



Consumer Financial
Protection Bureau

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Prepared Remarks of CFPB Director Richard Cordray at a Meeting of the Credit Union Advisory Council

BY RICHARD CORDRAY

I want to welcome you all to this meeting of the Credit Union Advisory Council, which has been convened to talk about consumer challenges in payment systems. I especially want to extend a warm welcome to the newest members, who are joining us for the first time since their appointment this year. I would also like to thank Kevin Foster-Keddie for assuming the role as chairman and Robin Romano for assuming the role as vice chair. We have many good discussions and much good work ahead of us.

As the Director of the Consumer Financial Protection Bureau, I recognize the importance that credit unions play in the lives of many consumers and in many neighborhoods and small towns across the United States. The Consumer Bureau is well aware that credit unions were not one of the causes of the financial crisis. You were not underwriting the bad loans that brought down the housing market. Instead, you were sounding the alarm bells well before the sinking of the economy.

We started this advisory body to give us more insight into the daily operations of credit unions. Over the past few years, we have come to rely on it as a key source of information, analysis, and recommendations to better inform our work. Today we would like to learn more about what you have to say about electronic payment systems and the faster payment systems that seem to be imminent in our financial system. We want to hear what you think are the challenges for consumers. And we want to hear what you think are the challenges for credit unions.

As you know, when consumers are making payments – whether it is to pay regularly scheduled mortgage debt or simply to buy a cup of coffee – they have multiple options. These may include paying in cash, writing a check, swiping a credit or debit card, and entering information online for an electronic payment. In general, non-cash payments are primarily processed through one or a combination of payment systems, including the automated clearing house (ACH), PIN debit, the credit card network, wire network, or check services. For these non-cash payments, there can be a delay of anywhere from several hours to several days between the time when the consumer initiates a transaction and the time when the other party actually receives the money. And it is important to note that all existing payment systems – including those involving cash – expose consumers to some risk of loss or to the security of their information, including, in some cases, risks of unauthorized or fraudulent debits.

As credit unions are aware, the payment system participants – including payers, payees, providers, institutions, and operators – are subject to regulations that were adopted to ensure more consistency and predictability to all of the parties involved. In general, these systems work pretty well. But as we have worked on these issues at the Consumer Bureau, we have come to believe there is room for improvement, and we have found that most in the industry would agree. Specifically, we have three primary areas of concern: transparency, security, and access.

First, we believe transparency can be improved within the electronic payments space to help consumers make more informed decisions and take greater control of their economic lives. When consumers make a deposit into their credit union account, it is often difficult for them to know when the funds will be available. This is most often the case when consumers deposit a check. For some, these uncertainties are of little consequence because they are able to maintain a healthy cushion of funds in their accounts. But many other consumers struggle to keep up with their expenses and have no such cushion. Not knowing when a payment will be credited or debited can cause significant confusion and anxiety for those whose credit union accounts can be precariously low on funds. Toward the end of a pay period, many consumers find themselves playing a high-stakes game of chance without being able to understand or control the exact timing of their payments. Too frequently, the results for these struggling consumers include a set of expenditures they can ill afford – the high costs of overdraft and non-sufficient funds (NSF) fees. Consumers deserve better. They deserve transparency. They deserve to know exactly where their money is so they can make informed choices about how best to manage the ways and means of their lives.

Second, the Bureau sees room for improvement when it comes to protecting consumers from loss, theft, or mistreatment that may arise from payment security problems. The

ACH system, as it currently operates, depends on the routing and sharing of sensitive account details. While seemingly benign, this routine practice can be fraught for consumers. It can expose them to great risks, particularly if unscrupulous people or businesses are granted access to their hard-earned money. When bad actors take advantage, consumers can find themselves paying for charges they never authorized. Sometimes, they can find their accounts subject to ongoing “fishing expeditions,” as repeated and expensive attempts are made to collect a payment.

When this happens, consumers expect their own credit union to be on their side. Unfortunately, we know that institutions cannot always provide them with adequate protection – such as successful stop payments, notices of revoked authorization, and an effective block on repeated attempts to process payments from the same source.

The Bureau wants to make sure that consumers are protected from getting stuck in such situations. Consumers should not be subjected to unauthorized payments or fishing expeditions. And in situations where they are being victimized, consumers need to be able to reverse the unauthorized charges or prevent the unauthorized billings.

Our third concern has to do with access, and we believe there is room for improvement here too. Electronic payment systems are critical pieces of our financial ecosystem today. They make our modern lives much more convenient, from making automatic monthly car payments to being able to use a card at the corner store to buy bread. However, a substantial number of consumers have no access to electronic payment systems and the benefits they provide. Indeed, the current payment systems do not seem to be meeting all the real-world needs of certain consumers.

According to a recent FDIC study of the unbanked and under-banked, almost one in five consumers with incomes under \$15,000 report having used a check casher, as do one in six consumers with incomes between \$15,000 and \$30,000. When these consumers receive checks, they typically fork over up to 3 percent of the face value to get immediate, no-recourse access to their money. For other consumers living on the edge – and millions upon millions of Americans do so – using check cashers or money order services is their primary way to avoid costly late fees on their phone bills or rent checks. Because they lack an account that permits them to make their payments electronically, these consumers forgo many federal protections and can spend more time and money paying their bills than other consumers who have bank or credit union accounts.

The Consumer Bureau has been persistently advocating for the development of faster and safer consumer payment capabilities in new and existing payment systems. During today’s discussion, we would like to hear from you about how credit unions are

experiencing issues in the payments space. Among our discussion topics, we want to know what you think about some key questions. What are small financial institutions doing to accommodate and improve consumer needs? What new developments are your institutions currently involved in? If your institution is not involved, what are the barriers to entry and how can you bring your perspective to the table?

We are now seeing companies in the fields of technology and finance that are beginning to develop real-time or near-real-time payment systems for the American economy. These new systems are aimed at reducing “pocket-to-pocket” payment times between consumers and businesses or other entities. The Bureau recently outlined some guiding principles to govern these new systems as they are being developed. We want to ensure that consumer protections are at the forefront. So our principles, which we will be discussing today, relate to areas such as funds availability, resolution protections for fraud and error, and payment system accessibility.

We think it is reasonable to expect that the greatest economy in the history of the world, which has given rise to some of the most sophisticated technology that human beings have ever seen, would have an electronic payment system that we can all be proud of. That system should be one where people can get access to their hard-earned money in real time, their transactions are completely transparent, they know their money is secure, and they can get their money back if a payment is erroneous or unauthorized. These features would make an already impressive payment system even better. It would restore trust. It would bring more people into the fold. And it would simply be good business.

I look forward to engaging in this important discussion. Thank you.

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The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit www.consumerfinance.gov.