

Moving Away from Cash: Alternative Payment Mechanisms

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The views expressed are those of the speaker and not necessarily those of the FTC or any other person.

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Non-Cash Payment Mechanisms

- Credit
- Debit/ATM Cards
- Wiring Money
- ACH Transactions (time permitting)
- Remotely Created Checks (time permitting)



Open-End Credit Accounts

What is Open-End Credit?

- **The credit issuer agrees to lend the consumer a certain amount of money and to allow that same amount to be borrowed again once it is repaid.**
- **Examples of open-end credit: credit cards and charge accounts at stores**
- **Credit card example: Bank issues credit card with \$1,000 limit. Consumer charges \$1,000 to credit card in Month 1, repays the \$1,000 to the Bank in Month 2, and charges \$1,000 to the credit card again in Month 3.**



Closed-End or Installment Credit

What is Closed-End Credit?

- The credit issuer lends the consumer a specific amount of money for a specific purpose or time
- Closed-end credit typically is paid in equal installments (*i.e.*, \$1,200 loaned to consumer repaid at rate of \$100 per month for 12 months)
- May require collateral
- Examples of closed-end credit: car loans and mortgages



Advantages of Credit

- Convenience
- Use other people's money
- Meet emergencies
- Use something while you pay for it
- Take advantage of sales
- Establish a credit history

Taken from "Credit Advantages, Disadvantages and Common Types" by Sandra D. Preston and Kathy Prochaska-Cue



Disadvantages of Credit

- Costs the consumer money
- Encourages overspending
- Discourages comparison shopping
- Reduces future buying power
- Extra fees add to the total cost

Taken from “Credit Advantages, Disadvantages and Common Types” by Sandra D. Preston and Kathy Prochaska-Cue



Regulating Open-End Credit

Open-end credit accounts are subject to abuse:

1. Credit card or other open-end credit account information can be stolen or misappropriated
2. Sellers may place incorrect information on the accounts



Regulating Open-End Credit

In the United States, the Fair Credit Billing Act regulates open-end credit accounts, such as credit cards.

The Fair Credit Billing Act permits consumers to dispute unauthorized charges or incorrect account information applied to their credit card accounts.



Billing Disputes

Consumers need to be able to dispute billing errors.

1. Unauthorized charges
2. Charges that list the wrong date or amount
3. Charges for goods or services the consumer did not accept or that were not delivered as agreed
4. Math errors
5. Failure to post payments and other credits, such as returns
6. Failure to send bills to the consumer's current address
7. Charges for which the consumer requested an explanation or written proof of purchase



Billing Disputes – The U.S. Example

Disputing Information on Open-End Credit Accounts:

1. Write to the creditor at the given address for “billing inquiries.” Include:
 - Name
 - Address
 - Account number
 - Description of billing error
2. Send the written dispute within 60 days after the first bill containing the error was mailed.



Billing Disputes – The U.S. Example

When disputing billing information:

- Get proof that the creditor received the letter - send “return receipt requested”
- Include copies (not originals) of the sales slips or other documentation supporting the dispute
- Keep a copy of the dispute letter



Billing Disputes: The U.S. Example

Once a consumer disputes billing information, the creditor is required:

- To acknowledge complaint in writing within 30 days of receiving it
- To resolve the complaint within two billing cycles (but not more than 90 days)



Billing Disputes: The U.S. Example

During the investigation:

- Consumer may withhold payment on the disputed amount (and related charges)
- Creditor may not take legal or other action to collect the disputed amount and related charges
- Creditor may not close the account, but may apply the disputed amount against the consumer's credit limit



Billing Disputes: The U.S. Example

Completed investigation shows the bill is incorrect:

- The creditor must explain to the consumer, in writing, the corrections that will be made to the account
- The creditor must credit the account and remove the finance charges, late fees or other charges related to the error
- If consumer owes a portion of the disputed amount, the creditor must provide a written explanation and, at the consumer's request, provide proof the amount is owed



Billing Disputes: The U.S. Example

Completed investigation shows the bill is correct:

- The creditor must promptly inform the consumer, in writing, of the amount owed and why it is owed
- Consumer may request documentation proving what is owed
- Consumer owes the disputed amount, plus any finance charges that accumulated during dispute



Billing Disputes: The U.S. Example

Completed investigation shows the bill is correct but consumer refuses to accept the results:

- If a consumer disagrees with the investigation, he may write to the creditor within 10 days of receiving the explanation and refuse to pay the disputed amount.
- The creditor may begin collection procedures, including reporting the consumer's nonpayment to the credit bureaus. Any such report must state that the consumer does not believe he owes the money.



Billing Disputes: The U.S. Example

Creditors that fail to follow the dispute procedure:

- May not collect the disputed amount, or any related finance charges, up to \$50
- Example: A consumer disputes a \$25 transaction on his credit card. If the creditor acknowledges the complaint in 45 days – 15 days late – then he forfeits the disputed amount and any related finance charges of up to \$50.



Billing Disputes: The U.S. Example

Enforcing Consumers' Rights to Dispute Bills:

1. The consumer protection agency has the right to enforce the Act.
2. Private cause of action: consumer can enforce the Act.
If the consumer wins, the court may:
 - Award damages
 - Award twice the amount of any finance charge (\$100-\$1,000)
 - Award attorney's fees and costs



Credit Card Fraud

Do:

- **Sign your cards**
- **Carry your cards separately from your wallet**
- **Keep a record of your account numbers**
- **Keep an eye on your card during the transaction**
- **Void incorrect receipts**
- **Destroy carbons**
- **Save receipts and compare to billing statements**
- **Open bills promptly and reconcile accounts monthly**
- **Report questionable charges promptly**
- **Notify credit card companies of address changes**



Credit Card Fraud

Don't:

- **Lend your cards to anyone**
- **Leave your cards or receipts lying around**
- **Sign a blank receipt**
- **Write your account number on a postcard or the outside of an envelope**
- **Give out your account number over the telephone unless you know the company is reputable**



Credit Card Fraud

Report loss or misappropriation of credit card immediately.

According to U.S. Law:

- Consumer is not responsible for unauthorized charges once the card has been reported stolen.
- Consumer maximum responsibility for unauthorized charges is \$50.



Other Credit Fraud

- Advance Fee Loan Scams
- Secured Credit Card Marketing Scams



Debit/ATM Cards



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What are Debit/ATM Cards?

- Cards issued by banks that are used to withdraw cash from ATMs or to pay for goods and services in place of a check.
- Automatically withdraws credit from consumer's bank account at the time of the transaction. Does not involve an extension of credit.



Advantages of Debit/ATM Cards

1. Carry a card in place of cash/checkbook
2. No extension of credit – easier to obtain
3. Reduces trips to the bank
4. No need to show identification
5. More likely to be accepted than checks
6. Returns treated as cash transactions



Disadvantages of Debit/ATM Cards

1. Money deducted immediately from account
2. Must keep receipts in order to balance account
3. Extra fees
4. Less protection than credit cards



Legal Protection for Debit/ATM Cards

- Electronic Fund Transfers Act
- Loss of Card
 - \$0 liability
 - \$50 liability
 - \$500 liability
 - Unlimited liability
- Loss of card number only: liable for transfers that occur after 60 days following the mailing of the statement containing the unauthorized use and before you report the loss



Protecting Debit/ATM Cards

Same as with credit cards – and:

- Do not carry PIN in your wallet or purse or write it on the card
- Never write your PIN on the outside of a deposit slip, envelope or other paper that can be easily seen or lost
- Carefully check ATM or debit card transactions before entering the PIN or before you sign the receipt
- Periodically check your account activity



Wiring Money



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Wire Transfers

Examples:

- Western Union
- MoneyGram

Danger:

- No returns
- Who is the recipient?



ACH Transactions



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What are ACH Transactions?

The Automated Clearing House (ACH) Network

- Nationwide electronic funds transfer system
- Permits electronic payments to be cleared between and among banks
- Uses:
 - Deposits
 - Withdrawals





ACH Transactions - Regulation

NACHA – The Electronics Payment Association

- Non-profit trade association
- Governs ACH Network
- Develops and enforces rules for the ACH Network
- Financial institutions are members

Rules

- Members are bound
- Members must bind their clients (the originators) to the rules
- Members required to bind payment processors to the rules



ACH Transactions – Returns

- RDFI must code the returns
- Return codes that indicate lack of informed consent to the transaction:
 - Unauthorized transaction return code
 - Insufficient funds return code
 - Closed account return code
 - Incorrect account number return code



ACH Transactions – TEL Rule

- Generally, agreement must be in writing
- Oral authorization permitted if:
 - One-time ACH debit
 - Inbound telemarketing if no existing relationship
 - Outbound telemarketing only with an existing relationship
- Returns:
 - 1% unauthorized return rate threshold
 - At or below .10% (one-tenth of one percent)



ACH Transactions – Use by Telemarketers

- **FTC v. Your Money Access**
 - Joint Action: Illinois, Iowa, Nevada, North Carolina, North Dakota, Ohio and Vermont
 - Clients: deceptive telemarketers or Internet-based scams
 - June 23, 2004 - March 31, 2006: processed \$200 million in debits and attempted debits; \$69 million of the attempted debits returned or rejected



Remotely Created Checks



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Remotely Created Checks

What are remotely created checks?

- Paper documents
- Holder of checking account (payor) authorizes a seller (payee) to draw a check on the payor's account
- No signature

Other names:

- Demand drafts
- Bank drafts
- Telechecks
- Sign drafts



Regular Check

| | |
|---|---------------------------------|
| John Doe Mary Doe 123 Main St. Rochester, NY 14444 | 105 <u>June 9, 2009</u> DATE |
| PAY TO THE ORDER OF <u>ABC Company</u> | \$ <u>150.00</u> |
| <u>One hundred fifty dollars and ⁰⁰/₁₀₀</u> DOLLARS | |
| Your Bank Rochester, NY | <u>Mary Dale</u> |
| FOR <u>Act # 1234</u> | |
| :9124 6027 486519 00523 7534964 101 | |



Remotely Created Check

| | |
|---|---|
| John Doe Mary Doe 123 Main St. Rochester, NY 14444 | 105 June 9, 2009 DATE |
| PAY TO THE ORDER OF ABC Company | \$ 150.00 |
| One hundred fifty dollars | DOLLARS |
| Your Bank Rochester, NY | No signature required Electronic signature on file |
| FOR Acct #1234 | |
| :9124 6027 486519 00523 7534964 101 | |



Remotely Created Checks v. ACH

- Not electronic
- Not part of ACH Network
- NACHA Rules do not apply
- No separate monitoring of returns
- No centralized/standardized return codes



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