

# CRS Report for Congress

Received through the CRS Web

## Electronic Transfer Accounts

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### Summary

The Debt Collection Improvement Act of 1996 (P.L. 104-134) required all federal payments (other than IRS refunds) to be made by electronic funds transfer after January 1, 1999. On September 25, 1998, the Department of the Treasury issued a final rule to implement the electronic fund transfer (EFT) requirements. A significant challenge for the Treasury involved the problem of providing electronic financial services to “unbanked” consumer recipients of federal payments. The Department has estimated as many as 10 million individual recipients do not have an account with a depository financial institution<sup>1</sup>. The Treasury responded to this challenge by designing the ETA (electronic transfer account). The ETA is a low-cost account offered by federally insured financial institutions that have entered into an agreement with the Department of the Treasury. This report provides an overview of this account option for individuals receiving federal payments. This report will not be updated.

### Background

The Treasury Department and federal agencies have been working since the 1980s to educate and persuade consumers to accept and use electronic direct deposit for federal payments. As a method of payment, direct deposit increases transaction security, reduces opportunities for crime, improves payment time frames and saves the Treasury, and therefore the taxpayer, money. The Department of the Treasury through its Financial Management Service (FMS) issues over 850 million payments each year totaling more than \$1 trillion. Payments are disbursed to individuals under a variety of federal programs including Social Security, veterans compensation and pensions, civil service and railroad retirement, federal wages and salaries, and disability payments. The Treasury estimates saving a minimum of 28 cents per check on postage, printing supplies, and paper. The

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<sup>1</sup> [<http://www.fms.treas.gov/eft.html>]

FMS has stated that full implementation of payment by EFT would achieve savings of about \$100 million a year.<sup>2</sup>

The electronic fund transfer (EFT) provisions of P.L. 104-134 require all federal payments to be made electronically, with the exception of tax refunds, beginning January 1999. The law is now commonly referred to as EFT '99. The Act required the Treasury to issue implementing regulations. The Act directed the Treasury to offer electronic services to "unbanked" recipients (those without a relationship with a depository financial institution) at a reasonable cost and with consumer protections. In addition, the Treasury was provided with the authority to define exception categories and grant waivers. On September 28, 1998 the Treasury published a final rule implementing EFT '99. The rule contained broad waiver provisions.<sup>3</sup> The rule also indicated the Treasury was developing a new account option for federal payment recipients and would be publishing for comment the proposed features of this account.

Providing electronic services to the "unbanked" consumer recipient population presented the Treasury Department with a major challenge. The Department has estimated as many as 10 million recipients are without a banking relationship. The Treasury approached the challenge from two directions: an education campaign and the development of a new product. The FMS initiated an intensive marketing and education campaign to draw those without bank accounts into the financial services mainstream where they could receive direct deposit and other services. Designing a low-cost account that satisfied the concerns of both the recipients and financial institutions proved difficult. The Treasury actively solicited input from consumer groups, financial institutions, trade associations and the general public. On November 23, 1998, the Treasury published for comment the proposed terms, conditions, and attributes of the new account labeled an ETA (Electronic Transfer Account), and published the final rule on July 16, 1999 (FR pp.38510-38515).

## Account Features

When designing the ETA the Treasury sought a balance between the criteria sought by financial institutions and the needs of the targeted consumer. The account had to be offered at a reasonable cost to both. While the account is designed to attract low income individuals without existing bank ties, the account is available to any individual receiving a federal benefit, wage, salary, or retirement payment. The account does have more restrictions than a traditional checking or savings account in order to keep costs to a minimum. It was decided, after much discussion, that the account would be available only through federally insured banks, thrifts and credit unions. No individual institution is required to offer ETAs. If an institution chooses to offer the account it must enter into an agreement with the Treasury. The Financial Agency Agreement designates the institution to act as the Treasury's Financial Agent in providing the ETA. All institutions offering the

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<sup>2</sup> <http://www.fms.treas.gov/eft.html>

<sup>3</sup> For information on waivers please see "*EFT'99: Electronic Federal Payments; Waiver Policy*", CRS Report RS20047, by Pauline Smale.

ETA are subject to the same terms and conditions. The Treasury will compensate participating institutions a one time account set-up fee of \$12.60 per ETA.

On July 16, 1999 the Treasury published a final notice of the features of the ETA. The attributes of the account were detailed in the July issue of the FMS publication *The Financial Connection*.

Specifically, the ETA must include the following features:

- ! Be an individually owned account at a Federally insured financial institution;
- ! Be available to any individual who receives a Federal benefit, wage, salary, or retirement payment;
- ! Accept electronic Federal benefit, wage, salary, and retirement payments and such other deposits as a financial institution agrees to permit;
- ! Be subject to a maximum price of \$3.00 per month;
- ! Have a minimum of four cash withdrawals and four balance inquiries per month, to be included in the monthly fee, through any combination of proprietary automated teller machine (ATM) transactions and/or over-the-counter transactions;
- ! Provide the same consumer protections that are available to other account holders at the financial institution;
- ! Allow access to the financial institution's on-line point-of-sale (POS) network, if available;
- ! Require no minimum balance, except as required by Federal or State law;
- ! At the option of the financial institution, be either an interest-bearing or non-interest-bearing account; and
- ! Provide a monthly statement.<sup>4</sup>

Congress has monitored the progress of the implementation of EFT'99 through oversight hearings. Most recently, a House Banking Subcommittee held hearings in March 1999. The Treasury testified on its efforts to increase the number of new and existing recipients receiving payments electronically. In FY1995, only 55 percent of the non-tax Treasury disbursed payments were made electronically. By February 1999, 73 percent of the non-tax payments were made by EFT.<sup>5</sup> The Treasury attributed this progress to an aggressive public information campaign. When the March hearings were held the ETA was still under development.

When the new account option was introduced, the Treasury focused additional efforts to educate financial institutions and recipients on the benefits of the ETA. The ETA program has experienced a slow start. About 550 financial institutions, mainly small banks, have entered into an agreement with the Treasury to offer the accounts.

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<sup>4</sup> *Final Details of Low-Cost Electronic Account Announced*. The Financial Connection. July 1999, p.2

<sup>5</sup> U.S. Congress. House. Committee on Banking and Financial Services. Subcommittee on General Oversight and Investigations. Review Implementation of EFT '99. Hearing, 106<sup>th</sup> Congress, 1<sup>st</sup> session. March 2, 1999, p.29

Approximately 2,000 accounts have been opened.<sup>6</sup> One difficulty for potential ETA users is that, in general, smaller financial institutions operate fewer ATMs. This could restrict convenient access to funds at ATMs. The Treasury is continuing its efforts to increase public awareness about the accounts and to encourage larger financial institutions to participate in the program. A list of all participating financial institutions can be found on an internet website [<http://www.eta-find.gov>] or by calling 1-888-382-3311. Congress is expected to continue to monitor the progress of EFT '99 and the Treasury's outreach to "unbanked" recipients of federal payments.

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<sup>6</sup> *Bill Supports ATM Placements In Low-Income Areas*. Bank Network News. May 25, 2000.p.8