

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

June 8, 2020

Memorandum

To: Members, Committee on Financial Services
From: FSC Majority Staff
Subject: June 11, 2020, “Inclusive Banking During a Pandemic: Using FedAccounts and Digital Tools to Improve Delivery of Stimulus Payments”

The Task Force on Financial Technology will hold a virtual hearing entitled, “Inclusive Banking During a Pandemic: Using FedAccounts and Digital Tools to Improve Delivery of Stimulus Payments,” on Thursday, June 11, 2020 at 12:00 p.m., on the virtual meeting platform Cisco Webex. This single-panel hearing will have the following witnesses:

- **Mehrsa Baradaran**, Professor of Law, University of California, Irvine School of Law
- **The Honorable Chris Giancarlo**, Senior Counsel, Willkie Farr & Gallagher and former Chairman, U.S. Commodity Futures Trading Commission
- **Jodie Kelley**, CEO, Electronic Transactions Association
- **Morgan Ricks**, Professor of Law, Vanderbilt University Law School

Overview

The novel coronavirus 2019 (“COVID-19”) pandemic has had a significant public health and economic impact in the United States. Congress has enacted several pieces of legislation to respond to the crisis, including the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). The CARES Act, which was signed into law on March 27, 2020, provides “recovery rebates” to individuals based on income and were distributed by the Internal Revenue Service (“IRS”) in conjunction with the Treasury Department's Bureau of the Fiscal Service. These recovery rebates have been referred to as economic impact payments (“EIPs”), direct payments, or stimulus payments.

While many of these payments were made by direct deposit, nearly 35 million individuals have been receiving EIPs through a paper check. Further, there are still 30-35 million payments that have yet to be issued.¹ This hearing will provide the Task Force the opportunity to explore low or no cost public banking options, like FedAccounts,² to utilize technology and digital methods to deliver stimulus payments from the government more efficiently in a time of crisis, especially to underbanked and unbanked populations.

¹ Committee of Ways and Means, “Economic Impact Payments Issued to Date,” Jun. 5, 2020, at <https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/2020.06.04%20EIPs%20Issued%20as%20of%20June%204%20FINAL.pdf>.

² See Morgan Ricks and Lev Menand, “Let’s Pay the Stimulus in Digital Dollars - Federal Reserve accounts would make the financial system better, stronger and more inclusive.” *Bloomberg Opinion* (Mar. 24, 2020), <https://www.bloomberg.com/opinion/articles/2020-03-24/coronavirus-stimulus-let-s-pay-it-in-digital-dollars>.

Distribution Methods and Processes for Recovery Rebates

The CARES Act recovery rebates equal \$1,200 per eligible individual (\$2,400 for married taxpayers filing a joint tax return) and \$500 per eligible child and the amounts phase out at a rate of 5% of adjusted gross income (“AGI”) above \$75,000 (\$112,500 for head of household filers and \$150,000 for married joint returns). Initially, if a taxpayer did not agree to receive a tax refund or other federal payment (Direct Express Debit Cards³) electronically on or after January 1, 2018, a paper check would be sent to the last known address of the individual.⁴

Days after issuing the first round of direct deposit payments on April 11, 2020, the IRS launched the “Get My Payment” website that permitted individuals to add direct deposit information and update mailing addresses until May 13, 2020.⁵ Shortly after the “Get My Payment” tool website expired, the IRS introduced an additional prepaid card, the “EIP Prepaid Card.” The EIP Prepaid cards were issued free of charge through MetaBank and Visa to 4 million individuals who had not received economic income payments because they did not have any bank account or federal payment information on file with the IRS.⁶ To speed up the recovery rebate delivery for individuals without bank accounts, some fintech companies allowed individuals to create free bank accounts.⁷

Figure 1 below provides the latest data on the number of recovery rebates made through these various methods. Notably, more than 22 percent, or almost 35 million individuals, have received EIPs through the form of a paper check.

Figure 1. Economic Impact Payments issued through June 5, 2020⁸

Payment Method	Volume	Value
Electronic Funds Transfer ("EFT")	117,966,006	\$202,395,207,269
Paper Check	34,996,367	\$55,390,262,163
EIP Debit Card	3,690,949	\$6,510,201,376
Direct Express Card	2,074,774	\$2,494,032,815
Total	158,728,096	\$266,799,703,623

Populations at Risk of Being Left Out of Recovery Rebates

Even with several distribution methods for recovery rebates, members of vulnerable populations were expected to experience severe delays in receiving recovery rebates or to receive no recovery rebate at all. In 2018, 64 million individuals (41 percent of all filers) filed taxes without bank account information.⁹

³ Direct Express, Home Page, (last accessed at Jun. 9, 2020) at <https://www.usdirectexpress.com/>.

⁴ The recovery rebates were automatically based on 2018 tax return information unless an individual filed a 2019 tax return before recovery rebate distribution.

⁵ IRS, “Get My Payment Web App Launched for Americans to Submit Direct Deposit Information and Track Payments,” Apr. 15, 2020, at <https://home.treasury.gov/news/press-releases/sm978>.

⁶ IRS, “Treasury is Delivering Millions of Economic Impact Payments by Prepaid Debit Card,” May 18, 2020 at <https://home.treasury.gov/news/press-releases/sm1012>.

⁷ Cash App, “Cash App, The Stimulus, and You,” (last accessed Jun. 9, 2020) at <https://cash.app/help/us/en-us/1018-cash-app-the-stimulus-and-you>.

⁸ IRS, “Treasury, IRS Announce Delivery of 159 Million Economic Impact Payments,” Jun 3, 2020 at <https://home.treasury.gov/news/press-releases/sm1025>.

⁹ National Taxpayer Advocate Service, “During this National Emergency the IRS Is Called Upon to Issue Economic Impact Payments to All Eligible Americans: What Taxpayers Can Do to Speed Up Payment,” Apr. 15, 2020 at https://taxpayeradvocate.irs.gov/news/NTA_Blog_What_Taxpayers_Can_Do_to_Speed_Up_Economic_Impact_Payments.

There are several reasons individuals did not provide the IRS their bank account information, including the fact that millions of Americans remain unbanked or underbanked. According to the Federal Deposit Insurance Corporation, there are approximately 8.4 million households (6.5 percent of all households) that are “unbanked,” meaning they do not have a bank account, as well as roughly 24.2 million households (18.7 percent) that are “underbanked,” meaning they may have a checking or savings account, but utilize financial products outside of the banking system, like a payday loan.¹⁰ Furthermore, there are also challenges for persons experiencing homelessness who do not have a mailing address to receive a check. According to the U.S. Department of Housing and Urban Development (HUD), there are about 550,000 individuals experiencing homelessness in this country, with 40 percent of those being African-American or black, and 22 percent being Hispanic or Latino.¹¹ Furthermore, some recipients of the EIP Prepaid card may be unfamiliar with how prepaid cards work. Reports demonstrate that card recipients thought the card was fraudulent or had never used a prepaid card before.¹² Lastly, compounding the banking infrastructure issues, are the broadband access issues for rural, elderly, and underserved communities. Without high speed internet, these populations were likely unable to utilize any of the IRS tools because they were all online.¹³

FedAccounts

As Congress debated and finalized the CARES Act, on March 23, Chairwoman Maxine Waters (D-CA) introduced the “Financial Protections and Assistance for America's Consumers, States, Businesses, and Vulnerable Populations Act,” a comprehensive package from the Committee to address numerous issues arising from the pandemic. The bill includes a provision to provide monthly stimulus payments during the pandemic of \$2,000 for most adults and \$1,000 for their children, and distribute these payments to individuals by direct deposit or to a new, basic bank account backed by the Federal Reserve, called “FedAccounts.”¹⁴ The following day, Senator Sherrod Brown (D-OH) introduced the Banking for All Act that featured the same concept.¹⁵

The idea of a FedAccount builds upon Mehrsa Baradaran’s proposal of using post offices as banks.¹⁶ Morgan Ricks, John Crawford, and Lev Menand have expanded the idea of postal banking into a public

¹⁰ FDIC, “FDIC National Survey of Unbanked and Underbanked Households,” 2017 pg. 2, at <https://www.fdic.gov/householdsurvey/2017/2017execsumm.pdf>;

¹¹ U.S. Department of Housing and Urban Development, “Secretary Carson certifies annual data: Homelessness ticked up in 2019, driven by major increases in California,” Dec. 20, 2019, at https://www.hud.gov/press/press_releases_media_advisories/HUD_No_19_177.

¹² See FDIC, *supra* 10 at 7; ABA, “Protect Your Economic Impact Payment: Top 5 Scams to Watch Out For,” (last accessed Jun. 9, 2020) at <https://www.aba.com/advocacy/community-programs/consumer-resources/protect-your-money/protect-your-economic-impact-payment>.

¹³ See generally Sam Sabin, “Telecom Industry, Broadband Advocates Push for Internet Subsidies in Next Stimulus,” Morning Consult, Apr. 2, 2020, at <https://morningconsult.com/2020/04/02/broadband-subsidies-coronavirus-stimulus-package/>; see also Sabrina Eaton, “Ohio Congress members want people who lack internet access to be able to track their coronavirus stimulus checks,” Cleveland.com, May 5, 2020, at <https://www.cleveland.com/open/2020/05/ohio-congress-members-want-people-who-lack-internet-access-to-be-able-to-track-their-coronavirus-stimulus-checks.html>.

¹⁴ Financial Services Committee Majority, “Committee Democrats Roll Out Legislation to Provide Comprehensive Stimulus and Public Policy Response to Coronavirus Pandemic,” Mar. 23, 2020, at <https://financialservices.house.gov/news/documentsingle.aspx?DocumentID=406446>.

¹⁵ Senate Banking Minority, “Brown Introduces New Legislation To Help Hardworking Americans In The Coronavirus Relief Package,” Mar. 24, 2020, at <https://www.banking.senate.gov/newsroom/minority/brown-introduces-new-legislation-to-help-hardworking-americans-in-the-coronavirus-relief-package>.

¹⁶ Mehrsa Baradaran, It’s Time for Postal Banking,” Harvard Law Review, Feb. 24, 2014 at <https://harvardlawreview.org/2014/02/its-time-for-postal-banking/>.

option for banking services.¹⁷ Presently, only banks and certain government entities are allowed to maintain accounts at the Federal Reserve. The Ricks-Crawford-Menand proposal of “FedAccounts” provides all the functionality of an ordinary bank account, and some of the benefits of maintaining an account with the Fed, for persons residing the United States, and domestically domiciled businesses and institutions.¹⁸ Some key features of this proposal are: no interchange fees; no minimum balance requirements; no account denial for individuals deemed unprofitable by a bank; real-time settlement of funds; and no default that would implicate deposit insurance for an account holder if the funds were held by a private bank since the account funds are held by the Fed.¹⁹

The legislation introduced by Chairwoman Waters and Senator Brown builds upon the FedAccounts idea by using digital wallets for efficient stimulus delivery until there is a recovery with a meaningful decline in unemployment. The proposals permit everyone eligible for a COVID-19 recovery rebate to create a free FedAccount, which would be available at member banks of the Federal Reserve System, other participating banks and credit unions, Federal Reserve Bank branches, and U.S. Postal Service branch offices in certain circumstances. The proposals have no account fees or minimum.

Legislative Proposal

- **H.R. XXXX, “Faster Stimulus Payments and FedAccounts Act” (Waters):** This discussion draft is an updated version of Section 101 of the Financial Protections and Assistance for America's Consumers, States, Businesses, and Vulnerable Populations Act. The bill would provide monthly direct payments of \$2,000 for most adults (\$4,000 for joint filers), including those with Individual Taxpayer Identification Number (ITINs), and \$1,000 for their children funded by the Federal Reserve. The payments would be phased out for individual filers with more than \$75,000 in adjusted gross income, \$112,500 for a head of household, and \$150,000 for joint filers.

The payments would be issued through direct deposit to an existing bank account or a new FedAccount, prepaid debit card, or check. The FedAccounts would be available at member banks of the Federal Reserve System and other participating banks and credit unions, Federal Reserve Bank branches, and U.S. Postal Service branch offices in areas where physical access to a Federal Reserve Bank branch is limited.

The monthly payments would continue until the economy shows consistent job growth, building off of the “Sahm Rule.”²⁰ Specifically, the payments would terminate after the unemployment rate has at least returned to within 2 percentage points from the start of the recession, and the 3-month average of the unemployment rate has declined for two consecutive months.

¹⁷ Morgan Ricks, John Crawford, and Lev Menand, “Central Banking for All: A Public Option for Bank Accounts,” The Great Democracy Initiative, Jun. 2018, at <https://greatdemocracyinitiative.org/wp-content/uploads/2018/06/FedAccountsGDI.pdf>.

¹⁸ *Id.*

¹⁹ *Id.*

²⁰ Claudia Sahm, “Direct stimulus payments to individuals,” Brookings, May 16, 2020 at <https://www.brookings.edu/research/direct-stimulus-payments-to-individuals/>.