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ELECTRONIC TRANSFERS

Use by Federal Payment Recipients Has Increased but Obstacles to Greater Participation Remain

G A O

Accountability * Integrity * Reliability

GAO-02-913

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Abbreviations

AARP	American Association of Retired Persons
ACH	Automated Clearing House
ATM	automated teller machine
CRA	Community Reinvestment Act
DI	Disability Insurance
DOL	Department of Labor
EBT	Electronic Benefit Transfer
EFT	electronic funds transfer
ETA	Electronic Transfer Account
FRB Dallas	Federal Reserve Bank of Dallas
NCRC	National Community Reinvestment Coalition
OASDI	Old-Age, Survivors, and Disability Insurance
OASI	Old-Age and Survivors Insurance
OCC	Office of the Comptroller of the Currency
OPM	Office of Personnel Management
RRB	Railroad Retirement Board
SCF	Survey of Consumer Finances
SIPP	Survey of Income and Program Participation
SSA	Social Security Administration
SSI	Supplemental Security Income
U.S. PIRG	U.S. Public Interest Research Group
VA	Department of Veterans Affairs

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United States General Accounting Office
Washington, DC 20548

September 12, 2002

The Honorable Sue W. Kelly
Chairwoman
The Honorable Luis V. Gutierrez
Ranking Minority Member
Subcommittee on Oversight and Investigations
Committee on Financial Services
House of Representatives

In 2001, the Department of the Treasury made approximately 764 million payments valued at $549 billion to beneficiaries of federal programs, primarily programs administered by the Social Security Administration (SSA). Of these payments, about 76 percent were made using electronic funds transfers (EFTs), potentially saving the government millions of dollars in costs associated with disbursing paper checks. In 1996, Congress passed the Debt Collection Improvement Act,[1] which required that federal payments except tax refunds be made electronically as of January 1999. The act also required that each person affected by this mandate have access to an account at a financial institution at a reasonable cost and with certain consumer protections. To meet this requirement, Treasury developed the Electronic Transfer Account (ETA). The ETA, designed specifically for federal beneficiaries who do not have bank accounts, allows account holders to receive federal benefits electronically and to make withdrawals but not to write checks. Based on congressional concerns about a more stringent wavier provision, Treasury's final regulations provided that a recipient may continue to receive checks by mail if payment by EFT would impose a hardship and allowed individuals to determine for themselves if payment by EFT would impose a hardship.[2] In 2001, Treasury was still disbursing about 24 percent of all its federal benefit payments by check.

[1]Pub. L. No. 104-134, Title III, §31001(x) (1996).

[2]The statute provides Treasury with the authority to waive application of the EFT requirement for those individuals with a hardship. Treasury's final regulations define hardship to be a physical or mental disability; a geographic, language, or literacy barrier; or a financial hardship. Treasury's final regulations do not require that this determination of hardship be made in writing.

Concerned about the possibility that the government is not capturing all the potential cost savings from EFT, you asked us to examine the status of EFT usage and the ETA program. As agreed with your offices, this report (1) provides information on the extent of EFT usage, the steps taken by federal agencies and others to promote EFT, and characteristics of EFT users; (2) identifies obstacles to greater use of EFT and characteristics of recipients who do not have bank accounts (the unbanked); (3) provides information on the current status of the ETA program, including steps taken by the government to promote it; and (4) identifies approaches that Treasury could consider to increase the use of EFT.

To provide information on the extent of EFT usage and the steps taken to promote it, we obtained and analyzed Treasury data on the number of payments made by EFT and check and reviewed available information from Treasury and SSA, financial institutions, and consumer groups on the implementation of the EFT program. Because Treasury issues about 90 percent of its benefit payments for SSA programs, our review focused on these payments. We obtained and analyzed SSA data on individuals who receive payments under SSA programs in order to identify the characteristics of EFT users. To identify obstacles to EFT use, we analyzed the most recent available data from the 1998 and 1999 Survey of Income and Program Participation (SIPP) conducted by the Bureau of the Census. Data from SIPP, which was designed to obtain information enabling evaluation of initiatives affecting programs like Social Security, allowed us to estimate the number of unbanked federal recipients and identify some of their characteristics. To identify why federal recipients may be reluctant to open a bank account, we reviewed studies of the unbanked in the general population and analyzed EFT usage data supplied by SSA. To describe the status of the ETA program and the government's efforts to promote it, we obtained and analyzed data from Treasury and interviewed representatives of Treasury, other federal agencies, financial institutions, and nonprofit consumer groups. To identify alternative approaches for promoting the use of EFT—including expanding the ETA program—we interviewed program experts and reviewed available data provided by financial institutions, federal agencies, and nonprofit consumer groups. Appendix I provides additional details on our scope and methodology.

Results in Brief

Most recipients of federal benefits have their payments deposited electronically. The number of recipients using EFT climbed steadily throughout the 1990s, rising from around half to more than three-quarters of all beneficiaries. This high participation rate can be attributed to the

combined promotional efforts of Treasury, SSA, the banking industry, and consumer groups. Treasury and the SSA have undertaken activities to increase the use of direct deposit, including developing marketing material and directly notifying check recipients of the advantages of using EFT, particularly safety and convenience. We found that the proportion of recipients in each SSA program who used EFT varied widely, ranging from 68 percent for the disabled to 82 percent for retirees. While information describing the characteristics of these EFT users is limited, we determined that participation rates are highest for those 65 and older. EFT usage for all SSA program benefit recipients is uniformly lowest in the southeastern states.

We found that the primary obstacle to using EFT was that many federal check recipients did not have a bank account. In determining how many recipients were unbanked, we used two sources of data: SIPP, because it was designed specifically to assess benefit program participants, and Treasury's own estimates of unbanked beneficiaries. Our analysis of SIPP's 1998 data indicated that about 11 million benefit recipients, over half of all federal benefit check recipients in 1998, were unbanked. This estimate is substantially higher than Treasury's 1997 estimate, which showed that 24 percent of federal beneficiaries (5.2–6.5 million) lacked bank accounts. This difference in estimates could have profound implications because it is more difficult to persuade beneficiaries without bank accounts to use EFT than to persuade those who already have a bank account to do so. While no estimates of the number of unbanked beneficiaries are available for 2001, our analysis of the SIPP raises significant concerns about Treasury's most recent estimate of 3.3 million. Our analysis of the SIPP data also indicated that unbanked recipients had lower incomes and less education than banked recipients and were more likely to be single. Other research indicates that individuals often chose not to have a checking or savings account for a number of reasons—for example, some preferred another method of cashing checks and saw banks as too expensive. For check recipients who were banked but chose not to use direct deposit, the obstacles were less obvious. Some of these recipients strongly preferred to receive a check in hand because they had always operated that way, while others, given the choice of using or not using EFT, elected not to use it.

The ETA has not been widely accepted by banks or unbanked beneficiaries despite Treasury's efforts to promote it. Since initiation of the program in 1999, 36,000 ETAs have been opened, representing fewer than 1 percent of unbanked beneficiaries whether using estimates based on our analysis of the SIPP or Treasury's research. Treasury's efforts have

included taking steps to convince banks to offer ETAs, establishing a database of ETA providers (including their locations) to assist in enrolling beneficiaries in an ETA, and nationwide marketing of the ETA directed at benefit recipients. For example, Treasury periodically mails information on EFT and ETA to federal check recipients when distributing benefit checks. While some of the largest banks in the country offer ETAs, most banks do not, and ETAs are largely unavailable in some areas of the country. Officials from banks that offer ETAs often emphasized that they viewed the account as a community service. Many banks, especially larger ones, viewed the ETA as unprofitable and tended to limit their marketing efforts. In contrast, smaller banks and those that focused on a specific community or ethnic group were more likely to make special efforts to promote the ETA, including coordinating enrollment with local Social Security offices. Several factors influenced federal beneficiaries who were unwilling to open an ETA, including satisfaction with current check-cashing methods and a preference for an account that allowed check writing. Because less than 1 percent of potential unbanked federal beneficiaries have opened ETAs, it is uncertain whether the ETA will generate savings sufficient to offset the costs of maintaining and promoting the program.

Based on our discussions with representatives from Treasury, SSA, financial institutions, and consumer groups, we identified several approaches that Treasury could consider to increase the use of electronic transfers. These approaches include increasing cooperation between banks and local SSA offices to more effectively enroll beneficiaries for ETAs; exploring other electronic payment options besides the ETA to deliver benefits; partnering with banks to provide information on the general availability of low-cost banking products, especially in areas with low ETA coverage; and conducting further research to determine why certain states have low direct deposit participation rates. We recognize that these approaches could be difficult to implement without further exploration because those who would be responsible for implementing them sometimes have conflicting interests. For example, Treasury is concerned with saving money and preventing fraud, banks are concerned with capturing any profits on products they offer, and recipients are interested in convenience and costs. However, because the ETA is unlikely to prove successful as the sole means of persuading unbanked beneficiaries to use electronic transfers, these approaches warrant further consideration.

This report contains two recommendations. First, we recommend that Treasury revisit its estimate of the number of unbanked federal check

recipients. In doing so, we further recommend that Treasury explore use of Census SIPP data as a means to obtain a better estimate of the extent of federal beneficiaries who are unbanked and to better understand the characteristics of the unbanked population. Second, we recommend that Treasury use the information on the extent and characteristics of unbanked federal check recipients to consider alternative approaches, including those discussed in this report, to develop a strategy that offers a greater likelihood of attracting that portion of the unbanked population that chooses not to open an ETA.

We obtained written comments on a draft of this report from Richard L. Gregg, Commissioner of Treasury's Financial Management Service, that are presented in appendix VI. SSA did not provide comments. Treasury generally agreed with our recommendations, outlined how it would respond to each of them, and made three clarifying points. We modified the text as appropriate.

Background

As part of the Debt Collection Improvement Act of 1996 (1996 Act), Congress decided to take advantage of the benefits that could result from the greater use of EFT payments and required that EFT be used to make all federal payments, except tax refund payments.[3] EFT was defined as any transfer of funds, other than transactions originated by cash or checks that authorized a financial institution to debit or credit an account. EFT payments include payments made through the Automated Clearing House[4]

[3]While this report focuses on the delivery of payments to federal beneficiaries, the law specifies that all of the following payments must be made by electronic fund transfer: (1) federal wage, salary, and retirement payments; (2) vendor and expense reimbursement payments; and (3) benefit payments.

[4]The ACH network is a funds transfer system governed by a specific set of rules that provides for the interbank clearing of electronic entries for participating institutions. Both the Federal Reserve System and the private sector provide ACH services. A 1997 GAO report on the U. S. payment system provides additional information on the ACH network (*Payments, Clearance, and Settlement: A Guide to the Systems, Risks, and Issues*, GAO/GGD-97-73, June 20, 1997).

(ACH) network for the direct deposit[5] of payroll or Social Security benefits. The 1996 Act also instructed Treasury to ensure that individuals have access to an account at a federally insured financial institution, that such an account have the same consumer protections provided to other account holders, and that it be provided at a reasonable cost. But the 1996 Act permitted Treasury to waive the EFT requirement under certain conditions, for example, when compliance would pose a hardship to a federal check recipient, for certain types of checks, or in other circumstances.

The 1996 Act mandated that Treasury implement the EFT requirement in phases. During the first phase, recipients who became eligible to receive federal payments on or after July 26, 1996, would receive their payments by EFT unless they certified in writing that they did not have an account with a financial institution or an authorized payment agent. Treasury implemented an interim rule on July 26, 1996, for these requirements. The interim regulation remained in effect until January 1, 1999, at which time all federal payments were to be made by EFT unless Treasury granted a waiver. Treasury's final regulation (issued on September 25, 1998) was intended to bring Americans who did not use the financial system to receive funds or make payments into the financial mainstream. In July 1999, Treasury issued a notice that established the required features of the ETA, a low-cost account Treasury designed for unbanked federal beneficiaries.[6]

Prior to implementing these final regulations, Treasury sponsored research and obtained the viewpoints of interested parties, including financial institutions, consumer groups, and others, during field hearings and as part of the regulatory comment process. The positions these groups held on the implementation and final design of the ETA were sometimes

[5]In this report, we often refer to electronic funds transfers (EFT) as "direct deposit"—the term Treasury and SSA use in their marketing materials. However, Treasury's final regulation on EFT, issued September 25, 1998, differentiates between direct deposit and what are called electronic benefit transfers (EBTs). EBTs include federal payments made through (1) an electronic transfer account and (2) a debit card such as a benefit security card. Direct deposits are made into accounts for which Treasury assumes no responsibility. But under the EBT system, Treasury authorizes financial institutions to act as its agent in overseeing accounts that receive transfers.

[6]Treasury published a final rule implementing the use of direct deposit (Management of Federal Agency Disbursements, 31 C.F.R. 208, September 25, 1998). This rule became effective on January 2, 1999. In addition, on July 16, 1999 Treasury published a notice describing the required features of the ETA that went into effect immediately.

very different. For example, from the beginning consumer groups were concerned that some benefit recipients would be negatively affected if the 1996 Act's waiver policy was strictly enforced. Treasury responded by establishing a flexible waiver policy that permitted individuals to determine for themselves whether direct deposit would cause them a hardship. However, establishment of this policy caused some representatives of financial institutions to anticipate that few unbanked beneficiaries would voluntarily enroll for ETAs. These officials asked Treasury for the flexibility to set their own monthly account fees, a request opposed by consumer groups wanting to ensure that the accounts would remain low cost. In designing the ETA, Treasury also commissioned studies to determine why people chose not to use direct deposit (including why they remained unbanked) and to identify an electronic account that could be offered to the unbanked at a reasonable cost.[7]

On July 16, 1999, Treasury published a notice in the *Federal Register* that established the required features of the ETA, such as the amount of the maximum monthly fee ($3.00) that an ETA provider could charge a customer and the minimum number of free withdrawals the account was required to include. The notice also set the amount of money Treasury would reimburse each ETA provider ($12.60) for opening an ETA.

Treasury makes payments on behalf of several agencies; the largest percentage (90 percent) of benefit payments is for SSA. The majority of SSA's payments fall under the Old-Age and Survivors Insurance (OASI) and the Disability Insurance (DI) programs. These programs combined are commonly referred to as Social Security, or the Old-Age, Survivors, and Disability Insurance (OASDI) program. In addition, SSA administers the Supplemental Security Income (SSI) program. Descriptions of these programs follow.

- OASI provides payments to retired workers or the survivors of workers who have paid into the Social Security trust fund. The trust fund is financed through payroll taxes paid by workers, their employers, and the self-employed. To qualify for OASI benefits, workers must have paid Social Security taxes for at least 10 years or an equivalent.

[7]Treasury asked Booz·Allen & Hamilton, Shugoll Research, and Dove Associates to conduct these studies, which were in part based on research that surveyed the check recipient population. According to Treasury officials, these studies did not survey benefit recipients under the age of 18.

- DI provides payments to disabled workers who have paid a minimum amount into the Social Security trust fund. To qualify for DI, workers must have a medically determinable physical or mental impairment that prevents them from engaging in substantial gainful activity. These benefits provide an income base for eligible workers who have qualifying disabilities and for eligible members of their families.
- SSI is a means-tested program that provides qualified recipients with monthly cash payments sufficient to raise their income to a predetermined level guaranteed by the federal SSI program. The program is financed from general tax revenues and provides aid to aged, blind, and disabled children and adults who have limited income and resources. SSI benefit recipients may also qualify for other benefits, such as food stamps and social services.

Besides administering payments for SSA, Treasury makes retirement and compensation payments on behalf of the Department of Labor (DOL) for victims of black lung disease, the Office of Personnel Management (OPM) for retirement benefits for federal employees, the Railroad Retirement Board (RRB) for retired railroad workers, and the Department of Veterans Affairs (VA) for benefits paid to veterans or their survivors. Table 1 identifies the number of payments by type (EFT or check) Treasury made for each federal agency in 2001.

Table 1: Number of Monthly Treasury Payments to Benefit Recipients in 2001 (in millions)

		Number of payments		
Authorizing agency	**Benefit type**	**EFT**	**Check**	**Total**
	OASDI	39.1	10.8	**49.8**
	SSI	3.6	3.7	**7.3**
VA/OPM/RRB/DOL	Compensation and Pensions	5.5	1.0	**6.6**
Total		**48.2**	**15.5**	**63.7**

Source: Treasury, Financial Management Service Web site.

When determining the number of check recipients likely to enroll for an ETA, an important question to consider is how many of them do not have a bank account.[8] One of the best sources for this estimate is the Bureau of

[8]In this report, by bank account, we mean a checking, a savings, or a transaction account like the ETA.

the Census' national SIPP.[9] The SIPP provides information on the demographic and economic situation of individuals and households in the United States. This survey includes specific questions that ask whether individuals receive income from government programs and if they have checking or other types of accounts. Other well-known surveys, such as the Survey of Consumer Finances (SCF), sponsored by the Federal Reserve, can be used to produce estimates of the unbanked population but not estimates of individual unbanked federal benefit recipients.[10]

Governmental and Private Efforts Have Increased EFT Usage

In 2001, most federal beneficiaries who received payments directly from Treasury received their payments electronically. Use of electronic transfers increased steadily throughout the 1990s, especially between 1996 and 2001. This increase can be attributed to a combination of efforts undertaken by the public and private sector to promote direct deposit. In particular, Treasury and SSA initiated and continue activities to advise check recipients of the safety and convenience of receiving their benefits by electronic transfer and to facilitate switching check recipients to direct deposit. We found that direct deposit participation varies widely among recipients in each SSA program. Today, the OASI program has the highest EFT participation rate at 82 percent. Information on the characteristics of benefit recipients who use direct deposit is limited, but our analysis of studies and SSA data suggest that EFT users tend to be older and that participation rates are generally lower in the southeastern states.

EFT Use Has Increased in Response to Public and Private Efforts

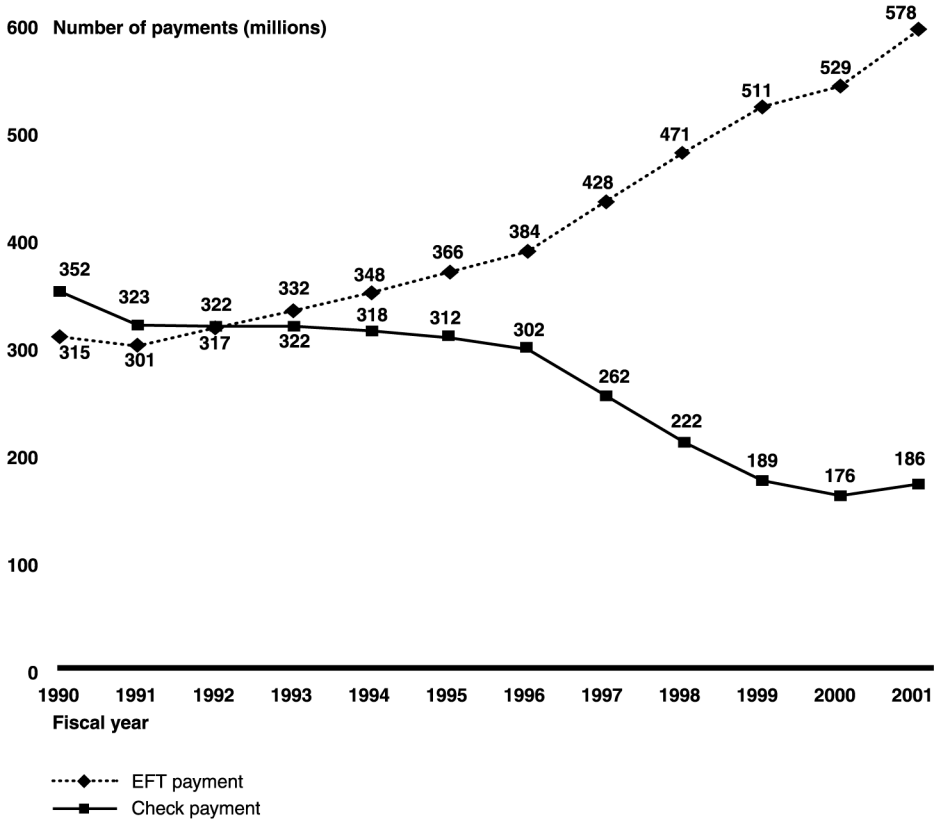
Over the past decade, EFT usage has increased significantly. As shown in figure 1, in 2001, Treasury made 578 million (76 percent) of all federal benefit payments to beneficiaries through EFT compared to 315 million (47 percent) of the benefit payments it made in 1990. In 2001, Treasury made about 186 million check payments to about 14 million benefit recipients. This increase in EFT use was markedly greater after enactment of the 1996 Debt Collection Improvement Act. Specifically, between 1991 and 1996, EFT usage by federal benefit recipients increased by 8 percentage points (from 48 percent to 56 percent) and, between 1996 and

[9]We used the SIPP to make these estimates for a previous report. U.S. General Accounting Office, *Banking: Government Check-Cashing Issues*, GAO/GGD-89-12 (Washington, D.C.: Oct. 7, 1988).

[10]More information about this survey can be found in appendix I.

2001, by 20 percentage points (from 56 percent to 76 percent). Also, after declining steadily since 1990, the reduction in payments Treasury made by check mostly leveled off since 1999 and, since then Treasury continued to pay, on average, over 180 million check payments per year to federal recipients.

Figure 1: Increase in Electronic Transfer Use, 1990–2001



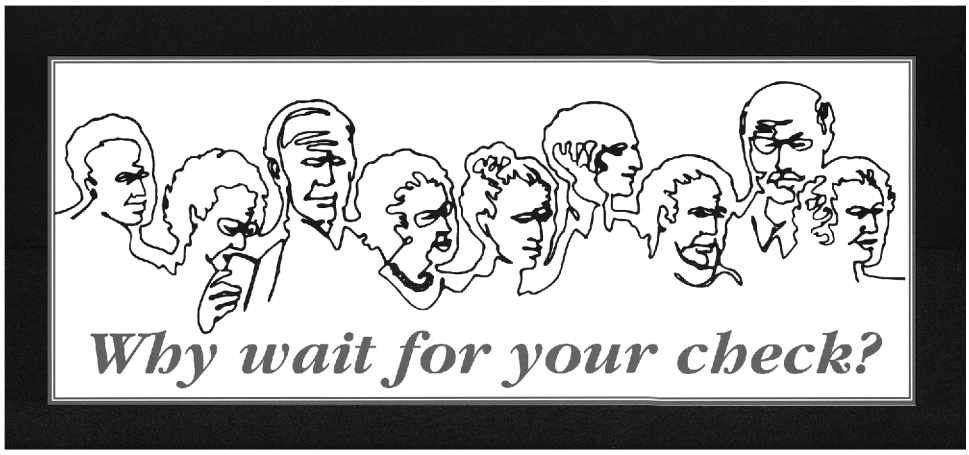
Source: Treasury, Financial Management Services.

To promote direct deposit, Treasury and SSA have jointly developed marketing campaigns and distributed promotional materials to financial institutions, SSA field offices, and nonprofit organizations. These materials include public service announcements for radio, television, and printed publications; posters for distribution to financial institutions and SSA field offices; and check inserts to accompany benefit checks. These promotions emphasize that direct deposit is "safe, quick, and convenient," and materials are often available in both English and Spanish. Treasury

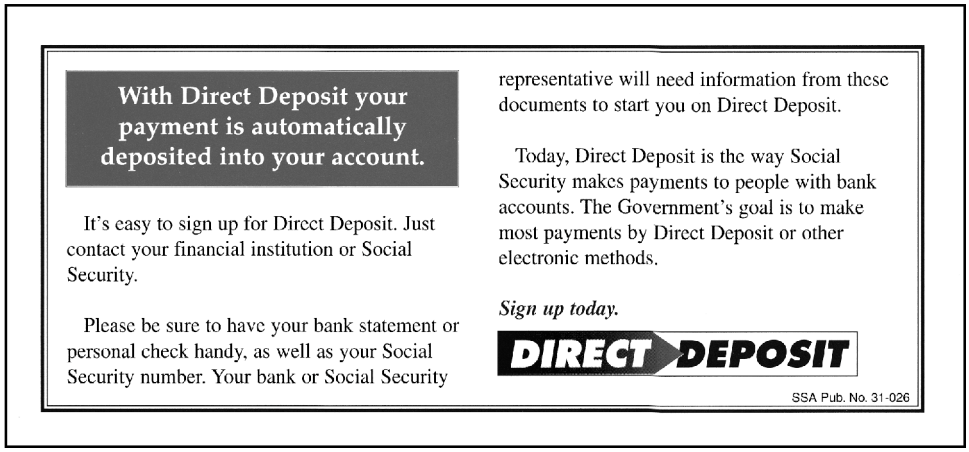
considers these check inserts, such as those shown in figure 2, to be one of its most important methods of promoting direct deposit, because these inserts reach beneficiaries directly.

Figure 2: Example of Check Inserts Used to Promote Direct Deposit

Insert front



Insert back



With Direct Deposit your payment is automatically deposited into your account.

It's easy to sign up for Direct Deposit. Just contact your financial institution or Social Security.

Please be sure to have your bank statement or personal check handy, as well as your Social Security number. Your bank or Social Security representative will need information from these documents to start you on Direct Deposit.

Today, Direct Deposit is the way Social Security makes payments to people with bank accounts. The Government's goal is to make most payments by Direct Deposit or other electronic methods.

Sign up today.

DIRECT DEPOSIT

SSA Pub. No. 31-026

Source: SSA.

SSA also undertakes its own activities, some of which were initiated before the Debt Collection Improvement Act was signed into law. For instance, in the early 1990s, SSA streamlined the direct deposit enrollment process by introducing a toll-free enrollment number for benefit recipients and establishing a program to allow benefit recipients to enroll in direct

deposit at a financial institution more easily. As a result of the 1996 Act, SSA further strengthened its direct deposit enrollment procedures by instructing staff to use a line of questioning that presumed a recipient would use direct deposit. During 1997 and 1998, before Treasury established a flexible waiver policy, SSA also told individuals with bank accounts that they were required to sign up for direct deposit.

Other organizations and financial institutions have also promoted direct deposit, providing additional publicity to encourage federal beneficiaries to use it. Nonprofits such as the American Association of Retired Persons (AARP) and the National Community Reinvestment Coalition (NCRC) promote the use of direct deposit as part of their financial literacy programs because of the benefits (such as safety and convenience) it could yield to their constituencies. For example, AARP officials told us that they conducted a three-year educational campaign starting in about 1997 that involved cooperating with banks and community groups to promote direct deposit and using mass mailings to reach their constituency. In addition, these organizations have cooperated with federal agencies such as Treasury, banking associations, and other consumer groups to compile a training guide that provides financial education to people with minimal knowledge of the banking system.[11] This guide includes fact sheets on the advantages of direct deposit and a description of how individuals can receive benefits electronically (for example, with an ETA).

Financial institutions complement these efforts by sponsoring direct deposit campaigns, and some banks provide free checking accounts in exchange for using direct deposit. Banks are highly motivated to promote direct deposit because checks are more costly to process than electronic transfers. For example, major banks we spoke with reported that it cost them about .05 cents to process an ACH transaction and more than a dollar (one major bank reported $1.19) when a customer comes to a teller window to cash a check.

Despite these ongoing efforts by Treasury and others, the annual increase in EFT usage by benefit recipients has slowed down over the last few years. For example, between 1999 and 2000, EFT use increased by only two percentage points, from 73 percent to 75 percent, and between 2000

[11]"Helping People in Your Community Understand Basic Financial Services," developed by the Financial Services Education Coalition.

and 2001, EFT use increased by only one percentage point, from 75 percent to 76 percent. In contrast, between 1996 and 1999, EFT use had been increasing by about six percentage points annually.

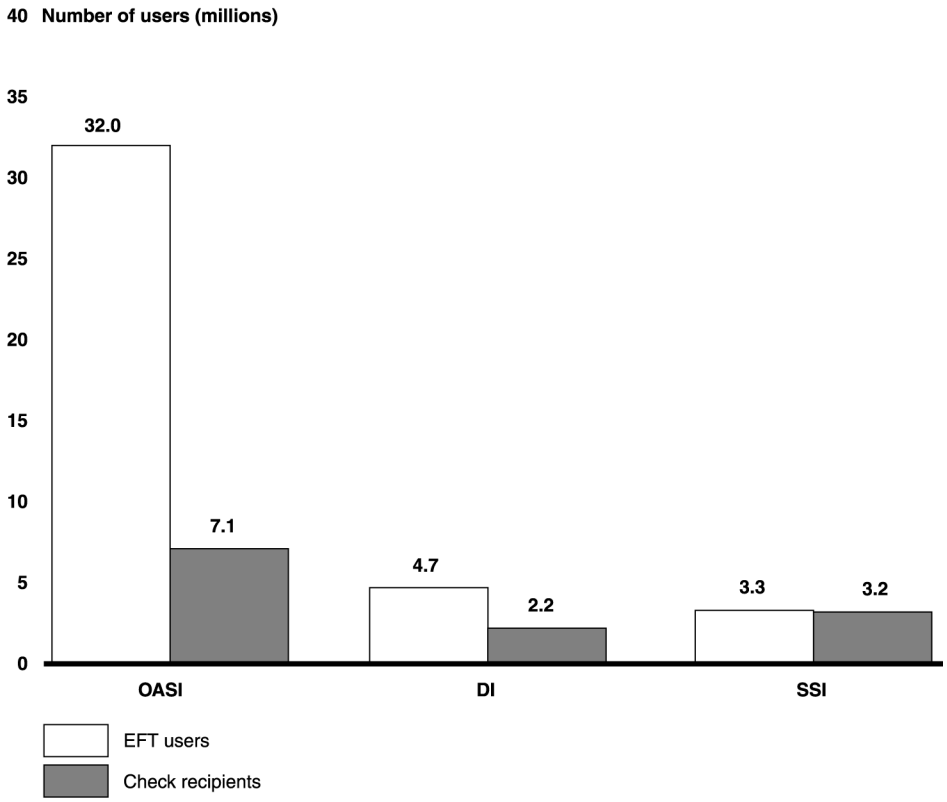
Federal Beneficiaries Who Use Direct Deposit Share Certain Characteristics

Although SSA has limited data on the characteristics of direct deposit users, we used available SSA data to identify program participation rates, the age of direct deposit benefit recipients, and participation in direct deposit by state.[12]

OASI recipients were more likely to use direct deposit than were DI or SSI recipients. These benefit recipients had the highest participation rate—82 percent. In contrast, 68 percent of DI recipients and 51 percent of SSI recipients used direct deposit. However, because the OASI program has a larger number of participants, it also has a higher number of check recipients than the other two programs. (Figure 3 provides additional information on direct deposit usage for each program.) SSA officials said that they do not tailor their marketing by program type and could not identify factors contributing to the lower use of direct deposit among DI and SSI recipients. They noted that SSA was in the process of conducting a survey of beneficiaries to better understand why people are not using direct deposit. However, the officials said that the survey results were unlikely to distinguish reasons for nonparticipation among benefit recipients.

[12]We also analyzed participation by gender but did not find meaningful differences.

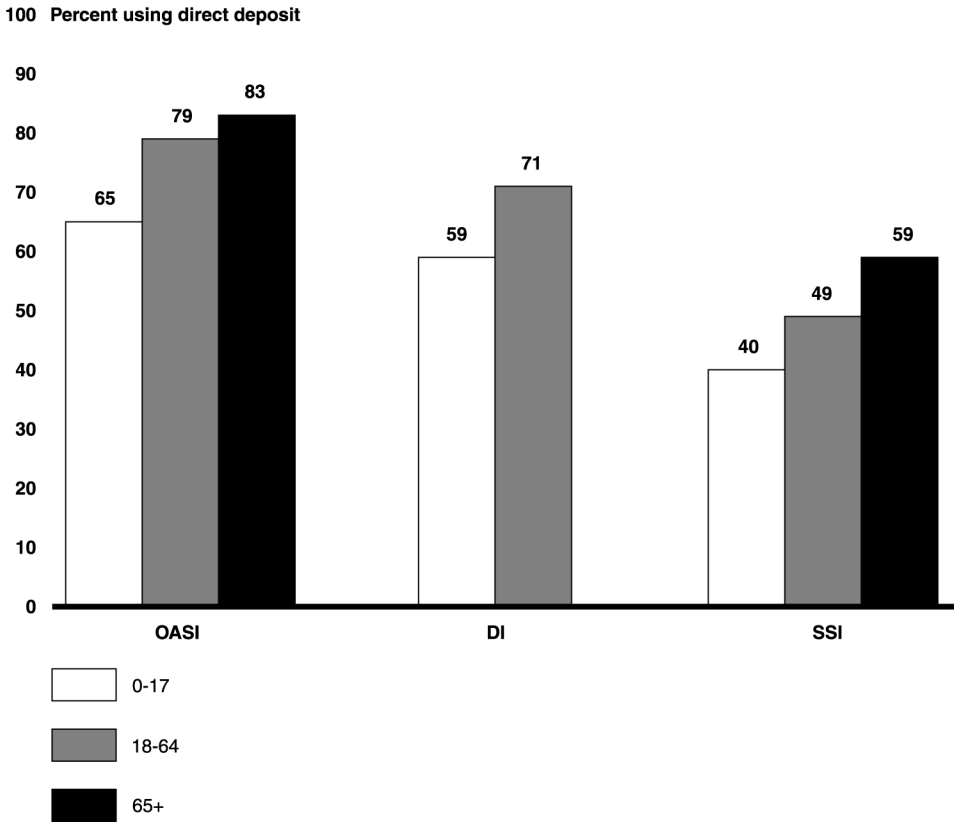
Figure 3: Direct Deposit Use by SSA Program



Source: SSA, OASI and DI data for April 2002 and SSI data for March 2002.

As shown in figure 4, SSA data suggest that age is not an obstacle to direct deposit. Benefit recipients 65 and older have high direct deposit participation rates. For example, among OASI recipients, 83 percent of those 65 and older used direct deposit compared with 79 percent of those 18–64 and 65 percent of those under 18. However, most OASI check recipients (5.6 of 7 million total check recipients) are 65 and older. Since other factors, such as a disability or use of a representative payee by those under age 18, might contribute to lower electronic transfer use by younger recipients, any comparison of usage by age should be done with caution.

Figure 4: Direct Deposit Use by Age of Beneficiary



Note 1: It would be misleading to show direct deposit participation rates for DI recipients who are 65 and older because most DI recipients transition to OASI when they become 65. As a result, we do not show their participation rates.

Source: SSA, OASI and DI data for February 2002 and SSI data for March 2002.

While higher direct deposit use is not associated with any one region of the United States, direct deposit use is generally lowest in the southeastern states, including Alabama, Kentucky, Louisiana, North Carolina, and West Virginia.[13] These states have OASI direct deposit participation rates of 68 to 77 percent, compared with states such as

[13]States with the highest OASI participation include Arizona, Florida, Idaho, Oregon, Washington, and Wyoming. States with the highest DI participation include Alaska, Hawaii, Nebraska, North Dakota, Oregon, and South Dakota. States with the highest SSI participation include California, Hawaii, Massachusetts, New York, North Dakota, Oregon, Pennsylvania, and South Dakota.

Arizona, Oregon, and Washington, where participation rates range from 90 to 91 percent. We asked Treasury and SSA officials if they could identify any factors that could explain why direct deposit use was lower in the southeastern states, but they could not. As indicated in table 2, of the three programs SSI shows the widest variance in direct deposit participation rates across states from a high of 67 percent in California to a low of 31 percent in West Virginia. Appendix III identifies direct participation usage by state for each SSA program.

Table 2: States with the Highest and Lowest Direct Deposit Participation Rates

	State with highest participation rate	Direct deposit participation (%)	State with lowest participation rate	Direct deposit participation (%)
OASI	Washington	91	West Virginia	68
DI	North Dakota	80	West Virginia	53
SSI	California	67	West Virginia	31

Source: SSA, OASI and DI data for February 2002 and SSI data for May 2002.

Lack of a Bank Account, Cost, and Personal Concerns Keep Some Beneficiaries from Using EFT

We found that the major obstacle to using direct deposit was being unbanked—that is, not having a bank account. Importantly, we also found that the number of unbanked federal beneficiaries may be higher than earlier estimates suggest. Our analysis of the Census Bureau's SIPP showed, for example, that the number of unbanked beneficiaries may be twice as high as Treasury's estimate. Our analyses also indicated that unbanked federal beneficiaries are more likely to have lower income and educational levels than banked beneficiaries and are more likely to be unmarried. We used studies of both unbanked federal beneficiaries and the unbanked population at large to determine why some federal check recipients remain unbanked and to identify obstacles to bringing them into the banking system. Our analysis of relevant studies conducted by federal agencies and other researchers showed that unbanked federal beneficiaries and unbanked individuals at large have practical reasons—including cost and convenience—for not opening a bank account. But lack of a bank account is not the only reason beneficiaries choose not to use EFT. Some federal beneficiaries who have bank accounts do not use direct deposit, in part because of the availability of the opt-out provision and in part because of concerns about receiving payments, accessing money, and resolving problems, among other things.

Lack of a Bank Account Is the Major Obstacle to Using EFT

Determining the exact number of unbanked federal beneficiaries is difficult because federal agencies do not document whether or not their recipients have bank accounts.[14] However, determining the correct percentage of federal check recipients who are unbanked is an important ingredient in developing a strategy on how best to attract federal check recipients to EFT. An underestimate of the percentage of federal check recipients who are unbanked could have profound implications on the success of any program to attract federal check recipients because it is much more difficult to persuade beneficiaries without bank accounts than those who already have a bank account to use EFT.

In 1997, to prepare for the ETA program, Treasury sponsored its own research that estimated that about 5.2 to 6.5 million federal beneficiaries—approximately 24 percent of check recipients—were unbanked.[15] Treasury still uses this percentage in determining the number of unbanked check recipients and, in early 2002, placed that figure at 3.3 million. However, we analyzed data from the Census Bureau's SIPP[16] from 1998 to determine the number of adult federal recipients without bank accounts and found that for 1997 Treasury may have underestimated the number of the unbanked who received federal benefit checks. Specifically, we estimated that about 11 million federal beneficiaries, or over half of all federal check recipients

[14]SSA officials reported that applicants for SSI are required to identify their financial assets. However, these officials said that SSA does not centralize this information in a way that allows it to be used to determine the number of SSI recipients without bank accounts.

[15]These estimates were derived by Dove Associates (*ETA Initiative Final Report*, June 15, 1998) based on research conducted by Booz·Allen & Hamilton, Shugoll Research (*Mandatory EFT Demographic Study*, April 22, 1997). Treasury contracted for this three-phase research, and additional research based on this work by Dove Associates, as part of its preparations for implementing the EFT program. While the Shugoll study provided useful information about the characteristics of unbanked federal beneficiaries, it had a number of limitations with regard to estimating the number of unbanked beneficiaries. For instance, it was conducted only in English and relied in part on telephone surveys that could have excluded low-income households without telephone service. Treasury officials told us that the mail portion of the survey indicated that 27 percent of the check recipients did not have bank accounts.

[16]SIPP was designed specifically to assist in creating and evaluating programs like those administered by SSA. It provides information on the demographic and economic situation of the civilian, noninstitutionalized adult population of the United States. For the purpose of assessing the accuracy of Treasury's 1997 estimates, we analyzed SIPP data from 1998. In addition, to identify whether changes may have taken place since 1998, we analyzed 1999 survey data from the SIPP. The 1999 survey data are the most recently available from the Census that allowed us to define a bank account to include noninterest-bearing checking accounts as well as other accounts such as savings and interest-bearing checking. A summary of these data can be found in appendix IV.

in 1998, did not have a bank account (see appendix I for details of our analysis). Of this number, almost all received benefits from SSA or a combination of benefits from SSA and other agencies. In addition, our analysis of more recent SIPP data indicated that, in 1999, the number of unbanked federal beneficiaries was closer to about 11.5 million, including about 8.7 million OASDI recipients and from 3.0 to 3.9 million SSI recipients.[17] This same analysis indicated that about 37 percent of unbanked SSI recipients also received OASDI. While no estimates of the unbanked are available for 2001, our analyses of the SIPP data raise significant concerns about Treasury's most recent estimate of 3.3 million.

Our analysis of the SIPP data indicates that Treasury officials may be planning their EFT marketing based on an estimate of the unbanked that is too low. When we discussed our estimates with Treasury officials, they told us that they were unaware of the availability and benefits of using the SIPP data to estimate the size of the unbanked population. They acknowledged that if the unbanked recipient population was significantly larger than their estimate, the goal of enabling this group to receive funds electronically would be more challenging than had originally been thought and therefore might call for developing new strategies to attract the unbanked.

While the SIPP does not contain information on why individuals have decided to be unbanked, our analysis of the SIPP data allowed us to identify certain characteristics of unbanked federal benefit recipients. Identifying such characteristics could contribute to developing strategies to increase ETA and EFT use. Using survey data from the 1999 SIPP, we were able to identify the following characteristics:

- Low-income recipients were less likely to have a bank account than high-income recipients. For example, 35 percent of OASDI recipients with family incomes of less than $15,000 were unbanked, compared with 16 percent of those with incomes of $30,000–$45,000. About three-quarters of unbanked OASDI and SSI recipients had family incomes of $30,000 or less.
- Recipients with less schooling were less likely to be banked. For example, 36 percent of OASDI recipients who did not complete high school were unbanked, compared with 20 percent who had at least a high school

[17]See appendix I for an explanation of how we arrived at our estimates and what factors may affect those estimates. Confidence intervals for estimates for based on the 1998 SIPP are +/- 6 percent or less. Confidence intervals for the estimates based on the 1999 SIPP data can be found in appendix IV and appendix V.

diploma and 16 percent with at least some college experience. Most unbanked OASDI and SSI recipients had no more than a high school diploma.

- Ethnic minorities, including African Americans and Hispanics, were more likely to be unbanked than white recipients. For example, 52 percent of African-American OASDI recipients were unbanked compared with 18 percent of white recipients. However, because most OASDI recipients are white, they accounted for 66 percent of all unbanked OASDI recipients.
- Single OASDI and SSI beneficiaries were more likely to be unbanked than married recipients. For example, 30 percent of unmarried OASDI recipients were unbanked compared with 16 percent of married recipients. For both programs, the majority of all unbanked beneficiaries were unmarried. Eighty percent of unbanked SSI recipients and 62 percent of unbanked OASDI recipients were unmarried.
- For both OASDI and SSI, younger benefit recipients were less likely to be banked than older ones. For example, 63 percent of OASDI recipients 18–35 were unbanked compared with 19 percent between the ages of 65 and older. However, because most OASDI recipients are 65 and older, they still represented the majority (66 percent) of unbanked OASDI recipients.
- Federal beneficiaries in the southeastern and southwestern states were more likely to be unbanked than those in other parts of the country. Around 35 percent of recipients in the southeast and 36 percent in the southwest did not have a bank account, compared with 22–25 percent in other parts of the country.[18]

Appendix IV provides figures showing more detailed information about the characteristics of unbanked OASDI and SSI recipients. While additional research could provide other insights into why some federal recipients are unbanked, this type of information is still useful because the more Treasury and other program officials know about unbanked benefit recipients, the more equipped they will be to develop a workable strategy for increasing the use of EFT. Appendix IV provides figures showing the same detailed information about the characteristics of the unbanked population at large to provide a broader context within which to understand the characteristics of unbanked federal benefit recipients.

[18]We classified the southeastern states as Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia. The southwestern states include Arkansas, Louisiana, Oklahoma, and Texas. For the purpose of statistical analyses, we limited the number of regions into which we divided the United States. See appendix V for information on how we classified other parts of the country.

Concerns about Cost and Convenience Prevent Some Unbanked Beneficiaries from Using EFT

To identify some of the obstacles to bringing unbanked federal beneficiaries into the financial mainstream, we relied largely on existing studies of the unbanked population.[19] While research on the unbanked is fairly limited and often restricted to a specific geographic location, these studies still provide useful insights. Collectively they indicate that the unbanked have a number of practical reasons for preferring their current check-cashing and payment arrangements. For example, because these recipients frequently have low incomes, the minimum balances required by banks and the potential for incurring overdraft fees may deter the unbanked from opening bank accounts.

Treasury-sponsored research completed in 1997 indicated that federal check recipients were unbanked largely because they believed that they did not have enough money to establish an account, felt that they did not need an account, and believed that bank fees were too high.[20] The researchers noted that fees were a problem because low-income recipients could have trouble maintaining a minimum balance and thus could incur service or overdraft charges. More than half of unbanked recipients reported that they cashed their checks at financial institutions or grocery stores. Responses to the 1998 Federal Reserve Board's SCF, which queried a sample of the population at large, also indicated that the unbanked have practical reasons for not having checking accounts. The respondents said that they would not write enough checks, did not have enough money to establish an account, and thought that service charges and minimum balance requirements were excessive.[21]

Other studies evaluating the unbanked population at large indicate that the unbanked make decisions that take into consideration their limited income and the cost of financial services. These researchers evaluated both the costs of maintaining a bank account and the cost of paying bills. For example, based on a survey sponsored by the Office of the Comptroller of the Currency (OCC), a researcher estimated that the

[19]These studies include Treasury-sponsored research that focuses specifically on federal beneficiaries and studies sponsored by federal agencies and academic institutions that examine the unbanked population at large. All used some mechanism, such as focus groups, to obtain the views of unbanked individuals.

[20]Booz·Allen & Hamilton, Shugoll Research.

[21]Arthur B. Kennickell, Martha Starr-McCluer, and Brian J. Surette, "Recent Changes in U.S. Family Finances: Results from the 1998 Survey of Consumer Finances," *Federal Reserve Bulletin* (January 2000). This research was based on a triennial survey of income and other demographic characteristics of U.S. families sponsored by the Federal Reserve.

unbanked used both check-cashing outlets (71 percent) and banks (23 percent) to cash checks, and noted that those using a bank were able to do so at little or no cost.[22] However, to make payments (for example, by purchasing money orders) almost all the unbanked surveyed preferred using places other than financial institutions, such as check-cashing outlets and post offices, to arrange for payments. The researcher noted that many unbanked might operate outside the banking system in order to save money, but the survey results indicated that minimum balances required to open an account may pose a significant problem for many of the unbanked. Another researcher, using research sponsored by the Federal Reserve, also noted that a checking account could be expensive for low-income individuals, because they would be likely to maintain a very low balance and could therefore incur overdraft fees.[23] This same study forecasted that ETAs would not be widely adopted because the unbanked—except in urban areas where check-cashing outlets are costly—would prefer their current arrangements, which allow them to cash their checks and pay bills at the same time. Another researcher concluded as well that unbanked households may favor financial service providers such as check-cashing outlets because the unbanked cannot meet the high minimum balances required to open a deposit account and are averse to paying the monthly maintenance fees generally imposed on accounts with small balances. In addition, this researcher also noted that check-cashing outlets selling money orders and cashing checks for the general public may be more effectively tailoring their services to the needs of the unbanked.[24]

While researchers recognize that the unbanked may have practical reasons for not having a bank account, they also recognize the important

[22]Constance R. Dunham, "The Role of Banks and Nonbanks in Serving Low-and Moderate-Income Communities" (paper presented at "Changing Financial Markets & Community Development" held in Washington D.C., Federal Reserve System, April 5-6, 2001) pp. 31-59. This research is based on a survey sponsored by OCC in 1998–2000. It included about 2,000 randomly selected individuals living in low- and moderate-income neighborhoods in Los Angeles County and New York City, areas with some of the highest numbers of federal check recipients in the United States.

[23]Edward S. Prescott and Daniel D. Tatar, "Means of Payment, the Unbanked, and EFT '99," *Federal Reserve Bank of Richmond Economic Quarterly*, Volume 85/4 (Fall 1999). The basis for this study was a review of existing literature and focus group interviews conducted in Richmond, Virginia.

[24]John Caskey, *Lower Income Americans*, *Higher Cost Financial Services* (Madison, Wisconsin: Filine Research Institute, 1997). This study summarizes the findings of a telephone survey of 900 low-income households in 3 different states.

connection between owning a bank account and saving money. For example, researchers have identified a variety of benefits attributable to savings, including the ability to save money over the short term for emergencies and over the long term for home ownership and to avoid the sometimes high cost of using check-cashing outlets.[25] However, in discussions with us, officials from nonprofit organizations and community banks indicated that the unbanked population needs financial education and "hand-holding" in order to understand the benefits of owning a bank account and to learn how to manage one without incurring fees. Some studies have also suggested that what may be required is changing the way financial institutions have traditionally provided services to low-income families.[26] One author noted that these customers may value the ability to cash checks, purchase money orders and stamps, and pay utility bills at one location.[27] While check-cashing outlets offer these services, banks do not.

Although many individuals do not have traditional bank accounts, some federal beneficiaries have been receiving payments through debit cards. In January 2002, GAO reported that Electronic Benefit Transfer (EBT) cards were used to deliver food stamp benefits to 80 percent of recipients, or about 14 million individuals.[28] The EBT is a plastic card resembling a bank-issued debit card that recipients use to pay for their food at authorized retail stores. An increasing number of states have also decided to use this card to provide cash welfare benefits.[29] The money for these cash welfare

[25]Jeanne M. Hogarth and Kevin H. O'Donell, "Banking Relationships of Lower-Income Families and the Governmental Trend Toward Electronic Payment," Federal Reserve Bulletin vol. 85, no. 7 (July 1999): 459-473; Constance R. Dunham, "Savings Instruments and Savings Goals in Poor Urban Communities," in draft (Oct. 2002); Michael Barr, "Access to Financial Services in the 21st Century: Five Opportunities for the Bush Administration and the 107th Congress," *Capital Exchange* (June 2001).

[26]Barbara Good, "Bringing the Unbanked Onboard," *Economic Commentary*, *Federal Reserve Bank of Cleveland of Cleveland* vol. 100, no. 1 (Jan. 15, 1999); John P. Caskey, "Bringing Unbanked Households Into the Banking System," *Capital Xchange* (January 2002).

[27]Good, "Bringing the Unbanked Onboard."

[28]U.S. General Accounting Office, *Food Stamp Program: Implementation of Electronic Benefit Systems*, GAO-02-332 (Washington, D.C.: Jan.16, 2002). The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P. L. 104-193) required each state to implement a statewide EBT system by October 2002.

[29]In Texas, the state government requires welfare recipients to use EBT cards. In California, over half the counties have chosen to use an EBT card to deliver cash welfare benefits.

benefit transactions is held in a pooled bank account by a state agency, and individuals are authorized to withdraw a certain benefit amount. These cash benefits can be withdrawn at an automated teller machine (ATM) or spent at a retail outlet with a point-of-sale terminal.[30] Many private sector initiatives are also under way that involve using debit cards to transfer wages to unbanked workers. Financial institutions we interviewed indicated that firms with high numbers of unbanked workers, such as fast food and home improvement chains, were likely to consider this option.

Concerns about Convenience Prevent Some Banked Beneficiaries from Using EFT

Treasury research and our interviews with organizations familiar with the check recipient population identified several factors that kept some recipients with bank accounts from using direct deposit. The concerns most frequently cited in Treasury's 1997 survey research included uncertainty about when the payment would arrive, fear of being unable to access disputed money (for instance, during a divorce), and resolving problems.[31] However, this study concluded that lack of awareness of or perceived difficulty in signing up for direct deposit were not major obstacles. An SSA survey of check recipients in 1993 reported that some people simply preferred to receive checks.[32] Representatives from AARP commented that some level of distrust would always exist about electronic payments, especially among low-income recipients.

SSA data also indicated that another obstacle to increasing direct deposit use may have been permitting recipients with bank accounts to opt out of using direct deposit. As shown in figure 5, these data show that sign-up rates for direct deposit among new applicants for benefits peaked between 1997 and 1998 but decreased thereafter. For example, enrollment rates for new OASI recipients peaked at 86 percent in 1997 but decreased to 76 percent in 2001.[33] SSA officials said that the 1997 increase was most likely the result of strengthened enrollment procedures in anticipation of a mandatory direct deposit requirement and noted that some field office

[30]Federal Reserve System, *Retail Payments Research Project*, (2002).

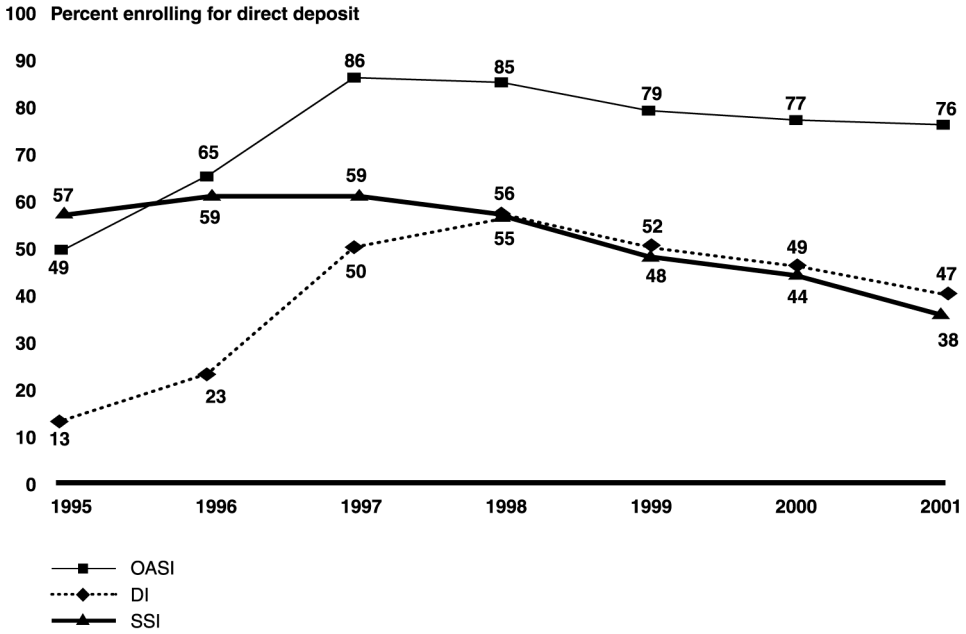
[31]Booz·Allen & Hamilton, Shugoll Research.

[32]Fiscal Year 1994 Customer Satisfaction Survey of Initial Awardees, sponsored by SSA.

[33]In 2001, about 1.9 million (5 percent) of all OASI recipients were new enrollees, along with about 776,000 (11 percent) of all DI recipients and 403,000 (6.2 percent) of all SSI recipients.

staff advised new benefit applicants that participation was mandatory. However, once Treasury regulations specified that enrollment was optional, it became easier for new applicants to opt out of signing up for EFT.

Figure 5: Direct Deposit Sign-Up Rates by SSA Program, 1995–2001



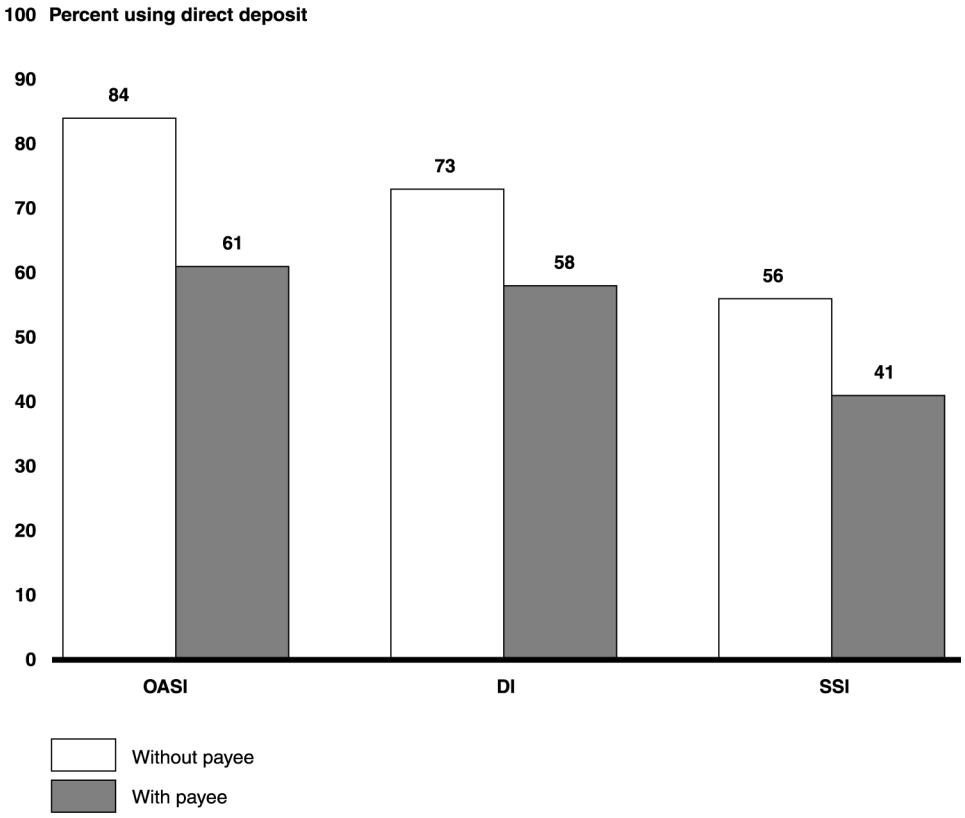
Source: SSA.

SSA data also indicated that benefit recipients with representative payees[34]—both individuals and institutions such as nursing homes—were less likely to use direct deposit than those without (see fig. 6). We asked SSA officials why representative payees would be less likely to use direct deposit, but the officials could offer no explanation. Treasury officials, however, suggested one possible explanation. They told us that the way in which SSA makes electronic payments to institutional representative payees could make it difficult for those organizations to identify an individual payment. Financial institutions are not required to pass along to

[34]A representative payee is an individual or institution that receives a benefit check on behalf of the actual beneficiary. In 2002, about 7 percent (2.9 million) of OASI recipients, 33 percent (2.3 million) of DI recipients, and 35 percent (2.3 million) of SSI recipients had representative payees.

the organization information contained in a separate record that accompanies these types of electronic payments. Thus, for instance, if the name of the intended recipient is truncated on the payment record, the institutional representative payee may not be able to identify the person for whom the payment is intended. The institutions, therefore, find it easier to receive a check for each individual for whom they are the representative payee.

Figure 6: Direct Deposit Use by Representative Payee



Source: SSA, OASI and DI data for February 2002 and SSI data for March 2002.

The ETA Has Had Limited Success

Despite Treasury's efforts to market the ETA program, since the program was initiated in July 1999, about 36,000, or fewer than 1 percent, of unbanked federal beneficiaries had opened ETAs by June 2002. Most financial institutions do not offer them. Because some of the nation's biggest banks, which typically have the greatest number of branches, have enrolled in the ETA program, opportunities to reach ETA prospects have

increased. But these banks often market the ETA only on a limited basis, as they do not see the account as profitable. Smaller banks that focus on specific community or ethnic groups often do make special efforts to market the ETA but open fewer accounts. Further, potential ETA users may choose not to participate in the program because they prefer other means of cashing their checks or feel that the ETA does not offer enough features—for example, a payment mechanism. Given the current number of ETA holders, it is unclear whether the ETA can generate savings sufficient to offset the costs of maintaining and promoting the program.

Treasury Promotes the ETA to Banks and Federal Check Recipients

Treasury considers the ETA important because it is the preferred method of fulfilling the 1996 Debt Collection Improvement Act's intention that unbanked benefit recipients use EFT to receive their payments. However, providing low-cost electronic services that are attractive to both the unbanked recipient population and financial institutions presented Treasury with a major challenge, especially when EFT became optional. In response to congressional concerns and concerns expressed by consumer and community-based organizations, federal agencies, and recipients, Treasury established a broad waiver policy emphasizing consumer choice, essentially allowing beneficiaries to decide for themselves whether they wanted to open an ETA.

The ETA is not a checking product and therefore has fewer features than a traditional checking account (see figure 7 for a listing of ETA features). For example, while an ETA has a maximum monthly fee of $3.00 and requires no minimum balance, it does not provide a bill-payment mechanism, such as check writing. Treasury made a deliberate decision not to include check writing, in part, because of concerns raised by both financial industry and consumer advocacy groups about the potential for account misuse, including overdrafts. As ETA providers, financial institutions are required to offer the account as described by federal regulation[35] and to make it available to anyone receiving federal benefits,

[35]Financial institutions that decide to offer the ETA are designated as Treasury's financial agents and enter into agreements to provide the ETA.

even applicants with a history of check misuse or fraud.[36] To help defray the costs of opening an ETA, Treasury reimburses financial institutions $12.60 for each account opened.

Figure 7: The ETA's Required Features

The July 1999 Federal Register Notice establishing the ETA specified that the account must have the following features:

- It must be an individually owned account at a federally insured financial institution.
- Anyone receiving federal benefits must be allowed to open an account, regardless of the recipient's banking history, except when the individual was previously the owner of an ETA that was closed because of fraud or had an ETA closed at the same institution because of misuse.
- Consumers must have the same protections that are available to other account holders at the financial institution.
- A financial institution may impose fees at its customary rates for additional withdrawals or lost cards, but overdraft fees may not exceed $10.
- The account must not allow check writing.
- The account must offer on-line point-of-sale access if such access is offered to other account holders at the participating financial institution.
- The maximum monthly fee cannot be more than $3.00 and must include four free cash withdrawals and four balance inquiries per month through any combination of the bank's automated teller machines and over-the-counter transactions.
- The financial institution may not require a minimum balance, except as mandated by state or federal law.
- The financial institution must provide a monthly statement.

Source: Notice of Electronic Transfer Account features, 64 Fed. Reg. 38,510 (July 16, 1999).

Since the notice establishing the required ETA features was published in July 1999, Treasury has undertaken a number of promotional activities. Treasury's first step was to enroll or certify financial institutions to offer

[36]Banks typically use the ChexSystems database to screen applicants for history of check fraud or other types of account abuse. Maintained by the check-printing company, Deluxe Corporation, the ChexSystems database tracks the records of customers whose checking accounts have been closed due to fraudulent activity or overdrafts. Banks that enter into contractual arrangements with ChexSystems report the names of customers whose checking accounts are closed. In return, these banks have access to the ChexSystems database. According to a report by the National Community Reinvestment Coalition, about 80 percent of the country's depository institutions currently use ChexSystems.

the account. According to Treasury officials, recruitment efforts included making personal contacts with major banks, attending conferences to generate interest in offering ETAs, and advertising the ETA in trade publications. However, both Treasury and bank officials told us that banks were slow to offer the ETA for several reasons, including having to prepare their computer systems for the year 2000 problem before developing a new product and wanting to "field test" the account before offering it nationwide. Some banks delayed enrolling because they were merging with other banks.

After some financial institutions began offering ETAs, Treasury began a nationwide marketing campaign to educate check recipients about the benefits of the ETA. This campaign, which is still under way, includes promotional inserts that are included with benefit checks (see app. II). In addition, Treasury developed materials, such as an educator's guide and video that could be used by community based organizations to educate check recipients about the ETA. Treasury's other efforts include developing ETA promotional materials such as brochures, posters, and pens with the ETA logo for distribution to financial institutions and community organizations promoting the ETA, as well as public service advertising for newspapers, radio, and television. In addition, Treasury sponsors what it calls "Strategic Alliance Meetings" about a dozen times a year at different locations around the country. At these meetings, Treasury educates representatives of community-based organizations, ETA providers, financial institutions, local federal program offices (for example, SSA and VA), and local government officials about the benefits of the ETA and promotes collaborative efforts locally.

In addition, Treasury contracted with the Federal Reserve Bank of Dallas (FRB Dallas) to maintain a database of ETA providers that ETA prospects can access on the Web. FRB Dallas also maintains a toll-free telephone number that provides the names of local ETA providers to ETA prospects and in some instances transfers callers directly to the financial institutions that offer telephone enrollment. FRB Dallas and Treasury have reported that they are seeking to simplify enrollment because estimates show that only a small number of those who inquire about the ETA actually sign up for it. FRB Dallas reported that, in between June 2001 and May 2002, it has received approximately 148,000 inquiries, but only 19,400 beneficiaries had actually enrolled for ETAs.

We could not determine whether these promotional activities were effective in reaching the unbanked recipient population because such an assessment would have required us to interview large numbers of ETA

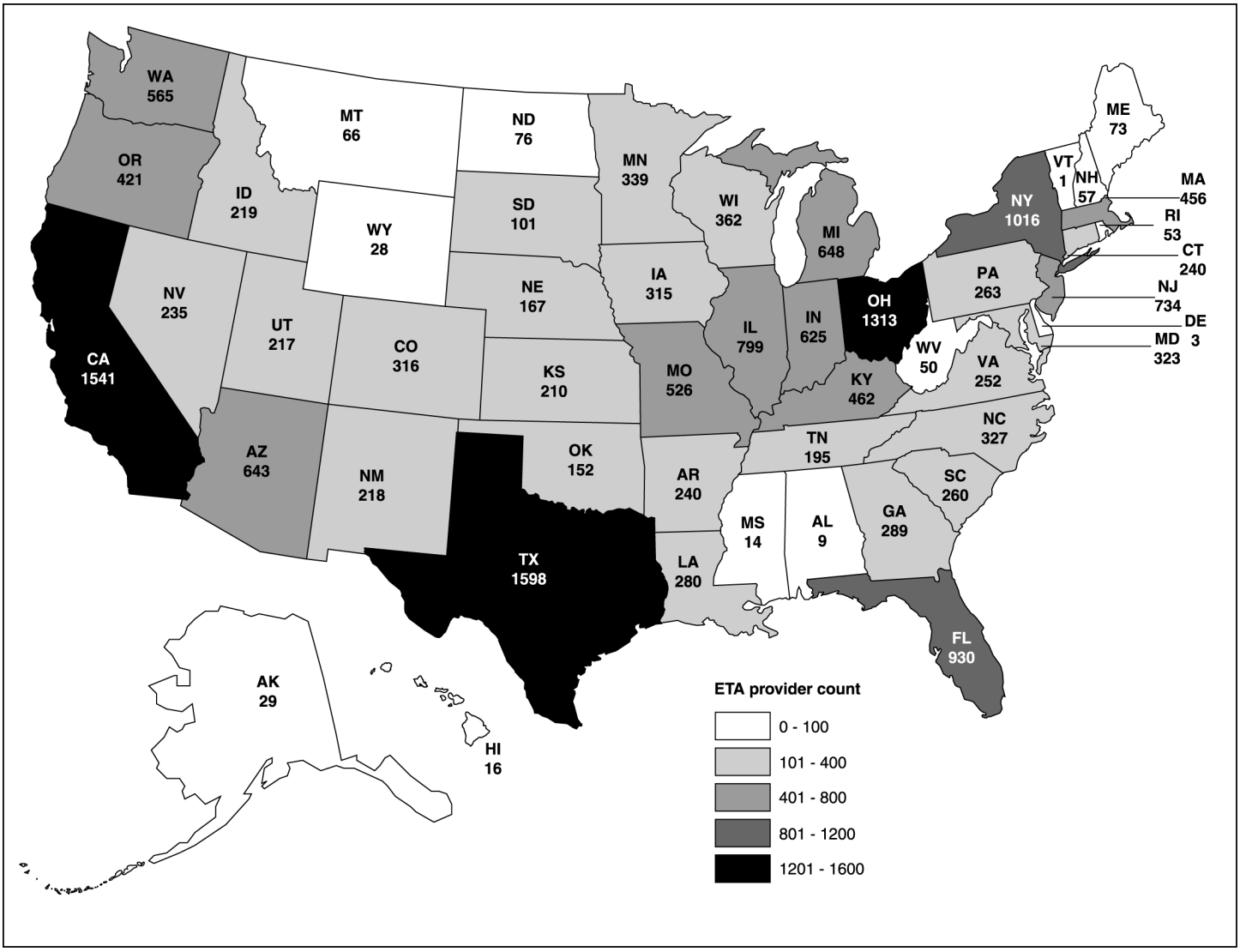
prospects. However, Treasury provided us with information showing that mass mailings of promotional brochures, along with checks, coincided with an increased number of ETA inquiries on the toll-free number, suggesting that this method is an effective tool for reaching potential ETA users.

Relatively Few Financial Institutions Offer ETAs Despite Treasury's Promotional Efforts

As of July 2002, Treasury had entered into agreements with approximately 597 financial institutions with 17,977 branch locations to offer ETAs.[37] Although this number includes 6 of the country's 10 largest banks, it represents only about 3 percent of all financial institutions and 23 percent of all bank branches in the country. In addition, some states have fewer providers, especially states such as Mississippi and Alabama, which have an exceptionally low number of ETA providers. Treasury officials indicated that the number of banks enrolling in the ETA program has leveled off, and they believe that not many more banks are likely to enroll. Figure 8 shows the number of financial institution branch locations available in each state as of June 7, 2002.

[37]Of 597 financial institutions currently offering the ETA, approximately 83 percent are commercial banks, 11 percent are credit unions, and 7 percent are savings institutions.

Figure 8: ETA Branches by State, as of June 7, 2002



Source: Federal Reserve Bank of Dallas.

In addition, data compiled by the Federal Reserve Bank of Dallas show that the number of ETA providers varies in the 100 counties with the highest number of check recipients (as measured by checks authorized by SSA). Looking at coverage in areas such as counties or cities is more useful than looking at coverage by state because the measurements for smaller units are more specific. We found that in Dallas, Texas, and Maricopa County, Arizona, for instance, the proportion of bank branches

offering ETAs was 55 percent and 76 percent, respectively. In contrast, only 5 percent of bank branches in Philadelphia, Pennsylvania, and 13 percent of those in Dade County, Florida, offered ETAs.[38]

While many financial institutions told us that the ETA was a good product for the targeted market—unbanked individuals, often with a poor credit history—they added that they were initially reluctant to offer the account because they did not see the product as profitable, given its limited market volume and account restrictions (for example, the $3 maximum monthly fee). Several banks pointed out that the ETA was not providing them with any interest earnings because ETA holders tended to withdraw their money quickly and thus had low balances. Bank officials we spoke with reported average balances ranging from $50 to $500. Some banks also indicated that ETAs did not provide them with cross-selling opportunities, because customers using these accounts tended to have limited incomes. Other banks said that they were hesitant to offer the ETA because of concerns about account misuse and fraud, although most banks reported that relatively little of this activity materialized, if only because of the account's design and their preventive efforts.[39] Most large financial institutions we interviewed reported that the $12.60 fee that Treasury reimbursed did not cover their costs for opening an ETA, although some smaller institutions reported that the fee was definitely an incentive and was enough to maintain the account.

Large financial institutions we interviewed that chose to offer the ETA despite its perceived lack of profitability were more likely to cite their intention to serve the low-income community or to receive Community Reinvestment Act (CRA) credit as a factor in their decision.[40] Financial

[38]These data were provided by FRB Dallas. It compared ETA providers with the total number of branches in these counties. The locations cited in this paragraph number among the 15 counties with the largest number of check recipients. The total number of branches in each county is measured using National Information Center data, which allow the Federal Reserve to track the number of banks and other financial institutions by county.

[39]According to Treasury data, of approximately 5,170 ETAs that had been closed as of May 2002, about 309 or 6 percent—of ETAs were closed owing to account misuse or fraud.

[40]The Community Reinvestment Act (CRA), passed by Congress in 1997, encourages financial institutions to help meet their communities' needs through safe and sound lending practices and the provision of retail banking and community development services. Currently, a bank's overall CRA rating is determined on the basis of three weighted criteria. Fifty percent of the rating depends on lending, while service and investment each account for 25 percent. Offering ETAs can help a bank meet its service test, which examines areas such as the accessibility of delivery systems, changes in branch locations, and community development services.

institutions can receive CRA credit for offering the ETA, but institutions that did not offer the ETA were satisfied that they served the community by other means and were meeting their CRA obligation. One major trade group indicated to us that many banks lost interest in the program once Treasury decided that participation would be optional, because banks had thought they would make profits based on volume. Banks also cited other concerns about offering the ETA, including the cost of reconfiguring their computer systems, in part to prevent account misuse. In fact, many of the large financial institutions we interviewed considered this reconfiguration as a sizeable investment, given that they were unlikely to earn profits on this account.

Banks' Marketing of ETAs Is Often Limited

Most large financial institutions we interviewed limited their marketing of the ETA for the same reasons they were reluctant to offer the ETA in the first place. Institutions said that they lacked financial incentives to justify extensive marketing because the accounts were not profitable, given their limited market potential and account restrictions. Banks said they viewed the ETA as a product intended primarily for those with poor credit histories, adding that the ETA's $3.00 maximum monthly fee was too low and that they did not see the potential to earn profits in overdraft and transaction fees. Some banks noted that other products they offered—such as free checking and other low-cost accounts—were potentially more profitable and would be offered to qualified ETA prospects. One bank said that it did not make sense to promote a product that had such a narrow focus—federal beneficiaries—and added that demand for ETAs had not met original projections. As a result, many large financial institutions limited their marketing efforts to special ETA brochures, which they considered important because they wanted the ETA to fit in with their brand image and be associated with their bank logo.

Other marketing efforts included promoting ETAs to those who meet the ETA "profile" and offering financial incentives to tellers.[41] Some large banks reported that they sought to increase ETA enrollment by helping applicants complete the ETA application or enrolling them for direct

[41]Most large banks that we interviewed indicated that they "profile" or "screen" customers by questioning them when they enter banks to cash checks or inquire about bank services to determine which products are appropriate for them.

deposit at the same time they opened an ETA.[42] In addition, a few large banks had established telephone enrollment systems that allowed FRB Dallas's ETA call center to route the call directly to the bank's enrollment line. In some cases, customers still had to go to the bank branch to present identification and complete the paperwork. Despite their limited marketing efforts, large financial institutions have been able to open more ETAs than smaller financial institutions, partly because they have more extensive nationwide branch coverage. Over 75 percent of all ETAs have been opened by 9 large financial institutions that are ranked among the top 50 in the country in terms of asset size.

Like the large financial institutions, smaller financial institutions such as credit unions or savings institutions limited their marketing of the ETA primarily because they believed they had better products that were more marketable to ETA prospects. However, many smaller institutions, some located in low-income neighborhoods with little branch coverage, tended to market the ETA in a more personal way.[43] These small financial institutions emphasized the need to "hand-hold" and the importance of providing financial education to ETA prospects. For example, one small community development credit union in Pennsylvania[44] told us that the president of the credit union went door to door handing out flyers that described the ETA's benefits. Another small bank in Louisiana said that the bank held an "ETA week" during which the bank distributed ETA promotional materials at the branch office and offered refreshments to better facilitate communications with customers. These small institutions were also more likely to report that they opened ETAs through community outreach programs that involved visiting churches or senior centers. In addition, some financial institutions—including a few large ones—

[42]Most financial institutions we interviewed said they automatically enrolled ETA applicants for the account and direct deposit at the same time, eliminating the need for the applicants to visit the local Social Security offices to sign up for direct deposit. However, a few large financial institutions did not provide this service. In fact, one large institution chose not to provide the service and closed a large number of its ETAs because direct deposit never materialized.

[43]Many of these small financial institutions—often with fewer than 10 branches—ranked among the top 30 ETA providers and have more ETAs per branch than large banks. As of June 2002, the top 30 ETA providers accounted for 94 percent of all ETAs opened.

[44]Most credit unions are organized to serve people in a particular community, a group or groups of employees, or members of an organization or association. Community development credit unions are a unique form of credit union that serve primarily low-income members in distressed and financially underserved areas.

reported offering financial incentives to ETA prospects to open an ETA. These incentives included waiving the $3.00 monthly service fee for several months or allowing unlimited ATM withdrawals or teller access at no additional cost. Small institutions had more ETAs per branch than large banks but fewer ETAs overall, because small banks have fewer branches.

While financial institutions generally indicated that they limited their efforts to market the ETA, they nevertheless used a broad range of methods to attract ETA prospects. Among the ETA providers we interviewed, banks primarily targeting the Hispanic community often did the most extensive outreach, perhaps helping to explain why one-third of all ETAs have been opened in Puerto Rico. Both large and small financial institutions have undertaken other marketing efforts, such as the following:

- One large bank that targets the Hispanic community and has locations in both Puerto Rico and the United States emphasized that it marketed the ETA and other products specifically for Hispanics. For example, in Puerto Rico it sent mobile banks to reach less-populated communities. In a major metropolitan area like New York, it concentrated on providing a comfortable environment that included bilingual services for prospective clients. Smaller banks that serve the Hispanic community in the United States likewise said that they tried to build relationships with the local community by participating in local parades, health fairs, and community gatherings at venues such as churches.
- Several small financial institutions reported that they coordinated with local Social Security offices to meet ETA prospects in person. These banks indicated that they went to local SSA offices equipped with ETA brochures and, in some cases, were able to open accounts on the spot. Two large banks said that such collaboration could help promote the ETA, because a one-step enrollment process would make it easier for ETA customers to open an account.
- One large bank emphasized the importance of personal contact to persuade people to open accounts. This bank was one of the few that we interviewed that cashed government checks for free. Further, this bank trained its tellers to promote the ETA and had at one point used coordinators to direct and encourage those standing in line to cash checks to open the ETA (staff reductions have eliminated this position). Bank officials told us that they found this strategy to be highly effective and reported opening a large number of ETAs during the months when “coordinators” were in use.

Several Factors May Keep Potential Customers from Opening an ETA

As of June 2002, about 36,000 ETAs had been opened, a figure representing fewer than 1 percent of unbanked federal beneficiaries.[45] We found this figure to hold true regardless of which estimate we used for the number of unbanked beneficiaries. Treasury officials indicated to us that it was too soon to evaluate the success of the ETA because the program was less than 3 years old. But the low enrollment we found is consistent with feedback we received from some banks, including community-oriented banks, that told us the ETA had limited appeal. Treasury's own market research indicated that only 276,000 to 818,000 federal beneficiaries would voluntarily enroll in an ETA, given the account's current attributes.[46] Current ETA enrollment thus represents only 4–12 percent of Treasury's original demand projection for the 3 years the ETA has been in operation.

Because information about the characteristics of ETA holders—as well as of non-ETA holders—is limited, it is difficult to describe all the factors that affect individual decisions to open an ETA and to determine which of Treasury's promotional activities have proved effective in persuading people to open an ETA.[47] However, using information from research studies, financial institutions, and consumer groups, we identified the following factors that may influence the decision to open an ETA:

- Personal preference: As previously noted, many unbanked people decide not to open a bank account because they prefer the way they are already cashing their checks. A 1999 Treasury study found that most unbanked

[45]In addition, as of June 2002, about 6,000 (17 percent) of ETAs had been closed. This figure may include ETAs that were closed by account holders in order to open other bank products. Neither Treasury nor any of the financial institutions we interviewed had any data on such conversions.

[46]Treasury's demand projection was based on a study conducted by Dove Associates that sought to estimate the demand for various low-cost account configurations for unbanked federal beneficiaries. This study predicted that at a given monthly service fee, demand would increase with more options and decrease with fewer. (ETA Conjoint Research, OMB #1510-0071, "Final Report and Market Model, Unbanked Federal Check Recipients", Dove Associates, Inc., May 26, 1999).

[47]In addition, to minimize the reporting requirement, Treasury did not require financial institutions to report the location of ETAs opened. However, based on limited information we collected from financial institutions, we found that a higher percentage of ETAs in the United States have been opened in Arizona, California, Ohio, and Texas than in other parts of the country. These states also had a higher number of ETA providers.

federal beneficiaries either did not pay to cash their checks or were satisfied with the way they cashed their checks.[48]

- Lack of a payment mechanism: Both financial institutions and consumer groups suggested that ETA's lack of a check-writing feature could affect the decision to open an ETA because beneficiaries would still have to go elsewhere to obtain a money order or pay bills.
- Limited availability of banks offering ETAs: As previously noted, Treasury's ETA promotional efforts have resulted in relatively few financial institutions choosing to offer ETAs. In addition, the number of bank branches offering ETA varies widely by state. For example, in states with relatively few bank branches, the number of ETAs is low.
- Lack of consumer awareness: Although Treasury and Social Security offices have been mailing check inserts and letters about the ETA to beneficiaries, some consumer groups suggested that many recipients still lacked information about the ETA.
- Lack of a convenient enrollment procedure: Currently, ETA applicants must complete several steps to open an ETA. First, they must locate an ETA provider in their neighborhood, most likely with assistance from the ETA call center operated by FRB Dallas. Second, many banks require that applicants complete at least some of the paperwork in person. And finally, while some banks will enroll the person for direct deposit, others require that ETA holders contact SSA themselves. As previously noted, FRB Dallas and Treasury officials told us that they were seeking to simplify enrollment because such cumbersome enrollment procedures may be contributing to the low sign-up rate.

Determining Cost Savings, If Any, Is Difficult

One of the objectives of the 1996 Act was to save the government money through increased EFT use. However, it is uncertain whether the ETA program—Treasury's preferred method of linking the unbanked to EFT—will generate savings sufficient to offset the cost of maintaining and promoting the program. Further, some of the costs of transitioning benefit recipients to EFT, whether to ETAs or other accounts, have been shifted to the banks and the benefit recipients themselves.

[48]This study reported that 51 percent of unbanked federal beneficiaries went to financial institutions to cash their checks, and that 81 percent of those who went to financial institutions did not pay a fee to cash their checks. (ETA Conjoint Research, OMB #1510-0071, "Final Report and Market Model, Unbanked Federal Check Recipients," Dove Associates, Inc., May 26, 1999). However, only a few financial institutions we interviewed cashed checks for noncustomers, either at no charge or for a fee.

According to Treasury's 1997 estimate, each EFT saves the government $0.41 per payment.[49] Thus, the current enrollment of approximately 36,000 could save Treasury roughly $177,120 annually, assuming that each beneficiary receives 12 EFT payments each year. In comparison, based on information Treasury provided to us, the cost of promoting the ETA program is roughly between $1 and $2 million a year, including $722,000 paid to FRB Dallas for managing financial institutions' enrollment and maintaining the ETA database and call center.[50] In addition, Treasury reimburses financial institutions $12.60 for opening each ETA account. Assuming that 12,000 accounts are opened each year, reimbursement costs would be about $151,000.

Treasury officials indicated that the value of the ETA program should not be based simply on the number of ETAs opened. Some benefits are difficult to quantify, such as the long-term benefits of bringing an unbanked person into the financial mainstream and reductions in costs associated with lost checks or fraud associated with checks. Other government agencies, bank officials, and consumer groups have also acknowledged that the ETA could provide such long-term benefits. According to Treasury, the number of ETAs opened also may not represent the total number of new account holders using direct deposit because some unbanked recipients may have elected to open other bank account products. Treasury officials also asserted that, since Treasury's overall goal is to increase electronic payments, it did not matter whether the recipients opened ETAs or other bank products, so long as they were using direct deposit or other forms of transferring funds electronically.

[49]We did not verify this estimate provided by Treasury.

[50]We can only provide a rough estimate of Treasury's annual ETA promotion costs because Treasury does not calculate the costs of ETA separately from those of promoting EFT. Treasury officials told us that many ETA marketing activities have overlapped with general promotion of EFT.

Opportunities May Exist to Increase EFT Participation

Based on our discussions with representatives from the federal government, financial institutions, and consumer groups, we identified approaches that the Treasury could consider to further promote the use of EFT, especially by unbanked benefit recipients.[51] These approaches, described below, include increasing cooperation between banks and local SSA offices to enroll beneficiaries for ETAs; exploring other electronic payment options besides the ETA to deliver benefits; partnering with banks to provide information on the general availability of low-cost banking products; and conducting further research to determine why certain states have unusually low direct deposit participation rates. Each approach has potential strengths and weaknesses that vary based on the perspectives of different stakeholders, such as government agencies and banks. Therefore, reaching a consensus on the merits of each approach would require careful consideration.

Increase Cooperation between Banks and Local SSA Offices to Enroll Beneficiaries for ETAs

Financial institutions frequently cited cooperation with local SSA offices as the most productive way to promote ETAs. Some bank officials told us that, at some SSA offices, banks were able to distribute information about their products or enroll people on the spot. This arrangement worked because it provided a way for financial institutions to market the ETA directly to unbanked benefit recipients who otherwise might not visit a financial institution. For the beneficiaries, it provided the opportunity to enroll for both an ETA and direct deposit at one location. However, SSA and Treasury officials were concerned about this option because they believed that the presence of a bank in an SSA office could be misconstrued as an endorsement of that particular institution. One bank suggested that SSA could invite banks to market the ETA on a rotating basis one day a month to avoid any appearance of favoritism.

[51]Some banking officials and bank-related trade group officials suggested exploration of another alternative: making EFT mandatory. However, Treasury and SSA officials did not believe this alternative was viable since it was previously rejected when Congress gave Treasury the authority to grant waivers to EFT. In addition, government officials and consumer representatives generally criticized any mandatory requirement because it would leave consumers no freedom of choice in how to receive their government benefit in a manner that best suited their personal needs or preferences.

Option 1: Increase Cooperation between Banks and Local SSA Offices	
Pros	Cons
• Provides one-stop shopping • Allows for the personal contact that many experts have said is important in attracting the unbanked to the financial system • Has been proved effective by some banks • Entails minimal additional costs	• Creates the possibility that beneficiaries would see SSA as endorsing banks • Requires banks to provide staff • Would not reach current recipients or new enrollees who do not have to visit SSA offices (most recipients)

Explore Other Electronic Payment Options, Such As an Electronic Debit Card

SSA officials said that Treasury should consider sponsoring other electronic payment options, such as a debit card. Financial institutions we interviewed offered such cards and said that anticipated user volumes and fees could provide the necessary financial incentives to deliver this service, which they already provide to unbanked employees in the private sector. Modeled on the EBT card used by some states to deliver "food stamps" or other cash benefits, the card could be programmed to work on most ATM networks and would allow withdrawals and point-of-sale transactions but not deposits or check writing.[52] While the cost to beneficiaries could be higher than the cost of the ETA, Treasury's own research shows that some ETA prospects, although sensitive to increases in price, may be willing to pay a higher monthly fee for a product with more features.[53] Costs to the benefit recipients or to Treasury could be higher or lower than the ETA, depending on the number of free ATM withdrawals allowed per month before recipients and/or Treasury incurs additional charges. Such arrangements would depend on Treasury's contract with the electronic payment service provider.

Treasury officials objected to this option, noting that it was similar to the Benefit Security Card that has been used to provide federal and state payments on the same card and that was piloted in some southern states. Treasury officials terminated the pilot, even though the vendor did not charge them to distribute the card, because they did not think it was successful in all states, and it could be difficult to administer in the future

[52]Legislation enacted in 1996 required the Treasury to continue to carry out an electronic benefit transfer pilot to disburse benefit payments electronically to recipients who do not have an account at a financial institution. In this program, payments were disbursed to recipients by a financial institution acting as Treasury's financial agent.

[53]Dove Associates, *Conjoint Study: Final Report and Market Model Unbanked Federal Check Recipients* (May 26, 1999).

due to renegotiating and monitoring contracts. In addition, this product would compete with the ETA without providing bank accounts. However, SSA officials thought that a product similar to the Benefit Security Card would be worth reconsidering because it would not require that individuals open their own bank account and beneficiaries could obtain the debit card when they first enroll. For example, in states where use of the Benefit Security Card was highest, beneficiaries could enroll and receive a card at the same visit. SSA officials added that they had also considered making the Benefit Security Card available through a toll-free number, making enrollment easier for those already receiving benefits.

Option 2: Explore Other Electronic Payment Options	
Pros	Cons
• Would not require opening a personal bank account and would be easy to obtain • Provides recipients with the safety and convenience of direct deposit • For account holders, reduces risks of overdrafts	• Could result in high costs in ATM surcharge fees • Requires a government agency to manage contracts with service providers • Could be more expensive to the Treasury and/or the recipient than the ETA

Partner with Banks to Promote Other Banking Products, Such as Low-Cost or Free Checking Accounts, in Addition to the ETA

As indicated by financial institutions and a recent study by the U.S. Public Interest Research Group (PIRG), more banks are offering free checking and no-frill checking products.[54] Although institutions could charge inexperienced customers excessive overdraft and other fees on these products, PIRG and other nonprofit organizations said that such products could be more attractive to an unbanked person than the ETA. Further, these free or low-cost products could be available in areas where ETAs are not. While Treasury cannot endorse particular bank products, it could cooperate with financial institutions to promote low-cost products in general in much the same way that it promotes direct deposit without mentioning specific banks. One bank suggested that Treasury broaden the language in the ETA promotional check inserts to include a general statement about the availability of free checking accounts and the features customers should look for when considering these accounts.

[54]U.S. PIRG, *Big Banks, Bigger Fees 2001, PIRG National Bank Fee Surv*ey (November 2001).

Option 3: Partner with Banks to Promote Other Banking Products	
Pros	Cons
• Offers recipients a broader choice in a low-cost checking account option • Offers a banking alternative for recipients in areas where ETAs are largely unavailable	• Could cost recipients money in the form of overdraft charges and other fees • Could require Treasury to conduct market research on the availability of free checking accounts

Determine Why Southeastern States Have the Lowest EFT Participation Rates

Data clearly indicate that fewer recipients use EFT in many of the southeastern states and that the percentage of unbanked beneficiaries in this region is also high. Thus, additional research focused on these states could help generate information that could assist in developing strategies to increase the use of EFT in these states. Treasury agreed that it might be worthwhile to have a study done specific to the southeastern geographic area to determine why EFT participation was so low. Consumer groups and academicians noted that the reasons for being unbanked might differ widely throughout these states.

Option 4: Determine Why Southeastern States Have the Lowest Direct Deposit Participation Rates	
Pros	Cons
• Generates information needed to develop effective strategies for increasing the use of EFT	• Requires time and financial resources

Achieving Agreement on Alternative Approaches Requires Careful Consideration

While opportunities exist to increase EFT use, each identified approach has potential strengths and weaknesses. Reaching consensus among the stakeholders is unlikely to be easy because they make decisions based on their sometimes complementary and sometimes contradictory objectives. On the one hand, Treasury and the financial institutions promote electronic payments not only to save money, but also to speed up transactions and reduce fraud. On the other hand, financial institutions (other than credit unions) are in business to earn profits and thus want to offer products other than the ETA that allow them to collect more fee income through higher monthly fees and overdraft charges. Finally, check recipients consider their own interests when deciding whether to open an ETA or other bank account. These stakeholders, who do not benefit from the savings realized by Treasury and financial institutions, may not want an ETA or a bank account and may seek alternative methods of cashing checks and making payments.

The major government stakeholders in the effort to promote EFT, Treasury and SSA, offered differing views on how best to attract check

recipients to EFT. Treasury officials told us they continued to believe that the ETA was the best vehicle to offer the unbanked check recipients. They had explored other options through pilot programs such as electronic payment cards and said that they determined these options would be more difficult to administer. They did, however, acknowledge that they may need to reconsider their strategy based solely on the ETA if the numbers of unbanked check recipients is higher than they have estimated, as we suggest.

SSA officials stated that a variety of vehicles for receiving benefits electronically should be available and not just the ETA. Some type of electronic transfer of benefits provides the consumer and SSA advantages not attainable when checks are mailed. These include the safety, security, and the efficiencies gained by avoiding lost or stolen checks. Given these differing viewpoints, achieving agreement on the merits of alternative approaches would likely require careful consideration.

Conclusions

The number of recipients of federal benefits using EFT climbed steadily throughout the 1990s, rising from around one-half to more than three-quarters of all beneficiaries. Correspondingly, during this period the number of payments made by paper check has also substantially declined. However, since 1999 the drop in the number of federal check payments has generally subsided and during this three-year period Treasury continued to make, on average, over 180 million check payments per year. In 2001, these checks went to about 14 million federal beneficiaries. This stabilization in the number of check recipients may signal that the remaining population of federal check recipients may be harder to convert to EFT.

The biggest obstacle to Treasury's goal of increasing direct deposit is that a high number of beneficiaries are without bank accounts. Our analysis of 1998–1999 data from the Bureau of Census' Survey of Income and Program Participation suggests that over 11 million federal beneficiaries, substantially more than Treasury originally estimated, were unbanked. This difference in estimates could have profound implications, as it is much more difficult to attract unbanked federal benefit recipients to EFT than it is to attract recipients who already have a bank account. Using the same Census data, we were able to identify a number of characteristics common to unbanked federal beneficiaries that could be useful in developing appropriate strategies to increase EFT use.

Because the ETA has not been widely accepted by banks or unbanked beneficiaries, it is unlikely to prove successful as the only means to persuade unbanked federal check recipients to use EFT. Treasury cautioned that it may be too soon to evaluate the success of the ETA because the program is less than 3 years old. However, using information from a variety of sources we identified a number of factors (such as lack of a payment mechanism) that contribute to the limited appeal of the ETA and are important to consider when evaluating the usefulness of the ETA in attracting the unbanked. Further, because research indicates that other factors affect an individual's decision, or ability, to open a bank account, reaching this market may be difficult without knowing more about them.

The alternative approaches outlined in this study have potential strengths and weaknesses but warrant further exploration for two reasons. First, experience to date has shown that it is unlikely that Treasury's current strategies will convince a majority of federal check recipients to switch to electronic transfers. Second, given the limited appeal of the ETA, we question whether the program will generate savings sufficient to offset Treasury's cost of maintaining and promoting the program. The alternative approaches for further promoting EFT involve a variety of steps that could be taken ranging from ideas to improving the efficiency of the ETA's enrollment process to understanding why certain sectors of the country have lower direct deposit use. Further, we recognize that the private sector has an important role to play in developing alternative products to attract check recipients to electronic transfers.

Recommendations

To assist Treasury in pursuing its goal of convincing unbanked beneficiaries to use EFT, we make the following recommendations to the Secretary of the Treasury:

- Revisit the estimate of the number of unbanked federal check recipients. In doing so, we further recommend that Treasury explore use of Census SIPP data as a means to both obtain a better estimate of the extent of federal check beneficiaries who are unbanked and to better understand the characteristics of the unbanked population.
- Use the information on the extent and characteristics of unbanked federal check recipients to consider alternative approaches, including those discussed in this report, to develop a strategy that offers a greater likelihood of attracting that portion of the unbanked population that chooses not to open an ETA.

Agency Comments and Our Evaluation

We requested comments on a draft of this report from the heads, or their designees, of Treasury and SSA. We obtained written comments on a draft of this report from Richard L. Gregg, Commissioner of Treasury's Financial Management Service, that are presented in appendix VI. SSA did not provide comments. Treasury generally agreed with our recommendations, outlined how it would respond to each of them, and made three clarifying points. First, Treasury requested that we emphasize the role of the Congress in developing the EFT waiver policy and how Treasury would have needed congressional support in order to set a more stringent waiver policy. Second, Treasury requested that in describing how it developed the ETA, we note that Treasury made a deliberate decision not to include a checking feature because of concerns raised by the financial industry and consumer advocacy groups about potential account misuse. We added clarifying remarks in the report that addressed these points. Third, Treasury committed to reviewing the data from the SIPP as it relates to the number of unbanked federal recipients to better understand the characteristics of that population. However, Treasury expressed concerns about over reliance on the SIPP data and stated that it would pursue a strategy that would use SIPP data and other credible data sources in conjunction with its own empirical data collection efforts to better understand why check recipients are unbanked. We agree with the actions suggested by Treasury and believe that such actions are consistent with our recommendation that Treasury consider alternative approaches offering a greater likelihood of attracting the portion of the unbanked population that chooses not to open an ETA. Treasury also provided technical comments on the draft report that we incorporated as appropriate.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to the Chairman and Ranking Minority Member of the Senate Committee on Banking Housing and Urban Affairs, the Chairman and Ranking Minority Member of the House Committee on Financial Services, and other congressional committees. We will also send copies to the Secretary of the Treasury, the Commissioner of the Social Security Administration, and also will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff have any questions regarding this report, please contact me at (202) 512-8678, hillmanr@gao.gov, or M. Kay Harris at (202) 512-8415, harrism@gao.gov. Key contributors to this report include Sonja Bensen, Emily Chalmers, Kyong H. Lee, Grant Mallie, Mark Ramage, and Carl Ramirez.

Richard J. Hillman
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Appendix I: Objectives, Scope, and Methodology

An overall objective of this report is to describe how Treasury complied with the 1996 Debt Collection Improvement Act's mandate to promote the use of electronic funds transfer (EFT) payments to federal beneficiaries and to identify obstacles to increasing the use of direct deposit. To meet this objective we (1) provided information on the extent of EFT usage and the steps federal agencies and others have taken to promote it; (2) identified obstacles to greater use of the EFT program and identified characteristics of recipients who do not have bank accounts; (3) provided information on the current status of the electronic transfer account (ETA) program, including steps the government has taken to promote it; and (4) identified options for Treasury to consider to further promote electronic transfers.

To determine the extent of EFT usage and describe factors contributing to the increase in direct deposits, we obtained statistical data from Treasury and the Social Security Administration (SSA) showing the number of payments made by EFT and check since 1990. In addition, we discussed the agencies' promotional efforts and obtained documentation of their activities. To identify the characteristics of direct deposit users, we reviewed studies and obtained the most recent statistical data from SSA. To describe how nongovernmental entities such as financial institutions and nonprofit organizations promoted direct deposit, we interviewed banks of all sizes and several nonprofit groups, including the Association for the Advancement of Retired Persons (AARP), the National Community Reinvestment Coalition, and U.S. Public Interest Research Group (PIRG).

To determine the number of unbanked beneficiaries, we analyzed data from the Census Bureau's Survey of Income and Program Participation (SIPP).[55] The survey population for SIPP consists of individuals (age 15 and older) residing in the United States but does not include those in the military and living in institutions such as nursing homes.[56] By design, SIPP allows estimates to be made at the household, family, or individual level. The SIPP has a number of strengths that make it a good choice for this analysis. This survey is intended by the Census Bureau to be a major source of primary information on income and benefit program participation. It was specifically designed to assist in formulating and evaluating initiatives related to federal programs (such as improvements

[55]For more information on SIPP, see SIPP Quality Profile, 1998, SIPP Working Paper Number 230, 3rd Edition, U.S. Department of Commerce, Bureau of the Census.

[56]For the purposes of our analysis we produced estimates only for individuals 18 and older

to entitlement programs such as Social Security) and to produce reliable, national-level estimates of selected characteristics of all individuals and families in the United States. In addition, the SIPP oversamples low-income households, and while the contribution of these respondents to overall estimates are weighted (statistically adjusted) to be representative of the entire population, the oversampling has the advantage of improving the reliability of estimates of characteristics of lower-income people, such as being unbanked. Finally, the SIPP is the only national survey that we identified, with the exception of Treasury's 1997 research, that allows us to identify the characteristics of individual Treasury benefit recipients.[57]

SIPP is a panel survey, which means that the same sampled households are reinterviewed to track changes in their characteristics over time. SIPP panels last about 4 years, and participating households are interviewed 12 times (once every 4 months). Each interview, conducted by telephone and in-person (once a year), is referred to as a "wave." The information collected in SIPP falls into two categories: core and topical. The core content includes questions on subjects related to demographic characteristics, labor force participation and program participation. Core questions are asked during every wave. Other questions collect in-depth information on specific subjects (such as detailed asset ownership) and are asked less frequently. Those topical questions are often found in topical modules that occur in specific waves.

The focus of our analysis was on identifying whether individuals receiving benefits had bank accounts. Therefore, we selected the ninth wave (conducted between December 1998 and March 1999) of the 1996 panel and the twelfth wave (conducted between December 1999 and March 2000) because they were the most recently available data sets that contained the "asset, liabilities, and eligibility" topical module that was needed to establish bank account ownership. In particular, the ninth and twelfth waves contained the most recently available information on the number of respondents with noninterest-bearing checking accounts as well as other types of accounts (for example, savings accounts). We used these survey responses to produce estimates of the unbanked and their characteristics (e.g., family income, education level, etc.) as of November 1998 for wave 9 and as of November 1999 for wave 12. Estimates were

[57]We included the following programs as part of our analysis: Old Age and Survivor's Insurance (OASDI), Supplemental Security Income (SSI), compensation and pensions by the Veteran's Administration, retirement benefits provided by the Railroad Retirement Board and the Office of Personal Management, and Black Lung benefits.

produced for both the U.S. population at large and for federal benefit recipients. For wave 9, the SIPP included about 28,900 households, or 54,500 individuals, in its sample.[58] Of these, the unweighted number of households receiving federal benefits in our dataset was 9,677 and the number of unweighted individuals was 12,824. For wave 12, the SIPP included about 28,100 households, or 53,300 individuals, in its sample. Of these, the unweighted number of households receiving federal benefits in our dataset was 9,565 and the number of unweighted individuals was 12,652.

Because the SIPP is based on a probability sample, the specific sample selected is only one of a large number of possible samples that might have been drawn. Each of those possible samples could produce slightly different estimates. The confidence in estimates from a sample is expressed as a 95 percent confidence interval. This is the interval that would contain the actual population value for 95 percent of the samples we could have drawn. Unless otherwise noted, all percentage estimates in this report have confidence intervals of +/- 3 percentage points or less. All numerical estimates other than percentages have confidence intervals of +/- 6 percent or less of the value of those numerical estimates, unless otherwise noted.[59] We also performed tests of association between variables for which we produced cross-tabulations. As a result we only report on relationships that were found to be significant at the .05 level or better.

We recognize that our estimate of the unbanked population at large may be compared to the results of the Federal Reserve Board's Survey of Consumer Finances (SCF). For 1998, using data from the SCF, analysts determined that about 9.5 percent of households did not have any type of transaction account.[60] However, these estimates are not directly

[58]The sample size of the original 1996 panel was about 36,700 households.

[59]Based on our comparison of SIPP SSI estimates of the unbanked and the number of SSI check recipients, we believe that the SIPP estimates may be inflated because: (1) some recipients may have inaccurately reported that they received SSI when they did not and may also have reported that they were unbanked and (2) it is possible that some SSI recipients, who received this mean-tested benefit, were reluctant to report the existence of this asset. As a result, although SIPP data suggest that about 3.7 million SSI recipients in 1998 and 3.9 million recipients in1999 were unbanked, we believe that a more accurate number could be closer to 3.0 million.

[60]The SCF's transaction category included checking, savings, and money market deposit accounts, money market mutual funds, and call accounts at brokerages.

comparable because the SIPP collects information, such as whether a person has a bank account, from each member of a household but the SCF does not. The SCF collects information from the household's "primary economic unit," the person considered to be the economically dominant single individual or couple in the sampled dwelling. This survey does not collect data for individuals who are financially independent of the primary economic unit in the sampled dwelling. Thus, this survey could exclude subpopulations that would be included in the SIPP sample, such as roommates, grown children, and grandparents with their own retirement income. To the extent that these differences do not account for varying estimates of the unbanked, certain characteristics of the SIPP make it a more reliable source of such estimates. For instance, the ninth wave of the 1996 SIPP included 28,900 households, whereas the 1998 SCF included only 4,300 selected "households."

Because the SIPP survey data did not include questions asking why recipients chose to remain unbanked, we analyzed the findings of studies that had surveyed segments of the unbanked population. These studies included Treasury research that focused on unbanked federal check recipients, as well as research on broader cross-sections of the unbanked population. While the research methodologies varied and the analyses were limited to specific geographic areas, these studies provided valuable insights into the characteristics of this population, which is unusually difficult to survey. To supplement these analyses, we interviewed a broad range of people with expertise on the unbanked, including researchers at the Federal Reserve and Office of the Comptroller of the Currency, academicians (for example, at Swarthmore College and the University of North Carolina), and consumer groups.

To describe the status of the ETA program and government efforts to promote it, we interviewed officials from Treasury and SSA and obtained documentation that described how these agencies have promoted the ETA program. We also observed a promotional event in Atlanta, Georgia, sponsored by Treasury. In addition, we analyzed data provided by Treasury and the Federal Reserve Bank of Dallas on the number of banks and participants enrolled in the ETA program. In addition, we interviewed a cross-section of 21 financial institutions that included 16 ETA providers and 5 nonproviders. In selecting financial institutions, we considered factors such as the type and size of institution, geographic diversity, and any special projects that institution had undertaken to promote either the ETA or direct deposit in general. We asked each institution why it did or did not offer the ETA, what low-cost products it offered and, if applicable, how it marketed the ETA. We also obtained the views of several bank

trade associations, including the American Bankers Association and the Community Bankers Association, on the reasons banks did or did not agree to offer the ETA. In addition, we interviewed consumer groups such as the AARP, U.S. PIRG, and Consumers Union to obtain their perspective on how the ETA benefits consumers. We also analyzed various studies that Treasury conducted when developing the ETA.

To identify options for Treasury to consider to further promote EFT, we identified those most frequently mentioned by financial institutions based on their experiences with promoting the ETA. We also interviewed directors of the Electronic Benefit Transfer program who had experience with implementing the Benefit Security Card in Florida, Georgia, and Missouri and spoke with vendors—Citicorp Electronic Financial Services and EFunds—that supported distribution of that card. To identify the pros and cons associated with each option, we obtained comments from Treasury, SSA, the Federal Reserve Board, the Office of the Comptroller of the Currency, and several nonprofit organizations.

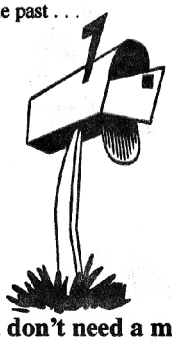
We conducted our interviews of banks in various locations in the Midwest and the Northeast and did field work in Atlanta, Georgia. We conducted our work between August 2001 and July 2002 in accordance with generally accepted government auditing standards.

Appendix II: Example of Check Insert Used to Promote ETAs

English side

A message from the U.S. Department of the Treasury . . .

If you receive a Federal benefit, wage, salary or retirement payment, you *can* open an Electronic Transfer Account, or ETA℠. Even if you have been unable to qualify for a checking or savings account in the past . . .



. . . You don't need a mailbox to get your Federal payment

Basic ETA Features:

- $3 a month, or less (for basic services)
- Automatic deposit into your account
- At least four free monthly withdrawals
- At least four free balance inquiries
- No minimum balance needed (unless required by law)

Call ***1-888-382-3311*** to learn where you can open an ETA. Or visit our Web site at: ***www.eta-find.gov***

ETA Electronic Transfer Account

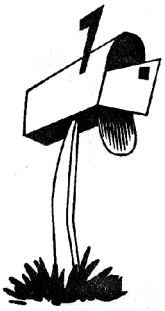
Contact your Federal paying agency if you have any questions about your Federal payment.

ETA-6

Spanish side

Un Mensaje del Departamento del Tesoro de los Estados Unidos . . .

Si usted recibe algun pago de beneficio Federal, ya sea de salario o de retiro, usted puede abrir una cuenta ETA℠, aunque usted no halla sido elegible anteriormente para una cuenta de cheques o de ahorro.



. . . Ahora usted no necesita un buzón para recibir su pago Federal

Características básicas de una cuenta ETA:

- Cuesta $3 ó menos al mes (para el servicio básico)
- Depósito automático a su cuenta
- Por lo menos cuatro retiros gratis al mes
- Por lo menos cuatro peticiones de balance gratis al mes
- No se requiere mantener un balance mínimo (a menos que asi lo requeria la ley)

Para más información sobre la cuenta ETA, llame al ***1-888-382-3311*** (sin cargo) o visite nuestra página del Internet en ***www.eta-find.gov***

ETA Electronic Transfer Account

Si tiene alguna pregunta sobre su pago federal llame a la agencia que emite su pago.

Source: Treasury.

Appendix III: Direct Deposit Use by State, 2002

Benefit Type	OASI (%)	Benefit Type	DI (%)	Benefit Type	SSI (%)
West Virginia	**67.9**	West Virginia	52.7	West Virginia	31.3
Louisiana	70.9	Louisiana	55.0	Louisiana	35.1
Kentucky	75.1	Kentucky	58.7	Kentucky	36.4
Alabama	77.1	District of Columbia	61.6	South Carolina	36.7
North Carolina	77.3	Alabama	62.4	North Carolina	38.6
Arkansas	77.9	South Carolina	62.5	Alabama	40.5
Tennessee	78.1	Ohio	63.5	Georgia	41.7
Ohio	78.3	Virginia	63.8	Ohio	41.7
South Carolina	78.3	Texas	64.2	Texas	41.7
District of Columbia	78.4	Tennessee	64.4	Virginia	41.8
Georgia	78.5	North Carolina	64.4	Oklahoma	42.6
Texas	79.0	Arkansas	64.6	Tennessee	42.7
Virginia	79.6	Georgia	65.1	New Mexico	44.2
Mississippi	79.7	Mississippi	65.4	Arkansas	44.4
Pennsylvania	80.0	Maine	65.5	Connecticut	45.4
Maine	80.3	New Hampshire	66.4	Colorado	46.0
New York	80.5	Connecticut	66.8	Indiana	46.2
Maryland	80.6	Colorado	67.5	Missouri	47.3
Indiana	80.8	Massachusetts	68.0	Maine	47.4
Connecticut	80.9	Indiana	68.2	Minnesota	48.1
Oklahoma	81.4	Illinois	68.7	Kansas	48.9
Massachusetts	81.6	Maryland	69.1	Mississippi	48.9
New Jersey	81.6	Rhode Island	69.1	District of Columbia	49.1
Rhode Island	81.8	New York	69.6	Utah	49.2
Missouri	81.8	Michigan	69.7	Arizona	49.5
North Dakota	81.9	New Jersey	70.2	Nevada	49.5
Alaska	82.0	Missouri	70.5	Michigan	49.9
Illinois	82.2	Oklahoma	70.7	Illinois	50.3
New Mexico	83.1	Vermont	71.4	Maryland	50.6
Michigan	83.9	Pennsylvania	71.5	New Hampshire	51.8
New Hampshire	84.3	Kansas	71.5	New Jersey	51.8
South Dakota	84.6	Wyoming	72.4	Montana	51.9
Vermont	84.7	New Mexico	72.5	Nebraska	52.3
Wisconsin	84.9	Delaware	72.8	Rhode Island	52.9
Kansas	85.1	Utah	73.0	Iowa	53.0
Minnesota	85.7	Minnesota	73.6	Alaska	53.4
Colorado	86.0	Montana	74.3	Delaware	53.5
Montana	86.6	Nevada	74.4	Wyoming	53.7
Nebraska	86.8	Washington	74.5	Wisconsin	54.2
Nevada	86.8	California	74.7	Florida	55.0
California	87.0	Wisconsin	74.9	Washington	55.3
Iowa	87.3	Iowa	75.5	Idaho	55.6
Delaware	87.7	Arizona	75.5	Vermont	56.1

Benefit Type	OASI (%)	Benefit Type	DI (%)	Benefit Type	SSI (%)
West Virginia	**67.9**	West Virginia	52.7	West Virginia	31.3
Hawaii	88.0	Florida	75.6	Pennsylvania	56.7
Utah	88.1	Idaho	75.9	New York	56.9
Idaho	88.1	Oregon	77.1	Hawaii	57.1
Wyoming	88.6	Nebraska	78.0	South Dakota	57.3
Arizona	90.1	Hawaii	78.2	North Dakota	57.5
Oregon	90.5	South Dakota	78.6	Oregon	57.7
Florida	90.5	Alaska	79.4	Massachusetts	60.7
Washington	91.0	North Dakota	79.8	California	66.7

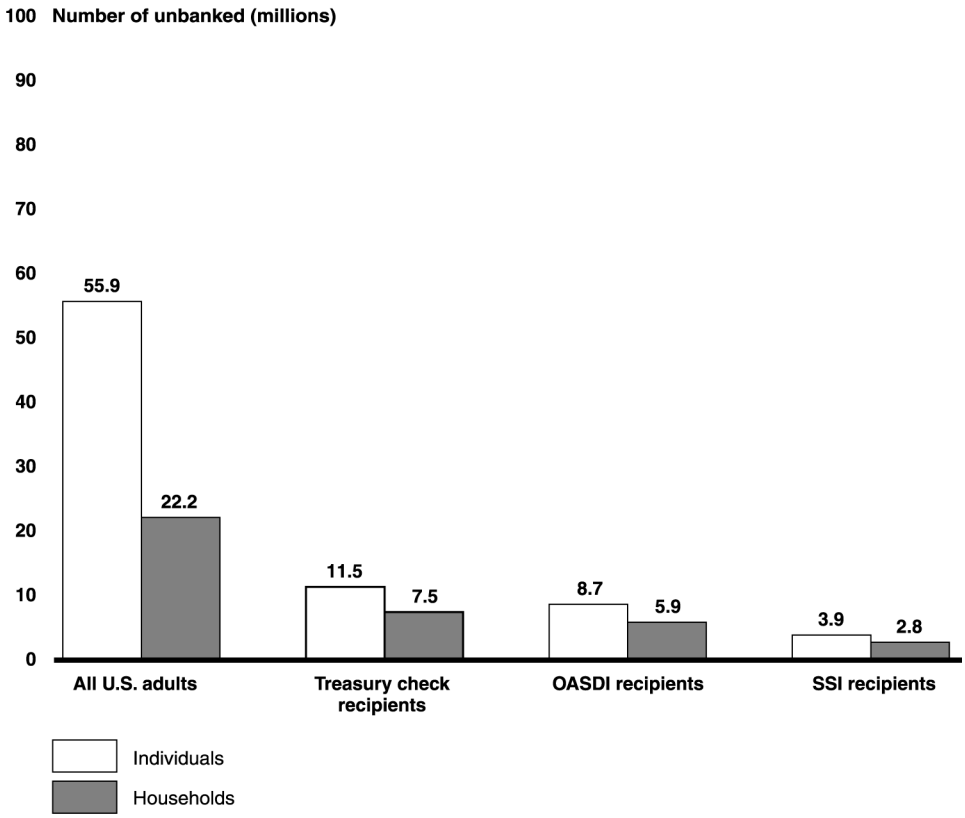
Source: SSA, OASI and DI data for February 2002 and SSI data for May 2002.

Appendix IV: Characteristics of Unbanked Federal Beneficiaries and the Unbanked Population at Large

We used the Census Bureau's Survey of Income and Program Participation (SIPP) to estimate the number of unbanked federal beneficiaries and determine some of their characteristics (for example, income and educational level). Because most unbanked beneficiaries receive a benefit from the Social Security Administration, we provide these estimates specifically for individuals receiving Old-Age, Survivors, and Disability Insurance (OASDI) and Supplemental Security Income (SSI) program benefits. In addition, we analyzed the SIPP to obtain similar estimates for the unbanked population at large, which includes OASDI and SSI recipients, and the portion of the U.S. population that does not receive OASDI benefits. The figures in this appendix show estimates for all of these groups.

The source for all of these estimates is from the twelfth wave of the 1996 SIPP panel, representative of November 1999. Unless otherwise noted, the 95 percent confidence intervals for all the estimates presented are +/- 3 percent or less.

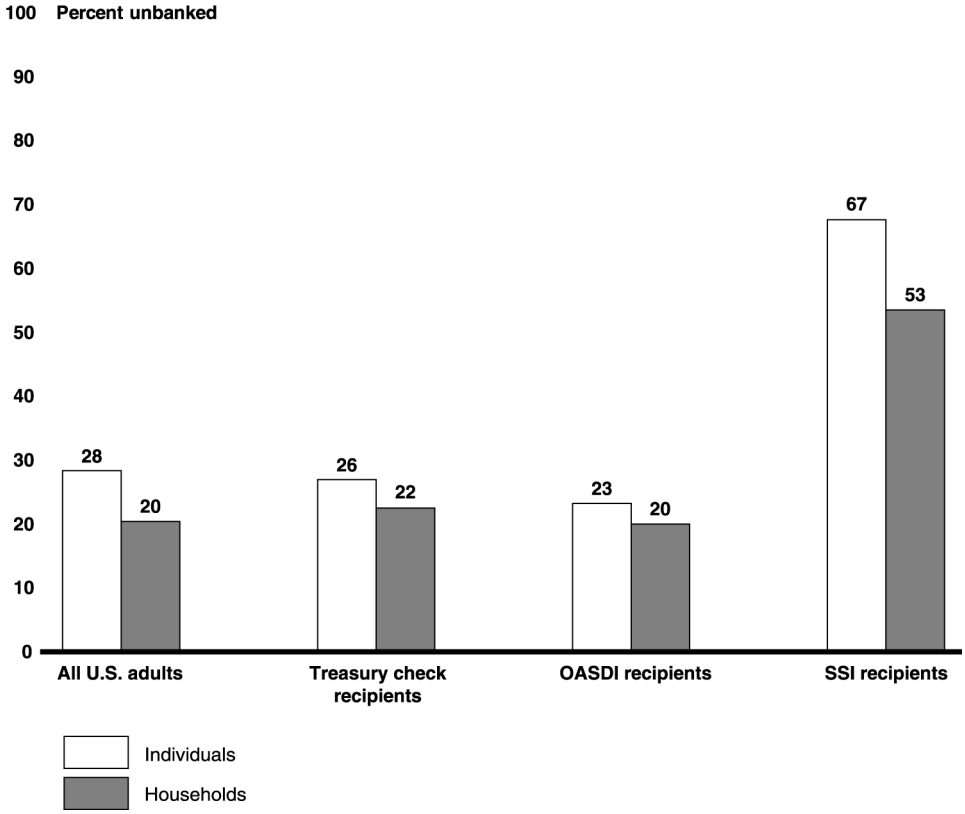
Figure 9: Number of Unbanked Adults and Federal Beneficiaries, 1999



Note: The 95 percent confidence intervals for Treasury, OASDI, and SSI estimates are +/- 6 percentage points or less.

Source: GAO analysis of November 1999 SIPP data.

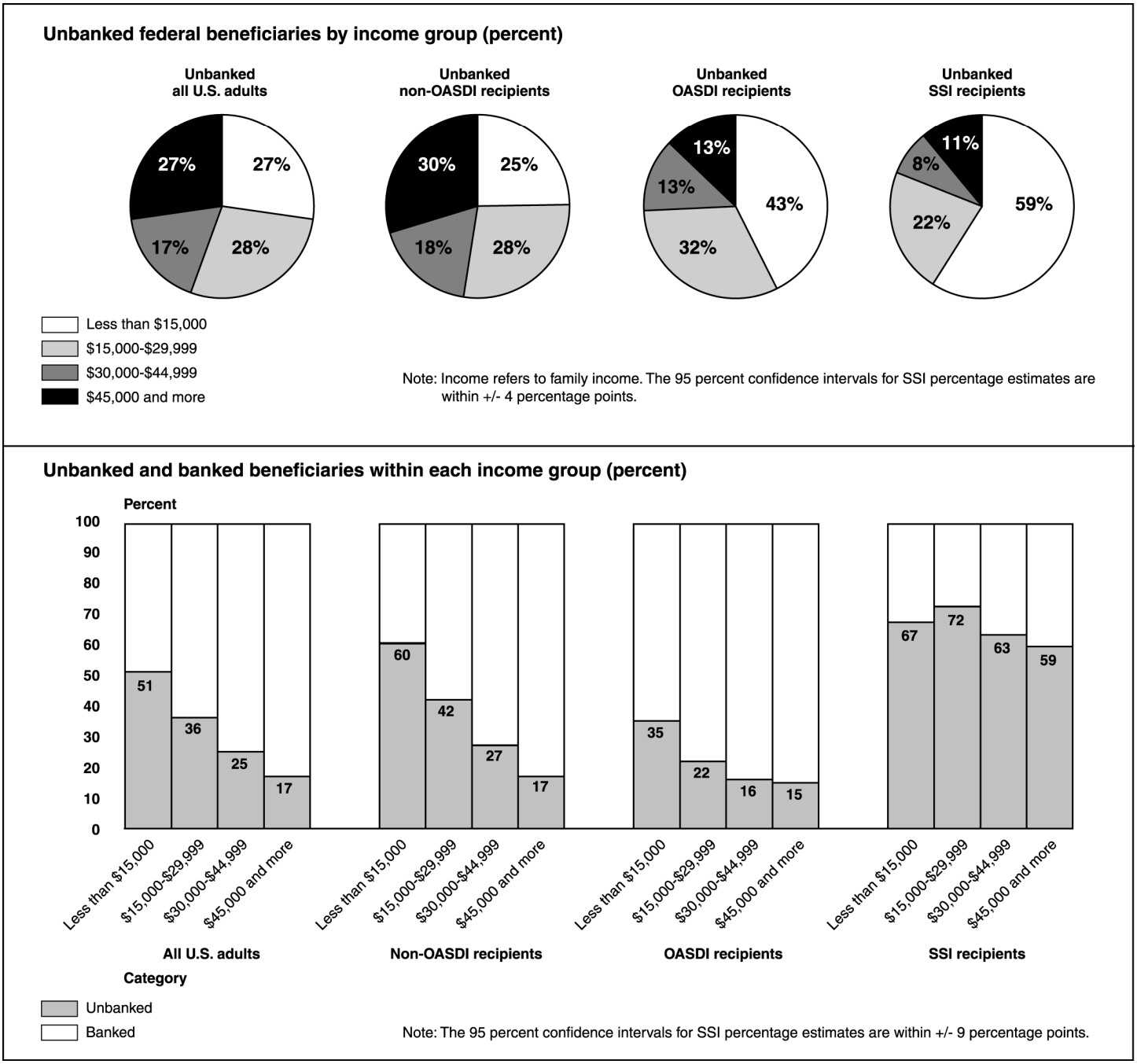
Figure 10: Proportion of Unbanked U.S. Adults and Federal Beneficiaries, 1999



Note: This figure shows that 67 percent of individual adult SSI recipients were unbanked in November 1999. However, FMS data shows that for fiscal year 2000, 51 percent of SSI payments were made by check. See appendix I, footnote 59 for additional information on this difference.

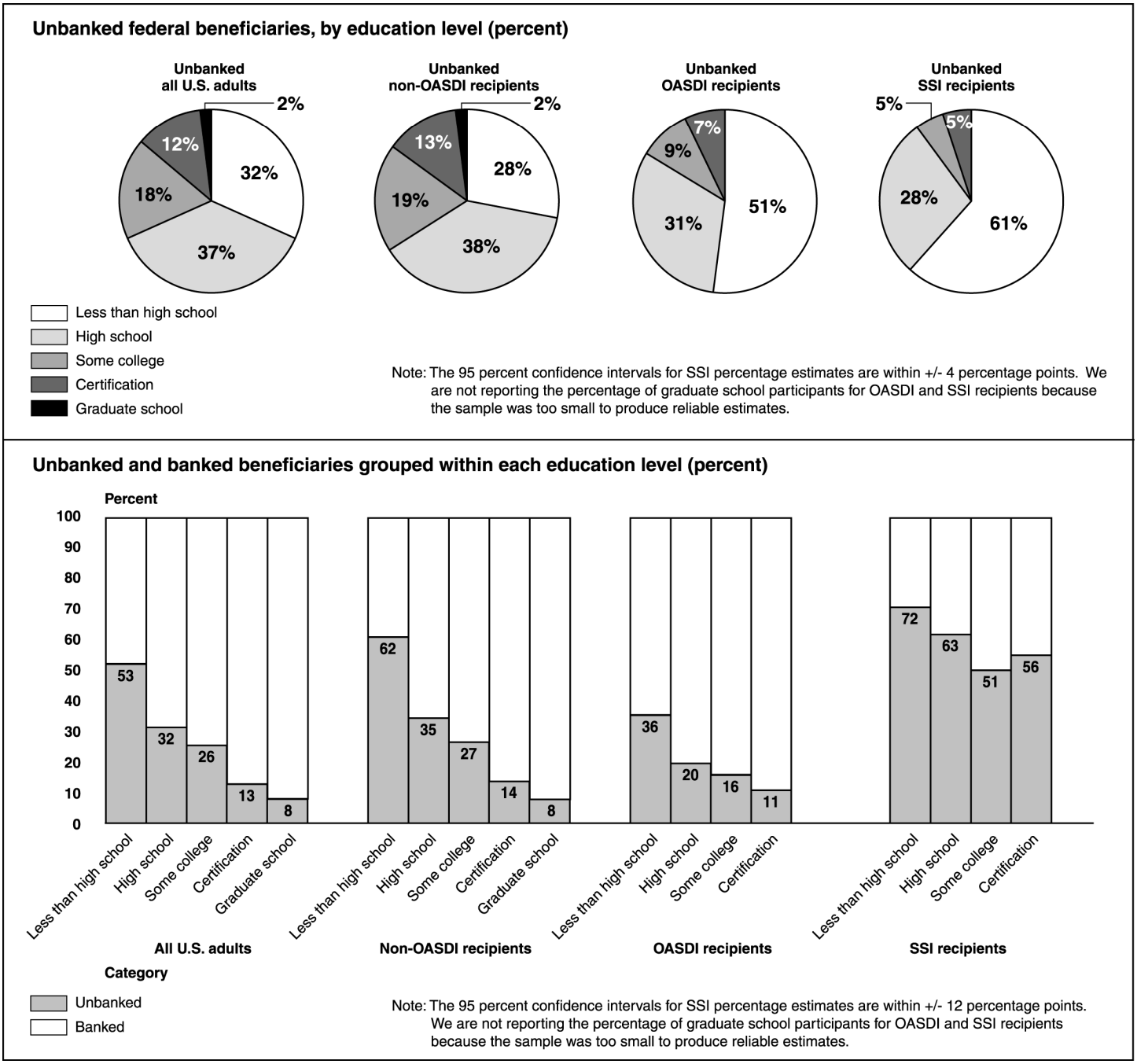
Source: GAO analysis of November 1999 SIPP data.

Figure 11: Unbanked Recipients and Income Level



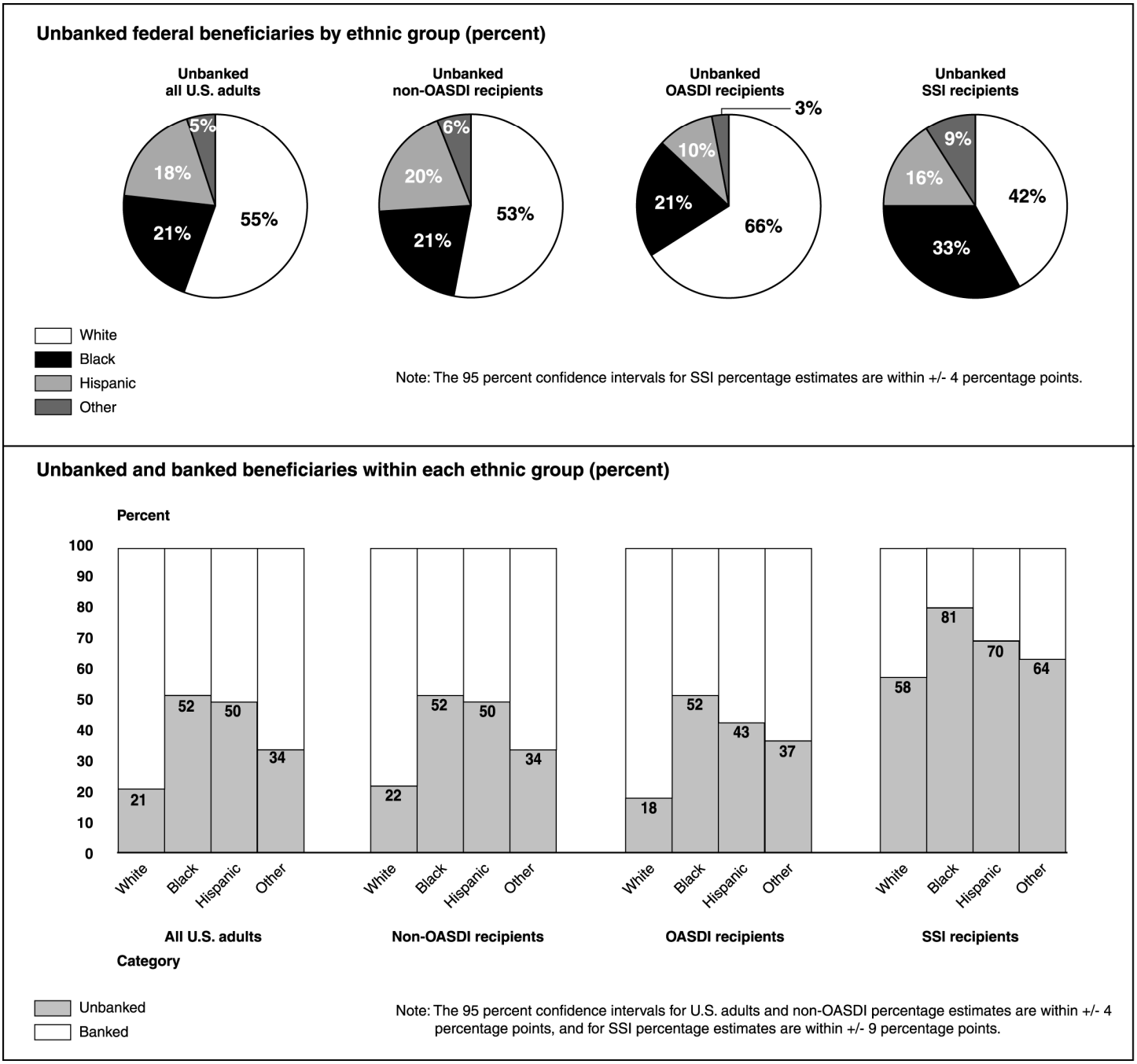
Source: GAO analysis of November 1999 SIPP data.

Figure 12: Unbanked Recipients and Educational Level



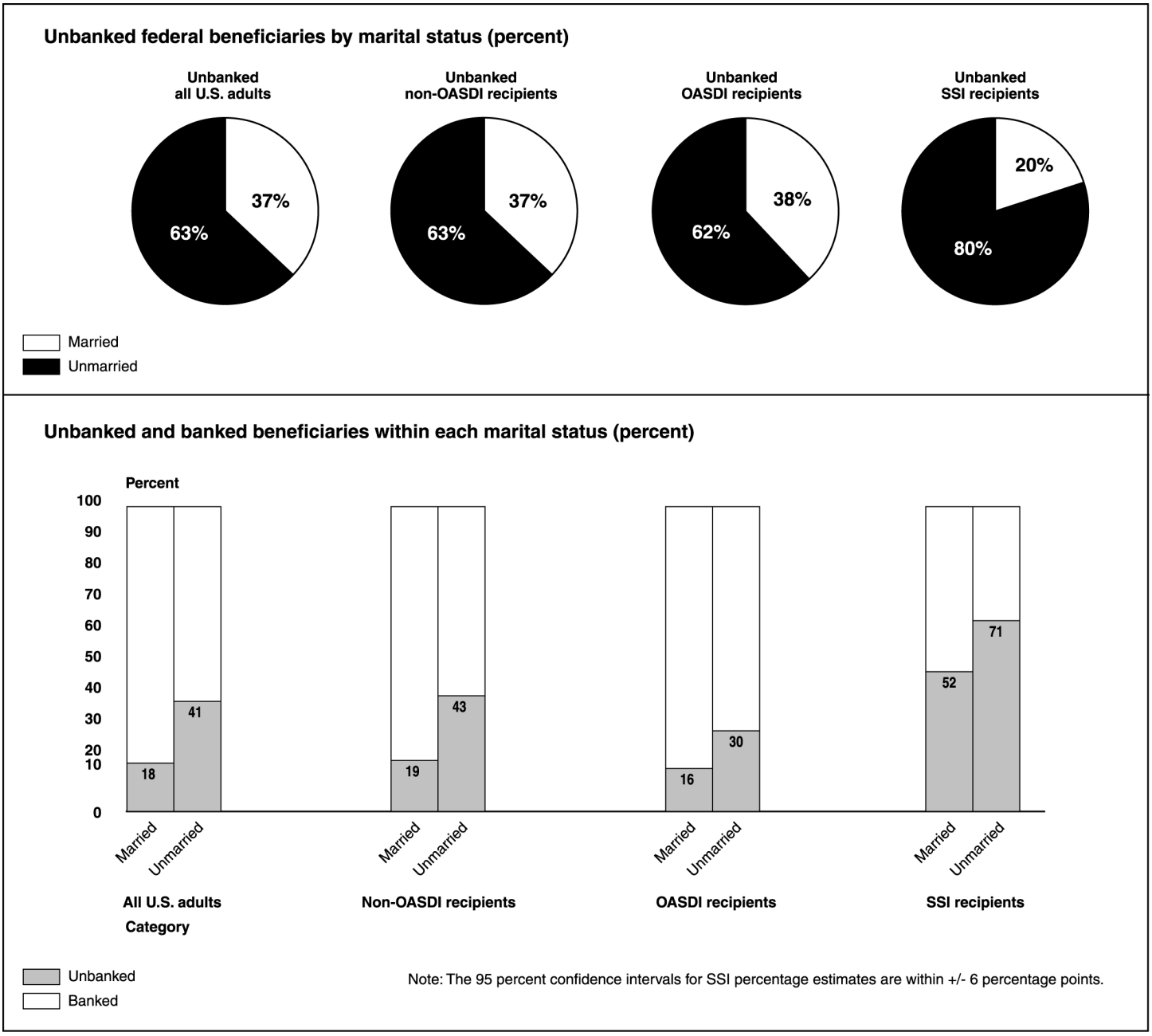
Source: GAO analysis of November 1999 SIPP data.

Figure 13: Unbanked Recipients and Ethnic Group



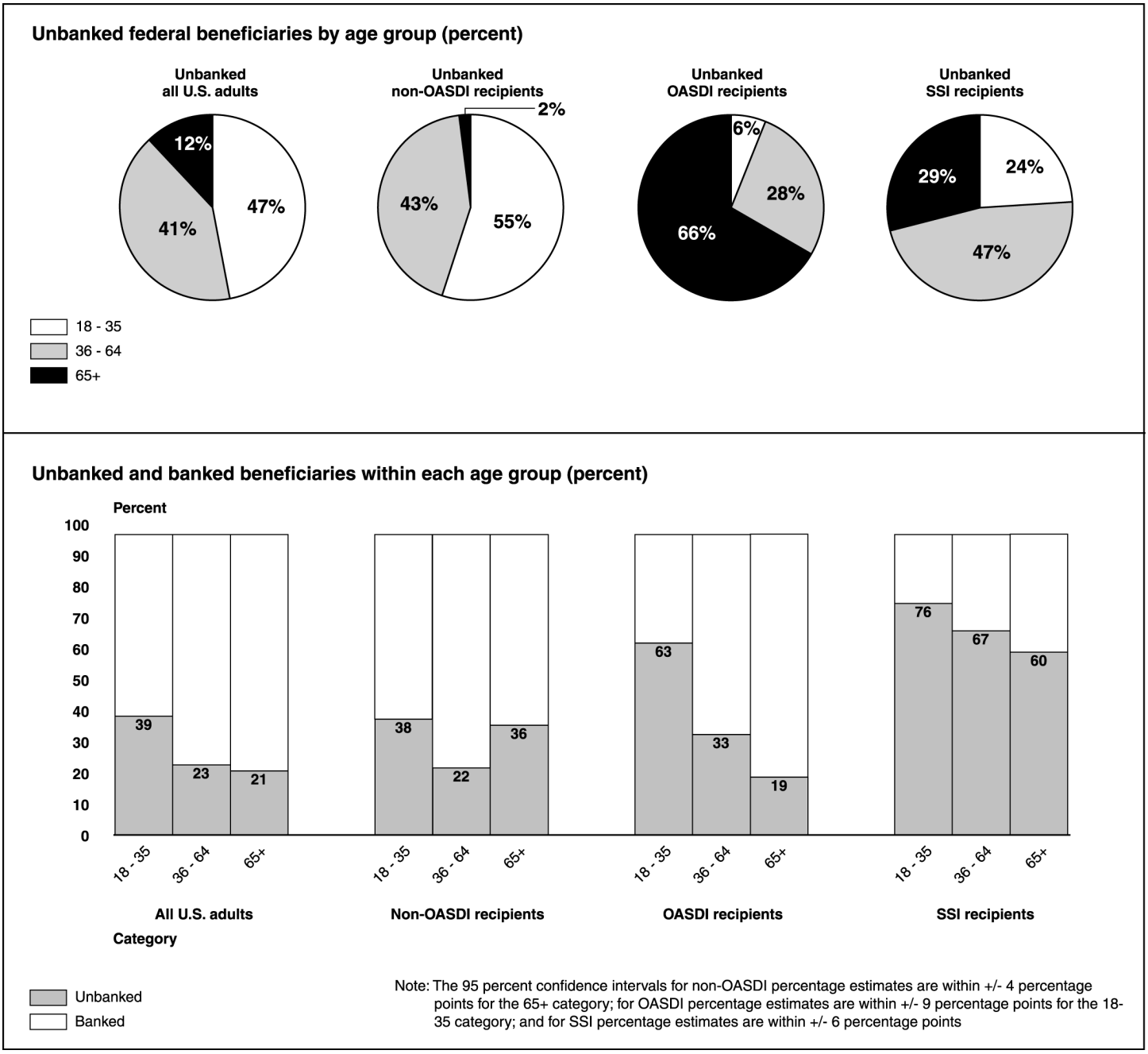
Source: GAO analysis of November 1999 SIPP data.

Figure 14: Unbanked and Banked Beneficiaries Grouped by Marital Status



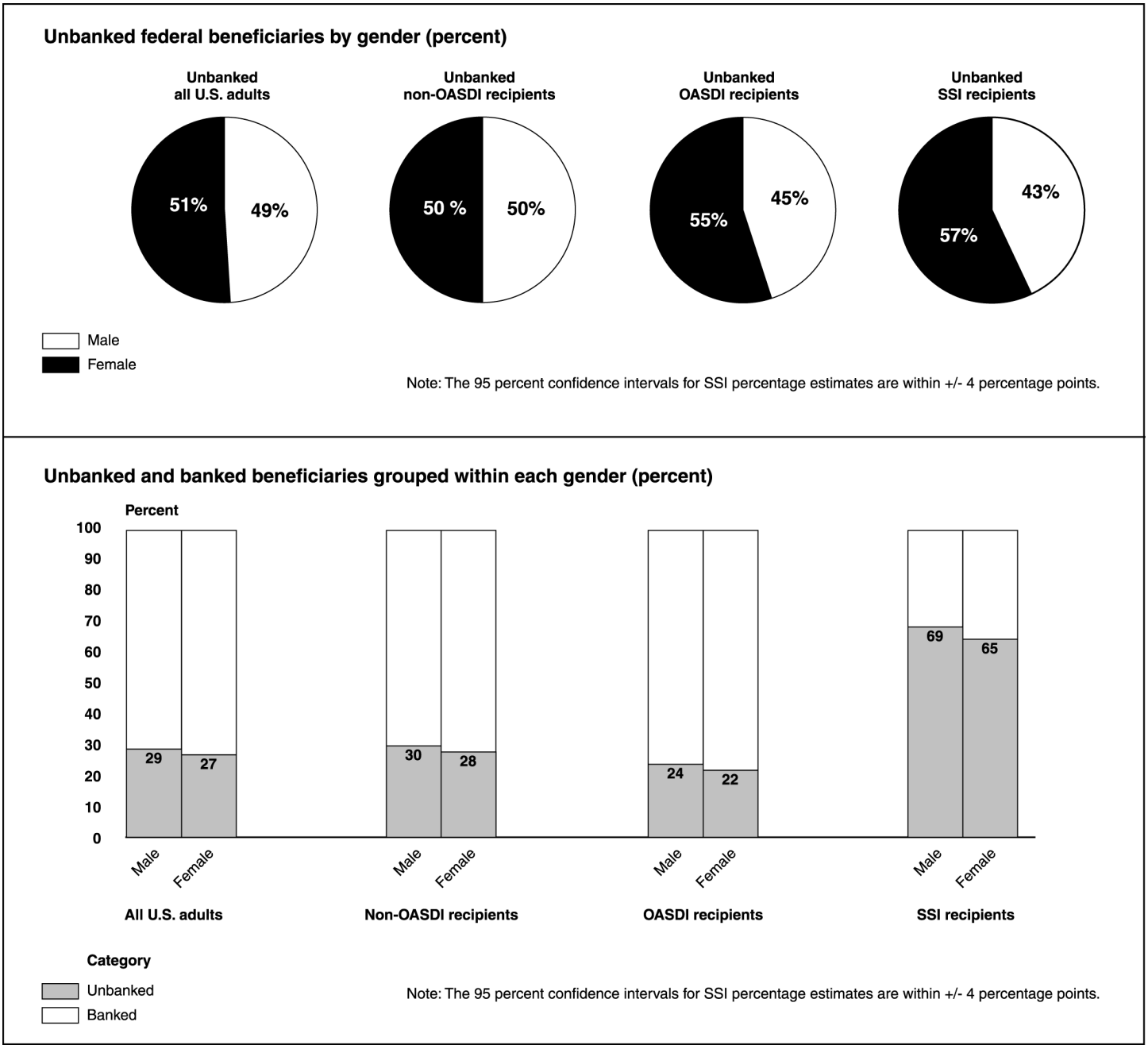
Source: GAO analysis of November 1999 SIPP data.

Figure 15: Unbanked Recipients and Age Group



Source: GAO analysis of November 1999 SIPP data.

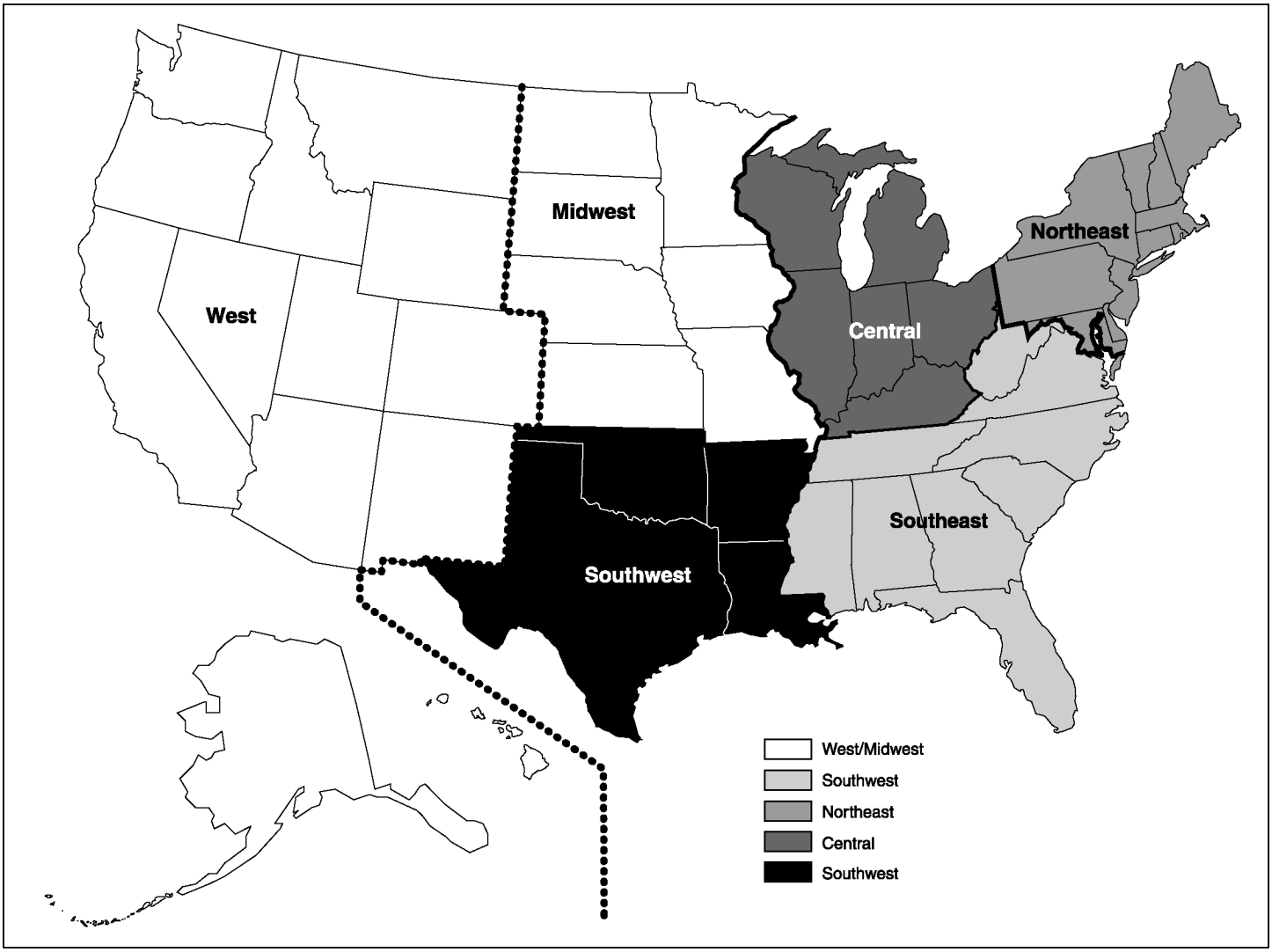
Figure 16: Unbanked Recipients and Gender



Source: GAO analysis of November 1999 SIPP data.

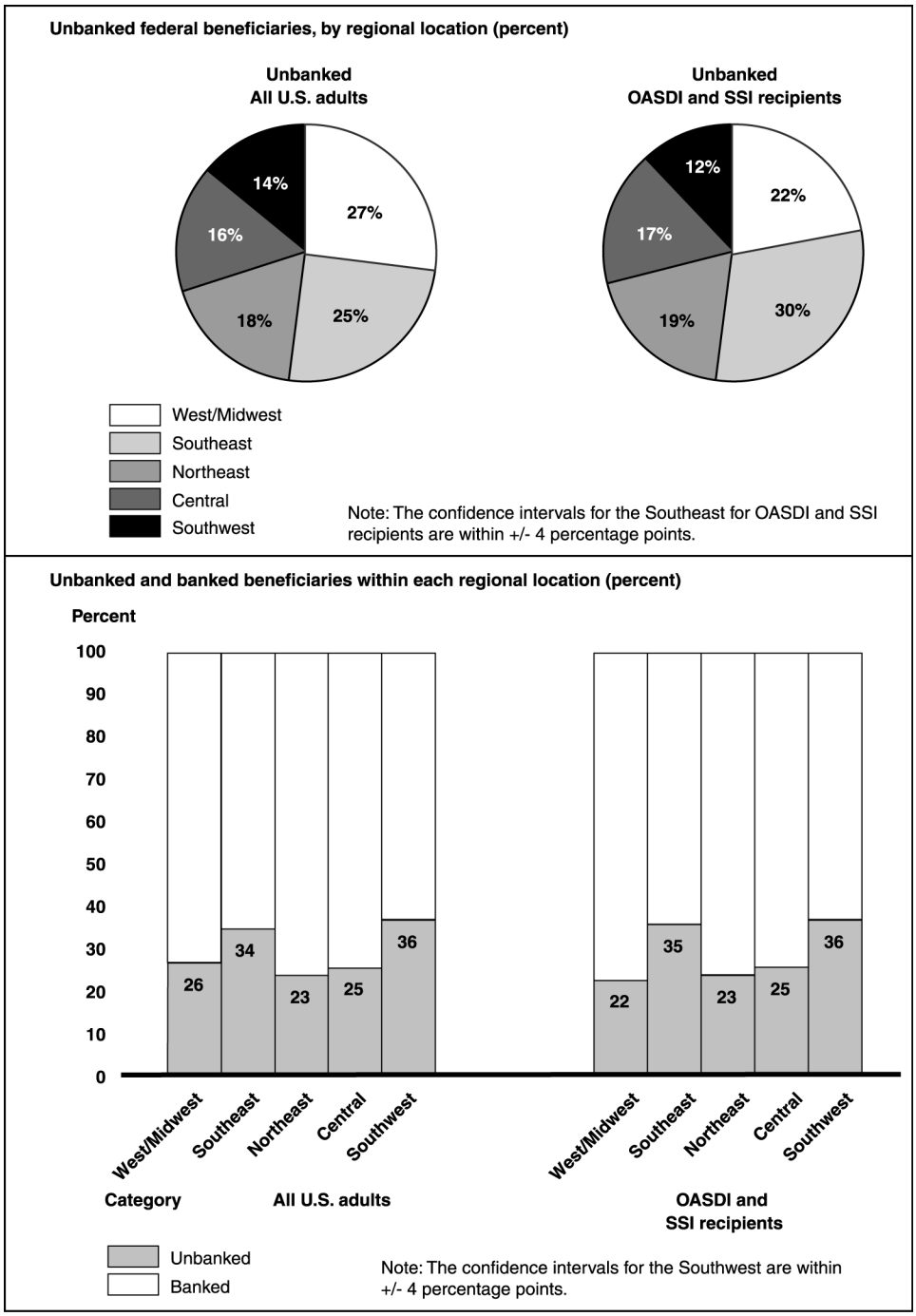
Appendix V: Location of the Unbanked by Region

Figure 17: Regions of the United States



Note: The purpose of these analyses is to provide a rough sense of how the percentage of unbanked individuals varies across the United States because the SIPP does not allow us to make estimates on a state-by-state basis. Each state would have too few surveyed respondents to produce reliable results. Thus, we divided the United States into six clusters of states prior to performing our analyses, largely based on how one federal agency has divided its regional offices. While we planned to estimate the percent of unbanked individuals for the West and Midwest separately, the way in which SIPP grouped states with too few survey respondents did not permit us to do so. Thus, we are reporting the percent of unbanked individuals in the west and Midwest as one region.

Figure 18: Unbanked Recipients and Regional Location



Source: GAO analysis of November 1999 SIPP data.

Appendix VI: Comments from the Department of the Treasury

COMMISSIONER

DEPARTMENT OF THE TREASURY
FINANCIAL MANAGEMENT SERVICE
WASHINGTON, D.C. 20227

September 3, 2002

Mr. Richard J. Hillman
Director
Financial Markets and Community Investment
United States General Accounting Office
Washington, DC 20548

Dear Mr. Hillman:

This letter gives our comments on the draft report entitled, Electronic Transfers: Use By Federal Payment Recipients Has Increased But Obstacles Remain To Greater Participation (GAO-02-913). We have enclosed our plan in response to your recommendations. Also enclosed is a copy of the editorial comments we provided during our informal meeting with you and members of your staff on August 26, 2002. The following comments recap concerns discussed at that meeting.

Waivers. Treasury received guidance from Congress regarding waivers to the EFT provisions of the Debt Collection Improvement Act (DCIA) of 1996. Congress made it clear that Treasury's implementation of the DCIA must include generous waiver provisions. Copies of two bills that were introduced in Congress to amend the DCIA to provide for broad waivers, as well as Congressional testimony regarding the need for Treasury to make available broad or automatic waivers, have been enclosed. Treasury's final regulation provided that a federal payment recipient may continue to receive checks by mail if payment by electronic funds transfer would impose a hardship due to a physical or mental disability, a geographic, language, or literacy barrier, or would impose a financial hardship. To include more stringent waiver provisions in our regulation, Treasury would need Congressional support. Therefore, in addition to the editorial change to page 1, sentence 7, provided on August 26, please revise page 1, paragraph 1, to reflect Congress' role in developing the EFT waiver policy.

Account features. The DCIA required that each person affected by the mandate has access to a low cost account at a financial institution at a reasonable cost and with certain consumer protections. When developing the ETA in response to that mandate, Treasury made a deliberate decision not to include a check-writing feature. To emphasize this point, please revise page 29, paragraph 2, sentence 3 to read as follows: "Treasury made a deliberate decision not to include check writing, in part because of concerns raised by both financial industry and consumer advocacy groups about the potential for account misuse, including overdrafts."

Page 2 – Mr. Hillman

Data. Treasury will review the data from the Bureau of the Census Survey of Income and Program Participation (SIPP) as it relates to the number of unbanked federal recipients to better understand the characteristics of that population. However, Treasury has concerns that the SIPP data may not provide an accurate estimate of the number of recipients who are unbanked. Further, Treasury believes that while it is important to have reliable information on the number of unbanked recipients, it is more important, for purposes of management decision making, to understand why these recipients are unbanked.

We intend to pursue a strategy involving targeted pilots, such as developing customized programs for particular cities or states. In doing so, we hope to collect more thorough empirical data on unbanked populations. Collection of this richer empirical data, along with data from the Bureau of the Census Survey of Income Program Participation, Federal Reserve data, and other credible sources, will help develop alternative strategies for converting the unbanked to electronic payments.

We appreciate the opportunity to respond to this draft report. If you wish to discuss our response, you may contact Bettsy Lane, Assistant Commissioner, Federal Finance, on (202) 874-6720.

Sincerely,

Richard L. Gregg

Richard L. Gregg

Enclosures

cc: Donald Hammond

GAO-02-913 Implementation Plan

Recommendation 1. We recommend that Treasury revisit its estimate of the number of unbanked federal check recipients. In doing so, we further recommend that Treasury explore the use of Census SIPP data as a means to both obtain a better estimate of the extent of federal check beneficiaries who are unbanked and to better understand the characteristics of the unbanked population.

Response:

We will review and analyze the data from the Bureau of the Census Survey of Income and Program Participation (SIPP).
Completion Date: June 15, 2003

Recommendation 2. We recommend that Treasury use the information on the extent and characteristics of unbanked federal check recipients to consider alternative approaches, including those discussed in this report, to develop a strategy that offers a greater likelihood of attracting that portion of the unbanked population that chooses not to open an ETA.

Response:

We agree to use the information on the extent and characteristics of unbanked federal check recipients to consider alternative approaches to develop a strategy that offers a greater likelihood of increasing the use of electronic funds transfer.
Completion Date: September 15, 2003

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