September 9, 2021

Ann E. Mishack, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551
Regs.comments@federalreserve.gov

RE: Collection of Checks and Other Items by Federal Reserve Banks and Funds Transfers Through Fedwire
FRS Regulation J, Docket No. R-1750, RIN 7100-AG16

Dear Ms. Mishack:

AARP, on behalf of our 38 million members and all older Americans nationwide, thanks you for the opportunity to comment on the Federal Reserve Board’s proposed rulemaking regarding its FedNow instant payments platform.

Faster payment systems have been widely lauded around the globe for their benefits to consumers and to commerce alike. Paper checks and electronic payments that take multiple days to process create uncertainty for older adults and other consumers who have fixed incomes and mandatory expenses.1 Consumers may not be able to delay paying for rent, utilities, healthcare, and prescription drugs until funds arrive in their bank accounts. When deposits of wages and benefits and bill payments do not line up perfectly, financially vulnerable consumers face expensive overdraft fees or other charges, such as check-cashing fees, that only worsen their financial situation. Many households do not have the savings to plug these gaps: only about a third of households could handle even a $400 emergency expense without borrowing or selling something.2

Faster payments, as anticipated by the FedNow platform and other initiatives, have the potential to ensure consumers’ account balances and funds availability are always up to date, and to make these stressful and challenging personal financial timing scenarios truly rare occurrences.

Reducing payment processing times from days to minutes is in many respects a transformative and highly beneficial development. At the same time, AARP urges the Federal Reserve Board to more fully consider the potential for fraud risk—particularly to older adults—and the need to ensure that consumers’ pre-existing rights and expectations are protected when moving forward with its FedNow platform. With various estimates of elder financial exploitation totaling billions of dollars annually, the payments system has an important role to play in preventing and rooting out fraud.

Existing experience with peer-to-peer payment services such as CashApp, Venmo, and Zelle demonstrates this gap in consumers’ rights and expectations. These services have all developed to rapidly move money between individuals and address gaps in our existing payment system, and for certain purposes such as transferring funds between family and friends, they can be highly beneficial. Yet, in other cases, these mechanisms for faster payments instead become a vehicle for faster fraud against older adults.

When asked about these payment platforms in a 2019 AARP survey, 52 percent of respondents erroneously believed that if they transferred funds to the wrong person, they would be able to reverse the transaction and get their money back. While some of these missed transfers are accidental, an increasing number of consumers are complaining to regulators—such as the Federal Trade Commission and Consumer Financial Protection Bureau—about fraudulent use of these platforms as well. In some cases, consumers send money for goods or services that never arrive, while the recipient may take the money and close the account. In others, in a variation of fake check overpayment scams, a scammer makes a large deposit into a victim’s bank account, ostensibly in error, and requests to be paid back. The initial deposit is illegitimate and eventually withdrawn, while the victim unwittingly transfers their own money out of their account. Similarly, in certain “work from home” scams, individuals are paid by check to purchase various supplies using electronic platforms, only to find that they spent their own funds when the bad check is later identified and revoked. When funds can be transferred instantaneously across accounts and users across the globe, the ability to trace, revoke, and return payments becomes increasingly difficult.

In developing FedNow, the Federal Reserve Board holds both the opportunity and the obligation to learn from these experiences, and must develop a system that can truly be considered safe and trustworthy for both member banks and the broader public. To that end, the Board should consider the need for fraud prevention and resolution mechanisms within the faster payments platforms.

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environment, an area conspicuously absent from the proposed rule. This may include, but is not limited to, requiring greater authentication of users and providing sufficient processing time for fraud detection. The Board should also reaffirm, along with the Consumer Financial Protection Bureau and other financial regulators, the applicability of Regulation E and the Electronic Funds Transfer Act to all electronic payments under FedNow. While some of these mechanisms may potentially add some complexity or minor delays in payment processing, they will ultimately bring greater acceptance and accountability to FedNow and, as a best-in-class platform for fraud prevention, to the faster payments ecosystem more broadly. The proposed rule’s acknowledgement that international sanctions compliance could result in longer processing times already anticipates that some transactions may require additional scrutiny. Potentially fraudulent activity, too, should also be subject to heightened scrutiny on the part of system participants.

As the Federal Reserve continues to develop its payments system, AARP urges that the Board of Governors consider and take all essential steps to prevent fraud and other forms of consumer financial harm. Millions of older adults and other Americans depend on a payment system that is accessible, reliable, and safe in order to manage their day-to-day financial lives.

Once again, AARP appreciates the opportunity to share our thoughts regarding the Federal Reserve Board’s proposed rulemaking. If you have any questions, please feel free to contact Michele Varnhagen of our Government Affairs staff at (202) 434-3829 or at MVarnhagen@aarp.org.

Sincerely,

David Certner
Legislative Counsel and Legislative Policy Director
Government Affairs