

April 3, 2020

The Honorable Steven Mnuchin
Secretary
U.S. Department of the Treasury
Washington, DC

Re: Delivery of Economic Impact Payments to Americans

Dear Secretary Mnuchin:

The undersigned banking and credit union trade associations, representing members of all sizes in every state and territory, write to express our eagerness to work with the Department of the Treasury to ensure the swift delivery of economic impact payments that are to be provided under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) passed by Congress and signed by President Trump.

Specifically, we urge you to expedite these funds by maximizing the use of electronic disbursement methods, eliminating the need for consumers to leave their homes to cash or deposit paper checks. Only electronic methods guarantee the rapid disbursement of funds to American families in a safe and secure manner.

In the case of the impending economic impact payments, we are concerned that there is work still to be done to ensure that banks and credit unions are empowered to quickly provide funds to Americans in the manner envisioned by Congress and the President.

As it stands now, we understand that the Department of the Treasury plans to mail perhaps tens of millions of paper checks in the span of just a few short weeks.

We know from years of experience that paper checks will be the least efficient form of disbursement. Checks are slow to print and mail, expensive to deliver, prone to being lost, stolen, forged, and altered, and have privacy and environmental implications that electronic payments have overcome through American innovation. Our strongest recommendation, as private sector payments practitioners, is that paper checks be viewed as a last resort or use of checks is avoided completely.

These are not normal times. Like many other businesses, our members have restricted access at branches because of their concern for the health and safety of our communities, and also official governmental orders. Tens of millions of visits to branches or bank drive-thrus to deposit checks, particularly when social distancing is the best defense against the spread of coronavirus, is a situation that should be avoided.

We are heartened that the Administration has been proactive in anticipating these obstacles and is taking steps to assure a better outcome, such as by maximizing the use of Direct Deposit to traditional bank accounts and Direct Deposit-reloadable debit cards already in wallets around the country. The Administration has been willing to propose creative solutions such as leveraging existing beneficiary lists in new ways. By scouring the government for data sources that would

put money into consumers' pockets electronically, your team has taken steps that have put us on the right course.

Yet even with those important strategic steps taken, we are concerned that many Americans will receive paper checks, without expecting or potentially being fully informed of the friction they may experience when they seek to deposit them. In the past, a government check may have been as good as cash, but these paper instruments are now frequently exploited by sophisticated criminal organizations, as well as common fraudsters. The Board of Governors of the Federal Reserve System has documented that check fraud has increased significantly in recent years as electronic payment channels have been secured. The Federal Trade Commission and states attorney general have issued alert after alert about check fraud, often targeting senior citizens and others.

Because banks and credit unions are insured institutions, our members owe it to the public to exercise prudent risk mitigation practices that adapt to the constantly evolving scams and schemes perpetrated to defraud them. This duty is codified in public policy requiring that banks adjust their controls in light of anticipated fraud risk. The unfortunate reality is that the deluge of Treasury checks now expected will quickly become a high-risk fraud control situation – unless we work together to ensure a different outcome.

Our members do not want to be forced to deliver these much-needed payments at less than full speed because of public policies that are in tension: the need to quickly distribute the funds Americans have been promised and the potential need to apply strict scrutiny to Treasury payments made through a higher-risk method such as checks.

We fear too, that underbanked Americans will turn to expensive check cashers or unscrupulous lenders, which will dampen intended stimulus effects. For these reasons, and in an effort to share our suggestions early in this process, we make the following specific recommendations:

Recommendations

1. **Maximize Automatic Direct Deposit:** Continue the Administration's efforts to expand the use of data sources at its disposal to maximize automatic electronic payments to Americans through Direct Deposit to traditional bank accounts and prepaid cards already in Americans' hands.
2. **Find More Direct Deposit Disbursements:** A comprehensive combing of government data should be undertaken, using existing and additional tools, to extract payment routing information, e.g. using information taxpayers provide to the IRS for direct debits of their tax payments. Images of government checks issued in the past can be rapidly turned into electronic Direct Deposits for relief payments.
3. **Drive Direct Deposit Enrollment:** Encourage those who do not have current Direct Deposit information on file with the government to visit the sign-up portal the Administration is creating to add or update their Direct Deposit account information.
 - The portal's launch should occur as soon as Direct Deposit account data collection

has been enabled, rather than waiting for check-election to be integrated,

- Allow people who may have elected checks in the past but now are living in a different location, assisting in the response to the public health crisis, or otherwise displaced, to easily notify Treasury that they do not want checks mailed,
- Educate the public that their payments could take 5+ weeks by check versus a few business days by Direct Deposit,
- There are good reasons the Social Security Administration and almost government support programs are Direct Deposit-only now and nearly all American workers are paid via that electronic channel. Normalize Direct Deposit in this context as well.

4. **Utilize All Fast Electronic Channels:** Once sources of existing Direct Deposit account information in the federal and state government spheres, as well as new Direct Deposit information provided via the portal, are exhausted, we urge you to leverage all other public and private sector electronic payment channels to make remaining funds deliveries, including new prepaid/virtual cards (where the Administration could leverage existing state and federal government programs administered through Treasury and other agencies). This is particularly important for reaching unbanked and underbanked Americans. Some younger Americans have never used a check and in an era of “faster payments” encouraged by Congress and the Federal Reserve, all options to get money directly into accounts should be on the table.
5. **Help Americans Get Banked:** In parallel, and in keeping with widely-held views that bank and credit union accounts are crucial elements of success in our society, use your awareness campaign and portal to encourage unbanked persons to open affordable checking accounts or obtain innovative bank/credit union accounts such as Direct Deposit-compatible reloadable prepaid cards.
6. **Verify Accounts Before Sending Payments:** At all points in the payment electrification/EFT automation journey, the Treasury should avail itself of technology available now to ensure payments are accurately sent only to open accounts, saving Americans from undue delay and confusion from misdirected payments. Failure to proactively mitigate undeliverable Direct Deposit and other transactions will likely create a significant logjam that Treasury would need to reconcile.
7. **Cut Red Tape and Fraud:** Should checks be issued, they should include these key features:
 - Matching marks on front and back of checks, to fight double-deposit scams,
 - Clear markings that they are payable for CARES Act economic impact payments and a special routing number which also differentiates them from other Treasury payments, such as tax refunds that many Americans will be receiving around the same time,
 - Check payments that are made jointly to married couples should be formatted so that only one recipient needs to endorse it for it to be deposited or cashed ("Jane and/or John Doe").

8. Use Technology to Fight Double Dipping: In order to prevent double-deposit, copied checks, remote deposit fraud, etc., a simple, *real-time* positive pay application should be made available to financial institutions, other check processing entities and law enforcement to validate the name, amount, and check number of economic impact payments when the recipient is at the bank location or in a subsequent fraud investigation. This crucial system must be usable at drive-thru teller speeds and also accept automated inquiries such as extracted check image data. Since this system will confirm the consistency of various data fields, it can be designed without complex account creation procedures or individual onboarding of thousands of financial institutions.

- In a world where criminals will attempt to redeposit checks seconds apart, this positive pay system must operate in real time with instantly updated information,
- To the degree possible, API implementations and single-inquiry terminal options should be provided to meet a variety of fraud-fighting use cases,
- To avoid undue delays to Americans receiving these checks, the system must meet commercial standards of 24x7 99.99% uptime,
- The current Treasury Check Validation site is not adequate to efficiently meet the volume demands of the expected check payments.

9. Safe Harbor for FIs Accepting Apparently Genuine Checks: America's banks and credit unions want to serve as many Americans presenting checks as is prudent given the risk of loss. For community banks and credit unions that are frequently member- or depositor-owned, a single check charged back by Treasury after the institution has taken ordinary care in verifying authenticity can represent a devastating financial setback. It is fundamentally unfair to place a transaction in jeopardy of becoming a total loss when the institution has done everything possible and knowable to detect irregularities. Without proper protections and policies in place at Treasury, banks and credit unions will be forced to place holds on access to funds to ensure authenticity.

- It is a delicate balance to achieve maximum speed and minimum fraud. Because of well-documented evidence that check fraud is on the rise and the government has not solved long-running improper payments issues, we again urge you to minimize the volume of checks issued to an absolute minimum, and if they are issued, not to punish the eager participation of financial institutions in accepting in good faith what are by apparently genuine and authentic checks,
- A complete indemnification and safe harbor from chargebacks on relief payment checks where banks and credit unions have exercised ordinary care and/or regulator guidance is a necessary step to encourage broad acceptance of checks, particularly from new account holder and non-customers,
- Treasury should make available a real-time Help Desk that payment system participants can access when they encounter situations requiring clarification, as well as proactively communicating any changes to procedures and policies.

10. Coordinate with Private Sector on Timeline: Treasury and the Federal Reserve have already taken important steps to engage with private-sector payments companies on how to manage cash availability in light of current operational circumstances and anticipated

demands associated with relief payments. It will be helpful for our shared success for private-sector payments participants (including banks, credit unions, retailers, payments processors, cash transporters, ATM operators, government agencies) to remain informed about key milestones such as planned disbursement dates, so that their cash management teams can optimize cash logistics. These timelines should be updated frequently to reflect real-time adjustments that could impact the cash supply chain.

These recommendations have been derived from rigorous consultation with federally insured financial institutions ranging from one office banks to regional credit unions and banks serving millions of customers each. They are minimum actions needed to reduce barriers to access and obstacles to speed, while dramatically reducing the risk of fraud losses to insured institutions.

We view you as a partner in helping our members play a leading part in implementing the Administration's economic stimulus and growth policies. Our communities depend on our shared success. Please know that our members are committed to sharing their expertise with your payments professionals in non-traditional manners, acting as advisors and consultants on the best available technology and processes developed by America's private-sector innovators.

It would be our honor to continue and deepen our dialogue, working together on an ongoing basis to ensure the best possible outcomes for our nation at this time of urgent need.

Sincerely,

AMERICAN BANKERS ASSOCIATION

BANK POLICY INSTITUTE

THE CLEARING HOUSE

CONSUMER BANKERS ASSOCIATION

CREDIT UNION NATIONAL ASSOCIATION

INDEPENDENT COMMUNITY BANKERS OF AMERICA

NACHA

NATIONAL ASSOCIATION OF FEDERALLY-INSURED CREDIT UNIONS

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