near a bank or participating ATM?

And what will happen to the many elderly social security recipients who are under 90 years old and have trouble navigating a debit card fee structure and remembering their PIN, but are not “mentally impaired?”

Notwithstanding the efforts of Treasury to eliminate the fees that may be incurred through the use of the Direct Express prepaid card, electronic transfers of benefits can still be significantly more costly and burdensome than a paper check. Treasury's Direct Express card can subject users to significant fees and surcharges, particularly if they live in a remote area or otherwise lack access to Treasury's preferred ATM network.

Further, by limiting choices to direct deposit or the Direct Express card, Treasury is discouraging financial product competition that could drive down consumer costs, encourage innovation, and increase transparency.

We understand that direct deposit is a convenient option for many banked individuals. And we recognize that efforts to reduce the government's cost to distribute federal benefits have been very successful in that the vast majority (about 90%) of beneficiaries are already receiving their payments via electronic transfers. Conversely, the potential savings to be garnered by forcing the last segment of the population into direct deposit or prepaid cards is minimal and is, in essence, simply transferring costs onto our neediest and most vulnerable citizens.

Some may say that FISCAs position on this matter is entirely self-serving. However, the fact is that millions of Americans who still want to receive their benefits via checks have taken this position because it is what works best for them. This was clearly illustrated in a recent Treasury pilot tax refund program. That initiative encouraged low-income workers to receive their income tax refunds on debit cards in lieu of by paper checks. Although 808,099 taxpayers were invited to participate in the program, and offered various incentives to do so, only 1,933 applied for a card and only one-third of those (roughly 644) actually used the card. Clearly, these people preferred checks. If less than one-half of one percent of those invited to participate prefer a debit card, what will happen when 11 million federal beneficiaries are forced to give up their check?

Furthermore, Treasury's policy, which primarily affects Americans who are unbanked and underbanked, will disproportionately impact ethnic and racial minorities and low- and moderate-income citizens. According to a study by the Federal Deposit Insurance Company ("FDIC"), dated December 2009, approximately 17 million adults in the U.S. reside in unbanked households. More significantly, the proportion of U.S. households that are unbanked varies considerably among different racial and ethnic groups, with certain racial and ethnic minorities more likely to be unbanked than the population as a whole. Minorities more likely to be unbanked include Blacks (an estimated 21.7 percent of Black households are unbanked), Hispanics (19.3 percent), and American Indian/Alaskans (15.6 percent). Racial groups less likely to be unbanked are Asians (3.5 percent) and Whites (3.3 percent). In addition to unbanked households, an estimated 17.9 percent of U.S. households, roughly 21 million, are underbanked.¹ The number of adults that reside in these underbanked households is

¹ Underbanked households are defined as those that have a checking or savings account but rely on alternative financial services. Specifically, underbanked households have used non-bank money orders, non-bank check cashing services, payday loans, rent-to-own agreements, or pawn shops twice a year of refund anticipation loans at least once in the past five years.

approximately 43 million. Again, certain racial and ethnic minorities (Blacks, Hispanics and American Indian/Alaskans) are more likely to be underbanked than the population as a whole. Thus, overall, in the U.S., almost 54 percent of Black households, 43.3 percent of Hispanic households are either unbanked or underbanked.

In addition to the figures reported for members of ethnic and racial minority groups, family households headed by an unmarried female or unmarried male are considerably more likely to be unbanked than married couple households. Almost 20 percent of unmarried female family households and 14.9 percent of unmarried male households are unbanked, compared with about 4 percent of married couple family households.

It is also important to note that several states, including New York and Louisiana, have recently passed legislation to mandate the retention of paper checks as a means of distributing state income tax refunds.

Because this issue is so important to our customers, FiSCA has outlined its Principles of Choice in Receiving Government Payments, outlined below:

FiSCA's Principles of Choice in Receiving Government Payments

- All Americans should have the choice of receiving their payments by the means that is most convenient for them, including paper check.
- Americans should not be compelled to receive government payments by means that impose a significant increase in costs to them.
- Government payment systems will negatively impact low-to-moderate-income Americans, ethnic and racial minorities, the elderly and the disabled.
- Americans should not be forced to receive government payments by means that impose significant inconvenience or hardships.
- Americans should not be forced into programs which require them to waive their constitutionally protected rights.
- Treasury must not eliminate currently used payment systems of choice, such as ETA and Secure Check, in favor of direct deposit or debit cards.
- Americans must not be compelled to receive personal income tax refunds from the U.S. Treasury solely through electronic means when they clearly prefer multiple options.
- Americans must not be forced to receive payments in a means which may compromise their financial safety and security.

FiSCA believes that adoption of these principles is essential to protecting the rights of America's low- and moderate-income citizens, those least able to afford an increase in surcharges and fees.

FiSCA understands low- and moderate-income consumers as few others do. We would welcome the opportunity to lend our expertise to the Subcommittee on Social Security as it continues to explore the many issues surrounding direct deposit of social security benefits. In the meantime, it is our understanding that the Treasury Department has the legal authority to provide for exceptions "for whom compliance imposes a hardship." We urge you to make sure that the electronic payments rule that is ultimately implemented does not unnecessarily impose burdens on the most vulnerable Americans. We urge you to delay the implementation date of the current rule, expand the list of exceptions and improve the waiver process.

Thank you.