The Debt Collection Improvement Act of 1996 (Act), requires the government to deliver all payments except federal tax refunds using electronic funds transfer (EFT) by January 1, 1999. The expanded use of EFT means that millions of individuals who receive federal benefits will be brought into the banking system for the first time. The Treasury Department's Financial Management Service (FMS) would prefer that these federal recipients become "banked," through the establishment of accounts at financial institutions. This makes direct deposit of federal benefits a viable payment option. But if recipients remain "unbanked," the government will pursue other options which can accommodate EFT payments. Without such options, unbanked individuals cannot meet the EFT payment requirement, and millions of people may continue to conduct their financial affairs in ways that compromise their financial safety. The Treasury Department is currently seeking industry ideas for how these EFT options will operate and how they will be offered at a reasonable cost through a proposed rule (31 CFR Part 208) which was published on September 16, 1997.

After the public comment period, which ends on December 16, 1997, the rule and compliance measures will be finalized. Until 1998, one can only speculate how the government will make electronic payment options available to federal recipients who lack bank accounts. However, Treasury
currently sponsors two programs designed to provide EFT account services. One is the Direct Payment Card pilot in Texas; the other is the Benefit Security Card® program that is available in eight southeastern states. Different from these government-sponsored approaches (but designed to indirectly expand direct deposit participation among unbanked recipients) is Treasury's promotion of its Direct Deposit Too concept.

*The government is moving boldly to convert federal benefits such as Social Security to EFT. A major challenge: the estimated 10% of check recipients that lack bank accounts. Treasury is encouraging all financial institutions to expand the use of direct deposit by offering accounts that are more "unbanked friendly." Still, a national strategy to provide banking services for recipients that remain unserved is being defined. It's unclear what the final plan will look like, but Treasury's FMS has been offering basic banking services to a limited target audience since 1992.*

**Banking Services Through the Private Sector**

*Direct Deposit Too (DD Too)*

Direct deposit is the most popular form of payment by EFT and is currently the method used for approximately 55% of federal benefit payments. Converting the remaining payments to EFT could save taxpayers roughly $500 million over the next five years, while enhancing safety, reliability, and convenience to consumers. However, if federal benefit recipients lack bank accounts, direct deposit does not work. There are many reasons why individuals lack basic bank accounts, but DD Too responds to many of the problems commonly linked to checking accounts. Specifically, improper account reconciliation, bounced checks, and penalty fees may create feelings of uncertainty and anxiety plus added cost to some bank customers. This increased cost often surpasses the price of cashing checks and purchasing money orders at non-depository institutions.
Government research indicates that 60% of federal benefit recipients cash their monthly benefit checks at financial institutions. FMS is asking financial institutions to serve recipients by adopting the Direct Deposit Too model.

**DD Too** is a bank account model that any financial institution may adopt. **DD Too** is NOT a government product where account features and fees are regulated. However, if the **DD Too** model is widely adopted, it increases direct deposit potential for any payor including the federal government. FMS markets the **DD Too** model to all financial institutions in an effort to increase the availability of "risk free" and "penalty free" accounts for unbanked federal benefit recipients. This expands consumer choice, and brings more benefit recipients into mainstream banking. Some financial institutions are adopting the **DD Too** concept by permitting direct deposit of recurring payments plus an over-the-counter deposit feature for infrequent payments. These same financial institutions often supplement on-line debit with over-the-counter access features. Treasury applauds such efforts and is pleased that the four banking regulatory agencies consider accounts based on the **DD Too** model eligible for credit under the Community Reinvestment Act (CRA.)¹

Eighty-eight percent of all Treasury-disbursed benefit payments (EFT and checks) involve programs administered by the Social Security Administration.

**DD Too’s Suggested Standards**
Payments: Direct deposit of federal benefits into a consumer-owned and consumer-established bank account offered by private sector financial institutions.
Access: No checks, no potential to overdraw, no minimum balance requirements, and reasonably priced services. Card/PIN access to accounts by on-line debit is generally suggested.
Government-Sponsored Bank Accounts

Direct Payment Card
FMS's Direct Payment Card pilot in Texas is a banking service where account features and fees are uniform since they are defined by government. In 1992, Citibank was competitively selected to provide account services as the Treasury Department’s agent. These accounts are recipient-owned and are "prefunded" because federal benefit payments are delivered through the Automated Clearing House (ACH) network on the appropriate payment date. No other deposits are permitted into the account. Recipients access their federal payments at existing ATMs and at retail point-of-sale (POS) terminals using a standard Citibank issued on-line debit card and a personal identification number (PIN).

The Comptroller of the Currency and the three other federal regulatory agencies conclude that DD Too would receive favorable consideration as either a community development service-low cost account that improves access to low-moderate income persons, or as an alternative delivery system, for delivering retail banking services.

Payment access is fully compatible with private sector requirements since transactions are routed through regional and national financial networks. Recipients pay a reasonable fee for services, but unlike most basic accounts that are available through the private sector, the Direct Payment Card account cannot be overdrawn, has no minimum balance requirements and there are no "penalty fees" due to the risk-free nature of the account. FMS markets Direct Payment Card services directly to check recipients in Texas, targeting recipients who lack bank accounts. Citibank enrolls recipients, issues cards/PINS, trains recipients, and handles customer service inquiries via a toll-free phone line. Recipient participation in the Direct Payment Card pilot is voluntary and FMS pays Citibank an
additional subsidy since the pilot nature of the program limits payment volume and client participation.

*Benefit Security Card*®
The *Benefit Security Card*® program is an EFT application that is rolling-out across eight southeastern states, known as the Southern Alliance of States (SAS). This effort is a partnership between the federal government and SAS, and marks the only instance where state-administered welfare benefits and federal benefits are either mutually or singularly available using a single debit card. Among SAS states, this EFT service is referred to as Electronic Benefits Transfer (EBT). Although EBT services appear identical to benefit recipients, the federal approach for servicing these accounts is fundamentally different from the states' approach.

Within the SAS, both federal and state recipients access their benefits using the *Benefit Security Card*® at ATMs and retail point-of-sale outlets. However, unlike state benefits, all federal benefits via EFT must be deposited into a consumer-owned account. Unlike federal benefits, SAS recipients who receive only state administered benefits do not receive Regulation E protection and the banked or non-banked status of the SAS state recipient is not generally relevant. Most states have, or will soon have, EBT systems in place, but many do not contract with financial institutions to provide EBT services. In the SAS, however, a financial institution must be the primary service provider because federal payments are a part of the *Benefit Security Card*® program. All other aspects of the federal approach in the *Benefit Security Card*® program, including voluntary participation by federal recipients, are similar to the *Direct Payment Card* program except there is no federal subsidy to the financial institution.

**The Search for Broad-based Solutions**

*EBT represents state initiatives where paper payments such as checks and food coupons are permanently replaced by Electronic Funds Transfer. FMS*
has piggybacked on states' efforts, but unlike EBT, the federal program is offered to unbanked recipients on a voluntary basis. In addition, the federal recipient receives deposit insurance and Regulation E protection since, unlike EBT, payments to a federal recipient must be deposited into an account at a financial institution.

The government continues to be concerned that roughly 10 million federal benefit recipients conduct their financial affairs in ways that compromise safe and sound practice. Mr. John D. Hawke Jr., Under Secretary of the Treasury for Domestic Finance, echoed this concern in his American Banker article:

"...At a time when the complexity of our economy makes it unthinkable for most people to conduct their daily affairs without a bank account, it has been estimated that as many as 20% of American families — including almost one-third of minority group families — have no such accounts. Many of these families...rely on check cashers, pawnbrokers, money transfer agents or local merchants to cash their payroll or benefit checks, frequently at a high cost."

The Debt Collection Improvement Act will significantly impact federal EFT activity. Treasury encourages financial institution officials to assertively market direct deposit to existing customers, and to actively offer the DD Too model to potential consumers that are currently unserved.

The Treasury Department continues to build momentum for financial institutions to offer reasonably priced accounts based on the DD Too model. This is because everyone gains when "unbanked" recipients are presented with competitive account choices that are easy-to-use, reasonably priced, and available through neighborhood financial institutions. However, if there are voids in private sector availability, and given Treasury's mandate to expand EFT participation by January 1999, Treasury will seek-out additional
EFT options and target services to Federal benefit recipients who lack bank accounts. How closely such account services will be modeled on FMS's Direct Payment Card and Benefit Security Card® programs is speculative at best. But stay tuned...early in 1998, Treasury will begin to lay a framework for a national strategy to deliver federal benefits to a constituency that remains unbanked.

FMS's proposed rule, 31 CFR Part 208, is available for public comment through December 16, 1997. Before any final decisions are made as to the attributes of a federally-sponsored, consumer-owned card/PIN account, Treasury is asking stakeholders to comment. Immediate access to the proposed rule is available on the Internet: http://www.fms.treas.gov/eft.

1 For a copy of the full written opinion regarding DD Too's applicability to the CRA, contact the Federal Reserve Bank of San Francisco's Community Affairs Department, or contact FMS at (202) 874-6540.

About the Author

William Sessums is responsible for managing the U. S. Department of Treasury's Direct Deposit Too Project in the Product Promotion Division of the Financial Management Service (FMS). He created Treasury's Direct Deposit Too model and is the primary coordinator of FMS's Direct Payment Card program. Prior to joining FMS, Mr. Sessums held positions with the State of Maryland, Department of Human Resources.