

Payments Pricing: Who Bears the Cost?

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Consumers pay for payments:

- ▶ Fees and interest paid for payment devices
- ▶ Higher prices for products and services to extent interchange fees reflected in higher prices for goods and services
- ▶ Overdraft and other checking account fees
- ▶ Gaps in consumer protections

Interchange Fees

- ▶ \$48 billion paid to card processors in 2008
- ▶ All consumers pay increased prices for goods and services
- ▶ Rewards card holders subsidized
- ▶ Higher fees for signature debit cards than PIN
- ▶ Consumers do not get clear price signals
- ▶ Interchange fees should be transparent, not excessive, based on fair contracts.

Credit Card Fees and Interest

- ▶ Tab for credit cards: \$117.76 billion (MC/V)
- ▶ Major changes for abusive, unfair tactics
 - Credit CARD Act of 2009 in Senate
 - House passed H. R. 627
 - Federal Reserve Board rules
- ▶ Penalty fees
- ▶ Retroactive rate increase on prior purchases
- ▶ Card “pay to pay” fees
- ▶ Unjustified rate hikes, universal default
- ▶ Unfair “any-time, any-reason” rate hikes

Bank Overdraft Fees

- ▶ \$17.5 billion paid for \$15.8 billion in loans
- ▶ \$35 median big bank fee plus sustained OD
- ▶ \$20 median OD on debit card purchase
 - FDIC quotes 3,520% APR for two week OD
- ▶ Banks maximize number of Od's
- ▶ In 2004, 80% of banks rejected debit OD
- ▶ In 2008, 81% of banks allow OD at ATM and debit card terminals

Who Pays Overdraft Fees?

- ▶ 16% of people who overdraft pay 71% of fees
- ▶ Repeat OD'ers lower income, single, non-white, and renters
- ▶ 55 and older pay \$4.5 billion in OD fees/yr.
- ▶ 18–24 years old pay \$1 billion/yr.
- ▶ Young people who use debit cards for small transactions pay \$3 for every \$1 borrowed

OD are Payday Loans at Banks

- ▶ Credit based on access to bank account
- ▶ Due in full immediately, repaid by next pay
- ▶ Triple digit or higher rates to borrow
- ▶ Not based on ability to repay
- ▶ Consumers tend to get trapped in repeat borrowing

OD Unfair Features

- ▶ No opt-in for overdraft program
- ▶ Don't get Truth in Lending cost quotes
- ▶ Aren't warned when transaction will OD
- ▶ Credit not based on ability to repay
- ▶ Loans paid by set-off, not affordable installment payment schedule
- ▶ Escalating fees, few limit number of fees
- ▶ Can't close account until OD's repaid

Reforms for Overdraft Loans

- ▶ Federal Reserve Board proposed Reg E
 - Opt-out
 - Opt-in
- ▶ H. R. 1456 Rep. Maloney Bill
 - Opt-in required
 - TILA cost disclosures
 - No high to low payment processing
- ▶ S. 500/H.R. 1608 Durbin/Speier 36% Cap

Prepaid Debit Cards

- ▶ Lots of fees for “bank account on plastic”
- ▶ Pay to get card, load funds on card, use card
- ▶ Some cards permit overdrafts, charge “shortage fees,” or charge a fee to add an overdraft feature
- ▶ Total cost for a typical first month of use:
 - \$43.85 on RushCard
 - \$18.47 on Wal-Mart Money Card
 - \$9.10 of Treasury’s Direct Express Card

No Prepaid Debit Protections

- ▶ No federal law specifically for SVC
- ▶ No federal liability limits
- ▶ No recourse for disputes
- ▶ No chargeback
- ▶ No recredit requirement
- ▶ No place to file complaints
- ▶ May not be covered by deposit insurance

Protections for Paying with Plastic

- ▶ Upgrade loss caps and re-credit time period
 - \$50 maximum loss on any plastic, non-cash pay
- ▶ Extend EFTA rights to prepaid debit cards used as bank account substitute
- ▶ Equal, strong billing error rights
- ▶ Add chargeback right for debit and prepaid
- ▶ Extend EFTA re-credit right to checks
- ▶ Protect consumer control of bank accounts:
 - No demand drafts
 - No single payment debit as security for loan

Payment Pricing Principles

- ▶ Affirmative choice to use payment method
- ▶ Fair fees related to actual cost
- ▶ Clear disclosures of all costs prior to purchase/use of device or feature
- ▶ Fair distribution of costs/benefits from choosing less expensive options
- ▶ No retroactive change in fees or interest hikes on prior purchases
- ▶ Competition or restraints on market power