Biden’s presidency means a heavier hand for government in payments

By Eric Grover

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The progressive commentariat, activists, politicians, and regulators take as an article of faith more government in banking and payments will help the unbanked and consumers.

With the new administration, Americans are going to get more government in financial services and payments. Except where interventions correct structural impediments to competition or improve transparency, invariably, they’re harmful.

To boost home ownership, the Clinton and Bush administrations forced mortgage Goliaths Fannie Mae and Freddie Mac to weaken credit standards, fueling an unprecedented housing bubble and tsunami of risky loans, which precipitated the housing and financial crises. Instead of privatizing FHFA conservatorships Fannie and Freddie, the Biden administration will politicize and further weaken credit standards.

The new administration will also try to expand the Community Reinvestment Act to cover non-bank and fintech lenders, and mortgage and insurance companies.

Dodd-Frank’s debit-interchange price controls were sold as good for consumers, merchants, and small banks, a political trifecta. However, they made offering fee-free checking accounts without conditions and debit-issuer innovation more difficult.

The administration probably will join Senator Durbin pressing the Fed to reduce the interchange caps. If Durbin sees an opening to advance credit card-interchange caps, he’ll go for it.

Trump's DOJ challenged Visa's acquisition of data-sharing network Plaid, contending it will suppress the development of systems competing with America's leading payment network. It's not hard to imagine Durbin whispering in Biden's AG's ears encouraging an antitrust run at Visa.

Operation Choke Point, which regulators used to prevent banks and payment processors from serving politically out-of-favor industries including subprime credit, is likely to be reincarnated.

Additionally, the Biden-Sanders Unity Task force supports postal banking and the Fed banking consumers directly, which would have the central bank competing with rather than serving banks.

Both sides of the political aisle are sympathetic to a digital Fed dollar, but progressives prefer a model where consumers have Fed accounts as opposed to digital dollars distributed through banks, as the Digital Dollar Project's Chris Giancarlo proposes.

The unbanked are also used to push for more regulation and a greater government role in banking, though the private market is improving financial inclusion.

By 2019, with a modicum of deregulation, the percentage of unbanked U.S. households declined to 5.4%, the lowest in history. Fully 56.2% of unbanked households report they aren't interested in having a bank account. As reasons for not having a bank account, 49% cite not having enough money to meet account minimums, 36% don't trust banks, and 36% express privacy concerns.

Almost 10,000 banks and credit unions compete for Americans' business. Putting them in a tighter regulatory straitjacket will make it harder to serve riskier and less traditional consumers and businesses.

A host of private-sector players already are focusing largely on the underserved. GPR prepaid card specialists Green Dot and Netspend provide basic banking to millions.

Mobile phones enable banking and payments anywhere, anytime. Mobile neobanks like Chime are storming the market. Most have no minimum balances or monthly fees. Debit interchange is their primary revenue source.

Eric Grover is Principal at Intrepid Ventures