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ASSET BUILDING POLICY PROJECT

TESTIMONY FOR THE HOUSE COMMITTEE ON BANKING AND FINANCIAL SERVICES REGARDING HOUSE BILL 5821, PAYMENT BY ELECTRONIC FUND TRANSFER

Ross H. Yednock, Director, Asset Building Policy Project

Community Economic Development Association of Michigan (CEDAM)

May 6, 2010

Good morning Mr. Chairman and members of the committee. Thank you for the opportunity to speak with you today about the benefits of Electronic Fund Transfers (EFT) of wages for unbanked and under-banked workers and testify in support for House Bill 5821.

My name is Ross H. Yednock and I am the director for the Asset Building Policy Project (ABPP) at the Community Economic Development Association of Michigan (CEDAM). CEDAM is a nonprofit organization representing more than 370 organizations and individuals committed to rebuilding our neighborhoods and revitalizing communities throughout Michigan. It is a voluntary association of primarily community development corporations, community action agencies, and other nonprofits that provide affordable and supportive housing to our neediest citizens, encourage downtown and commercial corridor revitalization, provide workforce and entrepreneurship training, and help families develop and maintain assets to better their lives. CEDAM members provide these services in every county in Michigan—in both urban and rural areas.

The ABPP at CEDAM strategically coordinates all policy, communication and advocacy efforts of the Michigan Asset Building Coalition (ABC), a diverse bipartisan alliance of nonprofit, for-profit and governmental organizations, institutions and individuals actively engaged in supporting effective strategies to reduce asset poverty and help working families achieve lasting and sustainable financial security.

Since a key to achieving financial security is the ability to earn, grow and protect one's assets, the ability to receive all of one's wages is critical, especially for low- and moderate-wage earners. Payment of wages via EFT is perhaps the best way to achieve this. In addition to saving the employee time and money EFT is safer, more secure and provides greater consumer protections than paper paychecks. EFT provides better protections against check theft and fraud, creates easier access to funds during emergencies and natural disasters, and gives workers more control over their finances. This is why EFT is considered by employers, governments, consumer advocates and others as the most safe, secure and economical method of paying wages for both employees and employers.

Until recently, however, the ability to fully utilize EFT has not been possible for many Michigan workers because one of the challenges for low- and moderate- income workers to achieve financial security is lack of access to, and/or utilization of, reasonably priced financial products and services. According to the Federal Deposit Insurance Corporation (FDIC), 23.4 percent of Michigan households are either unbanked or under-banked. In southeast Michigan, the percentage is higher, as it is for persons of color.

While the reasons for being unbanked, or under-banked, vary among individual workers (locations of financial institutions, past negative experiences with banks, belief that their lack of capital does not necessitate an account) the high cost of alternative financial services (checking-casher, payday loans, money orders) does not. The simple financial transactions (accessing cash, paying bills, transferring money to savings or retirement accounts) most people with savings or checking accounts take for granted come with high costs to unbanked and under-banked households. This is why we support the House Bill 5821.

House Bill 5821 will provide employers the option of paying wages to their employees via EFT through either direct deposit to a savings or checking account, or onto a payroll card. We believe the direct deposit is the best way to administer an EFT because it ensures the employee has a relationship with, and access to the services provided by, a traditional financial institution. However, for those without such a relationship, payroll cards are more economical and secure than paper checks and provide a way to introduce, or reintroduce, employees to traditional financial products. In addition to helping employees avoid the use of high-cost alternative financial services, payroll cards also provide users a mainstream financial product that, because they are branded with a VISA, MasterCard or other logo, can be used to purchase food and clothing, pay bills and access other commerce and services at virtually any retail store or any number of internet vendors.

Every day in Michigan, especially in today's economy, we see families struggling to make ends meet. To help support these working families, we must support policies that help them build and protect assets. That is what HB 5821 would do and, if I might add, with significant savings to employers and employees. I ask that you help Michigan's working families keep more of their hard-earned dollars in their pockets by connecting them with the benefits of electronic fund transfers.

Thank you, Mr. Chairman and members of the committee.

A handwritten signature in black ink that reads "Ross H. Yednock". The signature is stylized and includes a large, sweeping flourish at the end.

Ross H. Yednock
Director, Asset Building Policy Project
The Community Economic Development Association of Michigan