

Payments Modernization Act

Background

As it stands today, working families wait days at a time just to have their paychecks clear, with the Federal Reserve (Fed) often taking up to five days to clear a payment. In the absence of a real-time payments system, consumers have turned to apps like Cash App and Venmo to facilitate transactions that should not require a private platform. Meanwhile, the Clearinghouse, a private firm owned by 24 of the largest banks, has implemented a real-time payments system—another example of our unjust, two-tiered financial system. The Federal Reserve already offers real-time payments between commercial bank accounts within the Fed and it's time that it extends that service to all consumers.

Impact on Consumers and Families

Allowing people faster access to their money will help reduce:

- **Overdraft fees:** The Center for Responsible Lending estimates that consumers pay over \$11 billion annually in overdraft fees.¹
- **Late fees:** The Consumer Financial Protection Bureau found that Credit card companies charged \$12 billion in late fee penalties in 2020.²
- **Reliance on risky financial products like payday loans:** According to a 2019 report by the St. Louis Fed, U.S. consumers spend as much as \$9 billion every year in payday loan fees.³

Real-time payments will also be instrumental in allowing small businesses to make payroll more reliably. Currently, the delay in payments to vendors, contractors and other small businesses means that making payroll is significantly more stressful on small business owners.

Payments Modernization Act

This bill would:

- Clarify that the Federal Reserve has the existing authority to build a real-time payments system.
- Ensure that funds are available to consumers for withdrawal in real time—providing parity for consumers and financial institutions.

¹*New Overdraft Report Urges Congress, Regulators, Banks to Halt Burdensome Bank Fees That Threaten Economic Recovery*, Center for Responsible Lending (2020, June 3), <https://www.responsiblelending.org/media/new-overdraft-report-urges-congress-regulators-banks-halt-burdensome-bank-fees-threaten>

² *Credit Card Late Fees*, Consumer Financial Protection Bureau, (2022, May 29), <https://www.consumerfinance.gov/data-research/research-reports/credit-card-late-fees/>

³ *Fast Cash and Payday Loans*, Federal Reserve Bank of St. Louis, (2019, April), <https://research.stlouisfed.org/publications/page1-econ/2019/04/10/fast-cash-and-payday-loans>