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**Statement by  
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Member, Board of Governors of the Federal Reserve System  
before the  
Subcommittee on Consumer Affairs and Coinage  
Committee on Banking, Finance and Urban Affairs  
United States House of Representatives  
July 27, 1983**

I appreciate the opportunity to express the views of the Federal Reserve Board on the efforts to deal more effectively with credit card fraud through enactment of H.R. 3622, the "Credit Card Protection Act." Credit card fraud losses have grown at a disturbing rate in the last several years. For example, total fraud losses for Visa and Mastercard have doubled in only three years -- from around \$57 million in 1979 to close to \$115 million in 1982 -- with attendant costs to banks and other financial institutions, retail businesses, and, to the extent these costs are passed on indirectly, to consumers. These hearings, therefore, are important and timely.

I should note at the outset, however, that although the Board shares the general concern about this increase in fraud, we do not have any special expertise in the area of credit card fraud legislation. Although both the Truth in Lending Act and the Electronic Fund Transfer Act contain criminal penalties for credit and debit card fraud, the Board does not issue implementing regulations for those provisions, nor does it have a role in enforcing them. The Board is, nonetheless, glad to assist the subcommittee in any way we can, but my testimony will be brief.

The increase in credit and debit card fraud imposes considerable costs on banks and other card issuing financial institutions. Moreover, although account holders are to some degree protected by the Truth in Lending and Electronic Fund Transfer Acts from liability for unauthorized account access, they may bear some direct liability, and indirectly they may ultimately bear the costs through higher prices or reduced services. According to some industry figures, the cost of fraud per transaction has increased from less than 1 cent per transaction in 1973 to around 8 cents today.

We are particularly concerned about this type of fraud because of its potential effect on the payments system. The trend in recent years toward use of electronic fund transfers and credit cards in place of checks and cash has presented the possibility of significantly reducing costs and increasing efficiency. However, if financial institutions are forced to increase prices in order to cover fraud losses, consumers and businesses may have less incentive to use these more efficient means. In addition, continued widespread acceptance of these methods may depend in part on the public's confidence in their security and reliability. To the extent this confidence may be impaired by the increasing threat of fraud, this may diminish our ability to improve the payments mechanism. Thus, the Board believes that credit and debit card fraud has implications beyond the losses to individual businesses and consumers.

Because of the dramatic growth of fraud losses, and because there may be gaps in the coverage of the existing prohibitions on card fraud, the Board generally supports legislation designed to strengthen the prohibitions and close loopholes. H.R. 3622 appears to be designed to accomplish a good deal in that direction.

One technical point we suggest the subcommittee consider is the proper placement of any new legislation in the structure of existing law. H.R. 3622 would amend the credit card provisions of the Truth in Lending Act. Since some portions of the bill are intended to affect debit cards, ATM cards, or other means of access to deposit or asset accounts, it may be appropriate to consider incorporating parallel provisions in the Electronic Fund Transfer Act. The EFT Act already contains provisions on fraudulent access to deposit accounts, and placing any new prohibitions in the same location would reduce

possible confusion and duplication. The Board would be pleased to draft statutory language or offer technical assistance to implement this suggestion. Another possible approach would be to consolidate and enact new prohibitions on credit and debit card fraud as part of the United States criminal code.

The Board appreciates this opportunity to present its views. I would be happy to answer any questions that you may have.