

# United States Senate

August 28, 2018

COMMITTEES  
APPROPRIATIONS  
BANKING, HOUSING, AND URBAN  
AFFAIRS  
BUDGET  
ENVIRONMENT AND  
PUBLIC WORKS

The Honorable Jerome Powell  
Chairman  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue N.W.  
Washington, DC 20551

Dear Chairman Powell:

I am writing to express my concerns regarding the continued delay in implementing a real-time payments system.

The United States' outdated payment system imposes significant and unnecessary costs on Americans, leading consumers to incur billions of dollars a year in fees associated with the delayed movement of funds.<sup>1</sup> These costs are primarily borne by the millions of American families who live paycheck-to-paycheck, while they are rarely, if ever, applicable to wealthier families who never approach the lower bounds of their bank account. According to the Federal Reserve's own data, almost half of Americans report not being able to "cover an emergency expense costing \$400, or would cover it by selling something or borrowing money."<sup>2</sup> For these Americans, settlement delays translate into real money.

Recent work from the Brookings Institute illustrates the impact of our slow payment system on lower-income Americans: "Unlike the Federal Reserve's zero lower bound of monetary policy, the lower bound faced by American households is easily breached. One cup of coffee on your debit card can break it. When you go negative, the penalties are severe: \$35 or more on average in overdraft fees. These fees add up, to the tune of over \$15 billion a year."<sup>3</sup>

Working families appreciate recent technological advances that allow for digital check capture and processing. Since the enactment of the *Check 21 Act*, the Federal Reserve has radically reduced its check processing footprint, from 45 different check processing centers to just one.<sup>4</sup> Yet the American public still does not receive its funds in real time.

<sup>1</sup> Lane, Charles. *Why Slow Electronic Payments Can Cause Cash Flow Problems*, NPR, February 18, 2015. <https://www.npr.org/2015/02/18/386769503/why-slow-electronic-payments-can-cause-cash-flow-problems>

<sup>2</sup> Board of Governors of the Federal Reserve System. 2016. *Report on the Economic Well-Being of U.S. Households in 2015*. <https://www.federalreserve.gov/2015-report-economic-well-being-us-households-201605.pdf>

<sup>3</sup> Klein, Aaron. *How the Fed can help families living paycheck to paycheck*. The Brookings Institute, November 22, 2017. <https://www.brookings.edu/research/how-the-fed-can-help-families-living-paycheck-to-paycheck/>

<sup>4</sup> Board of Governors of the Federal Reserve System. *Regulation CC (Availability of Funds and Collection of Checks)*. February 28, 2017 <https://www.federalreserve.gov/paymentsystems/regcc-about.htm>

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In 2007, when the Federal Reserve reported to Congress on the wisdom of lowering check holding periods, as required under the *Check 21 Act*, the Fed found that electronic adoption “has not been sufficient to warrant changes in the maximum permissible hold periods mandated by the EFAA and Regulation CC.”<sup>5</sup> However, today the Federal Reserve on its website states that, “the nation’s interbank check-collection processes have become almost entirely electronic.”<sup>6</sup> The Fed’s website goes on to tell consumers that they must still wait for faster funds availability, “over the longer term, if Check 21 sufficiently increases the speed of check processing, the Board will reduce maximum hold times.”<sup>7</sup>

The Federal Reserve’s own electronic processing system, the automated clearing house (ACH) does not offer real-time payments, in stark contrast to central bank systems in the UK, Poland, Mexico, South Africa, Denmark, Singapore and more. Accenture Consulting’s report on faster payments found that the United States has been slow to embrace real time payments in part because of the lack of central payments regulation.<sup>8</sup>

As you know, the Federal Reserve has been considering this issue for many years. The Fed convened the Faster Payments Task Force to engage a diverse array of stakeholders in advancing the work outlined in *Strategies for Improving the U.S. Payment System*. The Task Force concluded its work with a call for real-time payments by 2020, but no mandate for adoption. Recently the Treasury Department released a report in which it stated that: “Treasury recommends that the Federal Reserve set public goals and corresponding deadlines consistent with the overall conclusions of the Faster Payments Task Force’s final report.”<sup>9</sup>

The Bank of England adopted real-time payments in 2007. The Federal Reserve was once ahead of the curve in promoting the adoption of payment technology. It is unacceptable that the United States continues to lag behind its peers in modernizing our payment system. Each year, this failure imposes billions of dollars of unnecessary costs on millions of working families. I trust that you share this view and ask for your commitment to complete payment system modernization within a year. This reform is way overdue.

Please respond to the following by September 11, 2018:

1. What regulatory actions are needed in order to implement real-time payments?
2. What industry actions are needed in order to implement real-time payments?
3. What, if any, legislative actions are needed in order to implement real-time payments?

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<sup>5</sup> Board of Governors of the Federal Reserve System. Report to the Congress on the Check Clearing for the 21st Century Act of 2003, April, 2007. <https://www.federalreserve.gov/boarddocs/RptCongress/check21/check21.pdf>

<sup>6</sup> Board of Governors of the Federal Reserve System. *Regulation CC (Availability of Funds and Collection of Checks)*. February 28, 2017 <https://www.federalreserve.gov/paymentsystems/regcc-about.htm>

<sup>7</sup> Board of Governors of the Federal Reserve System. *Regulation CC (Availability of Funds and Collection of Checks)*. February 28, 2017. <https://www.federalreserve.gov/paymentsystems/regcc-faq-check21.htm>

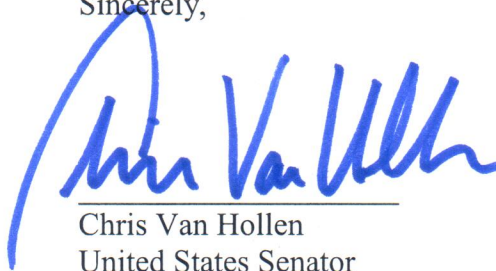
<sup>8</sup> Accenture Payments. *A Real-Time Revolution: Faster Payments in the US*, p. 2. October 6, 2016.

[https://www.accenture.com/t20161006T004905Z\\_w\\_us-en\\_acnmedia/PDF-34/Accenture-US-Faster-Payments.pdf#zoom=50](https://www.accenture.com/t20161006T004905Z_w_us-en_acnmedia/PDF-34/Accenture-US-Faster-Payments.pdf#zoom=50)

<sup>9</sup> U.S. Department of the Treasury, *A Financial System That Creates Economic Opportunities: Nonbank Financials, Fintech, and Innovation*, August 2018, <https://home.treasury.gov/sites/default/files/2018-08/A-Financial-System-that-Creates-Economic-Opportunities---Nonbank-Financials-Fintech-and-Innovation.pdf>,

4. Will you commit to taking action to mandate the recommendations made in the Final Report of the Faster Payments Task Force? Will you follow the Treasury's recommendation to set public goals and corresponding deadlines consistent with those recommendations? If so, what are those goals and dates?
5. Given the rapid acceleration in the use of electronic checking, why has the Federal Reserve not used its existing authority to lower check clearing wait times further? What public benchmarks for adoption will you provide for such acceleration?
6. Has the Federal Reserve conducted research on how real time payments could benefit the half of all American families who have difficulty coming up with \$400 in an emergency?

Sincerely,

A handwritten signature in blue ink, appearing to read "Chris Van Hollen", is written over a horizontal line. The signature is stylized and cursive.

Chris Van Hollen  
United States Senator