Statement for the Record

On behalf of the

American Bankers Association

before the

Task Force on Financial Technology

Of the

House Financial Services Committee

June 11, 2020

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The American Bankers Association[1] (ABA) appreciates the opportunity to submit a statement for the record for the hearing titled "Inclusive Banking During a Pandemic: Using FedAccounts and Digital Tools to Improve Delivery of Stimulus Payments." The COVID-19 pandemic has laid bare the consequences of many forms of inequality, including – at the heart of today's hearing – access to banking services. As we have seen over the past few months, the government's ability to deliver aid quickly to support families and small businesses can be literally a matter of life or death. Banks have played a critical role in delivering much-needed stimulus and are supporting their customers and communities affected by the pandemic – and we are committed to improving the system so it's even faster, more effective, and more inclusive. We do not, however, believe that recent proposals to create FedAccounts backed by digital dollars is the answer.

A disruptive federalization of the banking system introduces serious risks to monetary policy, financial stability, credit availability, and financial inclusion. There is important work already underway to ensure all Americans have access to both basic and innovative banking services including real-time payments. Congress can best support pandemic relief efforts and future rounds of stimulus payments by supporting these initiatives.

Banks Have Been a Critical Delivery Mechanism for COVID Relief

As the coronavirus continues to impact communities across the country, America's banks have stepped up to assist individual and business customers affected by the pandemic, as well as the communities they serve. Banks have developed numerous programs to help their customers and acted as a critical delivery mechanism for government stimulus programs designed to help those impacted by this health crisis.

[1] The ABA is the voice of the nation's $18.7 trillion banking industry, which is comprised of small, midsized, regional and large financial institutions. Together, these institutions employ more than 2 million people, safeguard $14.6 trillion in deposits and extend more than $10.5 trillion in loans.

Banks are helping consumers access their Economic Impact Payments.

Digital tools have been a key factor in the unprecedented speed and efficiency of the Economic Impact Payments (EIP) program, and many of these innovations, including remote account opening, remote check deposit, and real-time payments continue to evolve to ensure a more inclusive, accessible, and secure banking ecosystem. Banks have worked hard to ensure the safe and secure delivery of 512 billion in EIPs to more than 159 million Americans under the CARES Act. More than 80 million EIP recipients received their payment electronically on the first day of the program. [2]

This is significantly more efficient than past stimulus payments. It took Treasury just two months to deliver the 159 million payments. The last time a similar effort was undertaken in 2009 it took over two months to deliver 800,000 payments. The majority of the payments this year were made electronically with 120 million delivered by direct deposit and 4 million in the form of a prepaid card.

ABA encouraged Treasury to maximize the use of electronic payments by leveraging all existing government data sources to identify eligible recipients with deposit account information on file and by creating a web portal to allow individuals not in those systems to upload their direct deposit information and promoted that portal once it was established. We also worked with the FDIC and others to promote remote account opening offerings, including those that could be funded initially with an EIP.

Banks are also working to help check recipients access their EIPs. They are creating “safe” and socially distant ways to cash checks. In addition, a number of banks have committed to cash stimulus checks for noncustomers for free.

ABA agrees, however, that improvements can be made to deliver even more payments electronically and to move those electronic payments even more quickly by leveraging existing real-time payments and other capabilities. We have committed to working closely with the Department of Treasury to consider these changes for future rounds of stimulus payments.[3] In addition, ABA has worked with other banking trade associations and with consumer and public interest groups to seek legal clarity that stimulus payments are critical economic relief and should not be subject to garnishment.[4]

Banks have been central to delivery of Paycheck Protection Program funds.

Banks have also played a central role in delivering the Paycheck Protection Program (PPP) loans designed to give businesses the resources to keep their workforce employed through the pandemic. As of June 8, the PPP has delivered 4.5 million loans worth $512 billion at an average size of $113,000.

Banks’ presence in their community and their strong balance sheets enabled them to quickly move to get these funds where they were most needed. In the first round of the program, banks accounted for 93.7% of

[2] https://home.treasury.gov/news/press-releases/sm1025

[3] May 13, 2020, Joint Trade Association letter to Treasury Fiscal Assistant Secretary David Lebryk.

[4] May 26, 2020, Press Release, Consumer, Banking Groups Applaud Bill to Exempt Economic Impact Payments From Garnishment,

all PPP loans. While full cumulative data is not yet available, banks account for 81.7% of loans made by institutions under $1 billion.[5]

One factor that contributed to banks' swift response is their balance sheet driven model. While market-funded lenders had to wait for new funding facilities, many banks were able to leverage their deposit funding to begin funding loans right away. If FedAccount proposals were successfully implemented, they would severely limit the kind of deposits that made this swift action possible.

Banks are working with their customers.

In addition to their role in delivering government stimulus, banks have provided unprecedented assistance to customers affected by the pandemic. The relief, which varies by institution and depends on a customer's individual circumstances, includes (but is not limited to):

- Offering hardship programs
- Waiving certain fees
- Deferring loan payments
- Providing temporary credit lines
- Modifying loans
- Helping customers use mobile and digital banking platforms
- Alerting customers to scams related to the coronavirus
- Offering "safe" banking services by expanding drive-through and ATM operations
- Establishing "Golden Hours" when at risk individuals such as seniors can bank in a branch with less risk of exposure to the virus

Implementation of FedAccounts or a digital dollar would not help deliver COVID aid.

The implementation of FedAccounts cannot be accomplished by flipping a switch and would take far too long to have any impact on the COVID recovery. Before the Federal Reserve could unveil FedAccounts they would have to carefully consider the implications to the monetary and banking systems and build the infrastructure and expertise to operate a consumer-facing bank.

The Monetary Control Act and the Federal Reserve's longstanding policy regarding the provision of payments services requires the Federal Reserve to meet three criteria when considering offering a new service. The basic requirements are:

1. Full recovery of costs over the long run.
2. The service will provide a clear public benefit.
3. The service should be one that other providers alone can't be expected to provide with reasonable scope, effectiveness, and equity.

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[5] https://www.nber.org/papers/w27095

Banks are Committed to Financial Inclusion; FedAccounts Would Undermine those Efforts

A foundational goal of FedAccounts (and similar proposals like postal banking) is to promote financial inclusion and to give more Americans access to fast payments. America's banks are committed to promoting financial inclusion. Access to banking services provides people with a means to save for their future and economic opportunity that is critical to promoting social equality. This is an important and urgent goal; however, by taking too narrow a view of the problem, FedAccount proposals risk undermining these efforts.

ABA and its member banks are leveraging new digital tools to bring more Americans into the banking system.

FedAccount proposals focus solely on the question of access to a deposit account. While it is true that deposit accounts are often the first step towards inclusion, 95% of U.S. households already have access to a bank account or prepaid card account.[6]

The U.S. rate of inclusion positions the U.S. as a global leader in financial inclusion, but it is not good enough, and there is work to be done. Banks are committed to continued investments to ensure all Americans have access to the banking system.

Today, unbanked customers have numerous options to open bank accounts. ABA has worked collaboratively with the FDIC and BankOn[7] to publish a list[8] of banks where consumers can open an account entirely online, with no need for a customer to visit a branch. Many of these accounts can be opened with a zero balance and funded entirely by an EIP.

Through BankOn and other efforts, free and low-cost bank accounts are widely available at banks of all sizes. BankOn sets account standards that provide a benchmark for safe, affordable accounts at mainstream financial institutions, setting consumers on a path toward financial inclusion. Today, these accounts are available at over 24,000 branches across the United States.

FedAccount proposals would do little to improve on these programs or address the true reasons that consumers don't have accounts today. The top three cited reasons cited for not having a bank account

[6] 2017 (most recent) FDIC National Survey of Unbanked and Underbanked Households. which shows that 93.5 percent of households have a checking or savings account (page 2) and an 26.9 percent of the unbanked have a prepaid account (page 7). Prepaid accounts generally offer the same features and functions of as checking accounts though they do not permit overdrafts.

[7] Bank On platform supports local coalition and financial institution efforts to connect consumers to safe, affordable banks accounts and worked to develop Bank On National Accounts standards.

[8] https://www.aba.com/banking-topics/payments/economic-impact-payments/banks-offering-online-account-opening?utm_source=fdic&utm_medium=referral&utm_campaign=covid&utm_content=fdiclink

include “don’t have enough money to keep in account” (52%), “don’t trust banks” (30.2%), and “avoiding bank gives more privacy” (28%). [9]

The benefits of a long-term banking relationship go well beyond a deposit account.

By focusing solely on Americans without access to an account, FedAccount proposals ignore the 18.7% of U.S. households that are considered underbanked. These households have an account at an insured institution but also have had to rely on financial products or services outside of the banking system like payday lenders.

Not only do current FedAccounts proposals not address this serious issue, they will likely exacerbate it. Philadelphia Fed Research referenced above found that these proposals would create a “deposit monopoly” that would “attract deposits away from the commercial banking sector.” This has the effect of reducing the funds on banks balance sheets that is available to lend which would reduce access to credit.[10]

Innovation in banking has the strongest potential to drive inclusion.

ABA believes that responsible innovation in financial services will continue to benefit customers as it has throughout the history of banking and has the potential to drive financial inclusion. New technologies have been shown to make it possible to extend credit to many more borrowers.

Digital technology has put a bank branch into a consumer’s pocket. This makes banking more convenient but also more accessible. The scalable nature of these technologies mean that it is cheaper today to extend financial services to more people. Recent examples include:

- Mobile banking that can give people without easy access to physical branches access to a full suite of banking services;
- New underwriting technologies like cashflow lending that allow banks to evaluate the creditworthiness of those with little to no credit history;
- Automated underwriting that lowers the cost of underwriting individual loans making it possible to profitably extend smaller loans; and
- AI and other technologies that have created easy-to-use and intuitive interfaces that make technology more accessible.

Fast, Electronic Payments are Already a Reality

While FedAccount proposals claim to speed up payments, the reality is that the majority of payments in the U.S. are already digital. Today, consumers and businesses have the option to pay with credit or debit cards, payments applications like Zelle or Venmo, and via automated clearinghouse (ACH).

Efforts to modernize and speed up our payments system have been underway for some time and are already being implemented. The Federal Reserve’s 2017 Faster Payments Task Force examined the entirety of the payment system and its experts, including consumer groups, recommended faster networks – not a

[9] https://economicinclusion.gov/downloads/2017_FDIC_Unbanked_HH_Survey_Report.pdf

[10] https://www.philadelphiafed.org/-/media/research-and-data/publications/working-papers/2020/wp20-19.pdf

new currency. As a result of these efforts, the Federal Reserve is building out a instant payments solution called FedNow.

Industry has been driving these improvements as well. The Real-Time Payments (RTP) Network is a brand-new instant payment system that represents an advancement equivalent to moving from dial-up to broadband in terms of speed and features. ABA was a strong advocate for using this capability as part of the EIP program to speed electronic payments to those with bank accounts or even prepaid cards.

Together, RTP, FedNow, and faster ACH systems are forming a web of super-fast, low-cost or free digital payment options that will make waiting for days a thing of the past.

Implementing FedAccounts would be a distraction that creates delays in deploying many payments improvements, and derail some entirely. Even the newest systems would have to be reworked and the Fed's resources would be diverted from developing and deploying FedNow, an urgent priority.

Given the significant investments in digital payments and the strong progress that has been made, there is little role for a digital dollar. Governor Brainard came to the same conclusion in her evaluation of CBDC noting:

> There is no compelling demonstrated need for a Fed-issued digital currency. Most consumers and businesses in the U.S. already make retail payments electronically using debit and credit cards, payment applications, and the automated clearinghouse network. Moreover, people are finding easy ways to make digital payments directly to other people through a variety of mobile apps. New private-sector real-time payments solutions are beginning to gain acceptance in the United States. And the Faster Payments Task Force has laid out a roadmap embraced by a variety of stakeholders for a fast, ubiquitous, and secure payments system to be in place in the United States in the next few years. In short, a multiplicity of mechanisms are likely to be available for American consumers to make payments electronically in real time. As such, it is not obvious what additional value a Fed-issued digital currency would provide over and above these options.[11]

FedAccounts Proposals Have Wide-Ranging Implications that Would Undermine Recovery and Limit Future Economic Growth

The implementation of FedAccounts have serious implications for the transmission of monetary policy and would fundamentally reshape our banking system. While the goals of these propoals are narrow, they have wide-ranging unintended consequences that undermine these goals and would do more harm than good.

FedAccounts threaten the retail banking model.

The successful implementation of FedAccount proposals would have serious implications for retail banking that reach well beyond payments. In effect, these accounts will serve as an advantaged competitor to retail bank deposits that will move money off bank balance sheets where it can be lent back into the economy and into accounts at the Federal Reserve.

While depositors at FDIC insured banks have never lost a penny of an insured deposit, it is hard to compete with a government agency that prints that money. Philadelphia Federal Reserve research found that

[11] https://www.federalreserve.gov/newsevents/speech/files/brainard20180515a.pdf

depositors value this and will, in equilibrium, choose to hold their funds at the Federal Reserve instead of at retail banks, establishing the Federal Reserve as a "deposit monopolist."

Unlike retail banks, the Federal Reserve is not prepared to make loans to consumers and businesses. As deposits migrate from bank balance sheets to the Federal Reserve, it will severely restrict the availability of the capital that fuels economic growth.

In times of economic hardship, banks' balance sheet driven model is even more important. Banks' balance sheets and strong capital position allow them to make long-term investments and continue lending throughout a downturn, just when it is needed most.

A digital currency also creates a risk to financial stability. In times of economic stress, depositors are likely to prefer holding their money at the Federal Reserve. This creates a risk of bank runs that would undermine financial stability.

Federal Reserve is not positioned to be a retail bank.

The Federal Reserve has neither the authority nor experience to operate a consumer-facing bank. The banking industry has a long track record of serving customers. To do this, America's banks employ more than 2 million people. Today the Federal Reserve System has about 20,000 employees. Building a nationwide consumer-facing bank would require a substantial investment in staff, expertise, processes and infrastructure.

Governor Brainard details some operational challenges that this would entail,

> "First, there are serious technical and operational challenges that would need to be overcome, such as the risk of creating a global target for cyberattacks or a ready means of money laundering. For starters, with regard to money laundering risks, unless there is the technological capability for effective identity authentication, a central bank digital currency would provide no improvement over physical notes and could be worse than current noncash funds transfer systems, especially for a digital currency that could circulate worldwide. In addition, putting a central bank currency in digital form could make it a very attractive target for cyberattacks by giving threat actors a prominent platform on which to focus their efforts. Any implementation would need to adequately deal with a variety of cyber threats--especially for a reserve currency like the U.S. dollar." [12]

A central bank digital currency implicates societal values and privacy.

By making a quasi-governmental body into the nation's near-monopoly provider of currency, bank accounts, and payment services, the Federal Reserve would quickly become politicized as the central control point for monitoring and potentially denying transactions. For controversial but locally-regulated purchases such as cannabis and firearms, a central bank digital currency would entangle the Federal Reserve as a national arbiter of social issues. The right of people to transact outside the view of the central bank is a cherished civil liberty that is preserved and protected by the due process of a competitive private banking sector.

[12] https://www federalreserve.gov/newsevents/speech/files/brainard20180515a.pdf

Conclusion

As our nation faces a pandemic, it is only natural that we look to technology for innovative solutions to address the new problems that we face today. The rapid convergence of banking and technology is quickly changing the financial services market in ways that are making financial services cheaper and more widely available and accessible.

FedAccount and digital dollar proposals are well-intentioned but ineffective responses to the challenges identified by supporters. They look to provide more efficient COVID relief, but would take far too long to implement to have any meaningful effect. They look to promote financial inclusion but take a narrow view of the problem and would ultimately undermine it. They seek to speed up payments while ignoring the cross-industry efforts that are already underway and delivering for consumers.

Ultimately these proposals fall short on their promise and introduce serious unintended consequences that would undermine our recovery and future economic growth.