FINANCIAL SERVICE CENTERS OF AMERICA, INC.
A NATIONAL TRADE ASSOCIATION

Statement of

Financial Service Centers of America

Before the

U. S. House of Representatives
Committee on Ways and Means
Subcommittee on Social Security

Regarding

Protecting Social Security Beneficiaries from Predatory Lending and Other Harmful Financial Institution Practices

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Financial Service Centers of America ("FiSCA") is the national trade association representing non-bank Financial Service Centers ("FSCs"). We respectfully submit this Statement to the U.S. House of Representatives Committee on Ways and Means, Subcommittee on Social Security, in connection with its Hearing on Protecting Social Security Beneficiaries from Predatory Lending and Other Harmful Financial Institution Practices, scheduled for June 24, 2008. FiSCA is grateful for the opportunity to submit this Statement and to present the experiences of the FSC industry in meeting the real needs of millions of consumers, including Social Security and other government benefit recipients.

As stated in the Subcommittee's Advisory, the purpose of this Hearing is to examine how "certain" payday lending and other financial institution practices may harm vulnerable Social Security beneficiaries, undermining the intent of the Social Security Act. The Advisory focuses on specific conduct, including the practice by banks and credit unions of placing a freeze on a beneficiary's bank account, thereby allowing creditors to garnish the assets in those accounts, and the purported practice by some payday lenders in which beneficiaries are steered into direct deposit arrangements, which are then utilized for the repayment of loans. FiSCA shares the concerns of the Subcommittee in this regard and agrees that this conduct, which may undermine existing statutory protections afforded to benefit recipients, should be addressed.

However, the Advisory also focuses, unnecessarily we submit, on the distribution of Social Security benefits through an established channel of banks and FSCs that utilize the Social Security Administration's ("SSA") master/sub-account arrangement. The Subcommittee Advisory indicates a concern that this method of distribution results in multiple fees and "offers none of the other features of a typical bank account, such as the ability to write checks against the account or use an ATM card." Further, the Advisory alleges that "certain lenders and check-cashing operations may be targeting vulnerable Social Security and SSI beneficiaries, assessing needless fees for direct deposit arrangements and potentially exerting undue control over a beneficiary's monthly check." The Advisory's language, which is speculative, discounts the advantages provided by this method of benefit distribution and unfairly casts aspersions on the FSC industry. Many FiSCA members participate in this process of benefit distribution, which provides recipients with significant advantages, including a safe and secure method of obtaining benefits in a timely fashion. More importantly, many benefit recipients choose to receive their benefits in this manner. In fact, those benefits are enhanced by products and services that are available through FiSCA member locations.

Accordingly, FiSCA's concerns with respect to the Subcommittee's examination of these issues are as follows: 1) that the activities of licensed and regulated payday lenders, that provide access to small dollar credit in compliance with all applicable laws, not be confused with the abusive lending practices that may be engaged in by other lenders; 2) that the conduct of unscrupulous lenders not become the basis on which to impose new procedures on legitimate parties that have been properly utilizing the existing procedures to deliver government benefits in a timely and secure manner; and 3) that any new procedures not impair the ability of benefit recipients to make the rational choice to receive their benefits through FSCs.

The Financial Service Center Industry

The Financial Service Center industry, which consists of more than 13,000 locations nationwide, has been providing financial services to millions of consumers for more than 70 years. Its member businesses conduct more than 350 million transactions each year, providing an estimated $106 billion in various products and services to an estimated 30 million customers. Customers utilize FSCs for many reasons, including superior service, convenient locations and hours of operation, and transparency in the disclosure of fees. In addition, our customers appreciate that FSCs have evolved over the years to offer products and services that respond to their needs, when other institutions have not. As a result, FSCs enjoy extraordinary levels of customer satisfaction.

FiSCA's members are overwhelmingly multi-line operators offering a variety of products and services, including check cashing, payday advances, electronic bill payment services, money remittances, money orders, prepaid debit cards, phone cards, direct deposit, transit cards and more.[1] Among the services provided by some FSCs is the delivery of government benefits as distribution agents of banks. Typically, these arrangements allow benefit recipients to obtain their benefits in a safe and secure manner, generally in advance of when those benefits might otherwise be available.

The current procedures that permit delivery of benefits through FSCs also provide an opportunity for benefit recipients to avail themselves of other beneficial products and services offered at FSC locations. FSCs have pioneered innovative products and services for under- and un-banked customers who require a safe and secure means by which to store and easily access their funds. Particularly important in this regard is the widespread use of stored value cards that serve as virtual bank accounts. FiSCA members offer a stored value card issued by NetSpend Corporation and known as the NetSpend All-Access Card. This branded Visa or MasterCard permits customers to store funds until needed, access their funds through ATMs, conduct debit card transactions, receive payments through direct deposit, and participate in e-commerce. To

[1] FSCs are licensed and regulated by the vast majority of states. Regulatory requirements include the posting of fees and rates, extensive record-keeping, the provision of customer receipts, and, in some states, the maintenance of sufficient capital and cash levels. As Money Services Businesses (MSBs), check cashers are regulated at the federal level by the Internal Revenue Service.

date, FiSCA members have sold millions of stored value cards, onto which customers have safely deposited billions of dollars.

FiSCA's stored value card also acts as a gateway to other benefits, including the FiSCA/NetSpend National Savings Program. This revolutionary program, available through the basic NetSpend All-Access card, allows customers to obtain a no-fee, no minimum balance, FDIC insured savings account. The FiSCA/NetSpend National Savings Program currently pays depositors 5% annual interest. The FiSCA/NetSpend National Savings Program has proven to be highly popular as a safe and secure savings vehicle for customers of FSCs. To date, almost 91,000 customers have established savings accounts through the FiSCA/NetSpend National Savings Program, and more than $53 million has been deposited into these savings accounts. In January of this year alone, $3.7 million was deposited into savings accounts by customers who obtained their NetSpend card at FiSCA member locations. These customers cannot access the FiSCA/NetSpend National Savings Program accounts anywhere than at FiSCA member locations.

Many of the funds stored on the NetSpend All-Access cards and, in turn, deposited into the FiSCA/NetSpend Savings Program, are placed there by government benefit recipients. Elimination of the existing processes, including the Social Security Administration's master/sub-account arrangement, would make it more difficult for benefit recipients to take advantage of the unique savings opportunity provided by the FiSCA/NetSpend National Savings Program. In fact, to eliminate customers' choice to access their Social Security benefits through a master/sub-account arrangement would be contrary to the original intent for permitting this arrangement, which was "to allow individuals to make choices that are appropriate and convenient for their situations." The importance of preserving a benefit recipient's choice as to the manner in which benefits are received has been recognized publicly by AARP.[2]

The Existing Distribution Procedures Provide a Safe, Secure and Cost Effective Process for Benefit Recipients to Receive Benefits

The Subcommittee's Advisory sets forth concerns regarding the distribution of benefits through a network of banks and check cashers that utilize the existing SSA master/sub-account arrangement. This arrangement allows benefit recipients to receive their benefits safely and in a timely manner, and allows beneficiaries many choices as to how to handle their own funds.

One significant fact that should not be overlooked is that benefit recipients who access their government benefits through a FSC elect to receive benefits in that manner because of the advantages provided at that location. Many benefit recipients choose to use FSCs even though they have a bank account. According to a recent nationwide survey, the majority of FSC customers (58%) already have a bank account but often choose to use FSCs. Among the top reasons cited by FSC customers are convenience and cost. In many instances, conducting transactions at FSCs is less costly than maintaining a bank account, which can include minimum balance requirements and monthly maintenance fees, in addition to the necessary activity of account balancing, and the possibility of incurring NSF and overdraft fees. Furthermore, conducting business at an FSC location is safe and secure, and for most customers, all of their desired financial transactions can be conducted at one place.

While benefit recipients may receive paper checks from a FSC distributor, those customers are free to leave the FSC location and deposit the check, or cash it, anywhere they please. Check cashing fees are regulated in the vast majority of the states. Many states impose

[2] See e.g., "Social Security Embraces Debit Cards-Feature Allows Those Without Bank Accounts to Get Benefits Electronically." Houston Chronicle, June 10, 2008.

lower check cashing fees for government benefit checks. Even where not legislated, many FSCs cash benefit checks for a much reduced check cashing fee.[3] Finally, benefit recipients who receive their benefits in this fashion then have the option of paying their bills electronically, obtaining money orders to, wiring money to family members, or loading their money onto a stored value card such as the NetSpend card, which can then be deposited into a FiSCA/NetSpend National Savings Program account, currently earning 5% interest.

With respect to the question raised in the Advisory regarding the potential for significant costs and burdens on beneficiaries who currently obtain benefits through this channel, FiSCA submits that elimination of this convenient and safe method of distribution will add to beneficiaries' cost of obtaining benefits. Recent studies of the banking industry illustrate the high cost of maintaining a bank account. In addition to costs, banks do not provide the convenience of locations or hours that is provided by FSCs. Furthermore, these arrangements are actually a gateway to significant benefits that might otherwise not be accessed by beneficiaries.

FiSCA Members That Make Payday Advances Do Not Use the Master/Sub-Account Procedure As Described in the Advisory

The Subcommittee's Advisory asserts that "payday lenders and others" steer Social Security beneficiaries into direct deposit arrangements with banks, induce those benefit recipients into taking out high-interest loans and secure those loans by monthly benefit checks, from which fees, interest and payments are deducted. FiSCA is not aware that any of its members use the master/sub-account arrangement in this fashion. FiSCA members do utilize the ACH mechanism, consistent with all applicable laws, in obtaining authorization to effect single

[3] Even SSA's recently announced Direct Express program through Comerica Bank recognizes that there is a cost to the provider for the service, and thus additional fees can be imposed upon beneficiaries who access their benefits in other than very limited circumstances.

payments of payday advances. However, an insignificant percentage of payday loan customers are Social Security recipients. According to data obtained by FiSCA from one of its largest members (which is representative of the multi-line FSC industry) the total number of government benefit recipients taking out loans is infinitesimal, especially when compared to non-government benefits customers. For a representative 6-month period, less than 1% of this member's loan customers were receiving government benefits. This percentage is representative of the FiSCA customer base. Nevertheless, FiSCA disapproves of any procedure or practice that would prevent borrowers from terminating direct deposit arrangements, require pre-authorized transfers or require the use of specified banks. FiSCA believes that significant legal restrictions exist that foreclose these types of tactics. See e.g., Electronic Funds Transfer Act, Reg. E.[4] In light of these legal restrictions, the issue appears to be one of enforcement of the existing laws, not additional regulation.

FiSCA members offering payday loans also agree to adhere to a Code of Conduct which governs the offering of access to credit. Among the provisions of the FiSCA Code of Conduct in Offering Access to Credit are the requirements that FiSCA members operate their businesses in accordance with all applicable statutes and regulations and conduct all payday advance transactions in full compliance with all applicable laws.

FiSCA urges that the Subcommittee recognize the value of consumer choice, and that Financial Service Centers do provide a convenient, safe and cost effective alternative for the distribution of benefits.

[4] The Electronic Funds Transfer Act prohibits creditors from requiring beneficiaries to "preauthorize" the transfer of benefits and ensures that beneficiaries control their benefits through their right to rescind previously granted authority.

FiSCA thanks the Subcommittee for the opportunity to submit this Statement. Should the Subcommittee require any additional information with respect to this matter, please feel free to contact us.