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
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