



# Loan Repayment with Debit Cards

Meeting Consumers Where They Are to Improve  
Outcomes and Performance



## Choice Is Critical

Credit is a cornerstone of the US economy, and an important lifeline for consumers—especially those who are struggling financially. For everyday Americans, novel lending solutions from new entrants to the space have allowed consumers to borrow more conveniently and at more attractive rates. This is good for consumers and good for the lending space since it encourages competition. Yet, while consumers have greater access to different types of lending products, particularly to meet short-term financial obligations, payment options have remained relatively stagnant, leaving most consumers with a limited choice among the legacy options of cash, check, debit card, pre-paid debit card, credit card, and ACH.

The Americans most likely to be struggling with day-to-day spending and most in need of short-term borrowing options are most likely to use paper checks, debits cards, or ACH as their method of payment. Data shows a strong preference for the use of debit cards among this consumer group. However, as a result of lenders' high use of ACH, consumers may not fully utilize their preferred payment method, often a debit card, when it is time to repay their loan. At best, this results in a frustrating consumer experience. At worst, it can lead to missed payments and a cascade of issues that it creates for lenders and their customers. Greater payment choice is therefore important but also carries risk, as well as additional regulatory, settlement, and business case ramifications. Here, we explore each of these to help industry participants, regulators, and analysts understand the benefits and implications of increasing consumer choice in debt repayment, particularly with regard to debit cards.

## Meeting Consumers Where They Are

Many consumers struggle in the current economic climate with continued high prices on everything from groceries to cars to housing. The high-interest rate environment was introduced to cool inflation, which has resulted in higher borrowing costs that further challenge affected consumers.<sup>i</sup> Americans are living on the edge: 59% of Americans report that they would not be able to cover an unexpected \$1,000 expense with their savings, up from 56% in 2024,<sup>ii</sup>

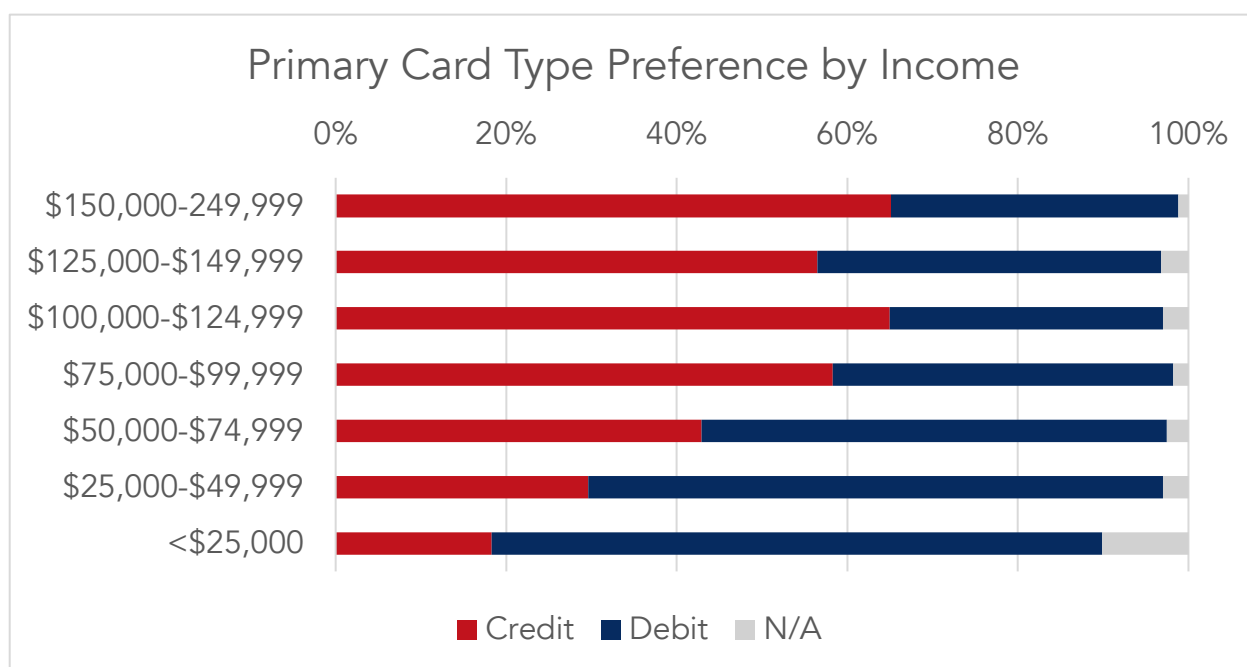
Giving borrowers the choice to use the payment method they prefer increases consumer trust, feelings of security, and, most importantly, higher rates of consumer repayment. In fact, consumers report that the payment and billing experience, including payment choice, is a leading cause of their difficulty paying loans on time. This is particularly true for younger consumers; in a recent survey, 35% of respondents cited not having access to preferred payment types as an obstacle in paying loans.<sup>iii</sup>

When consumers struggle to pay off debt, delinquency rises, which negatively impacts both lenders and borrowers. For consumers, delinquency means mounting debt with potential fees, disruption in service and impact to credit score. Lenders suffer in several different ways. Beyond the costs of unpaid loans, lenders must devote greater liquidity to reserve coverage, retune forecasting models, and spend more on collections activities. Offering a greater degree of payment choice to the borrower is a tool that can help lenders address these challenges upfront, addressing a common root cause of consumer delinquency.

## Payment Preferences Are Shifting

Consumer preferences in method of payment are evolving. These changes are driven by perceived and real increases in convenience, as well as incentives for adoption. Digitization in both commerce and billing have driven consumers to eschew cash and checks in favor of cards, ACH, and other payment methods.<sup>iv</sup>

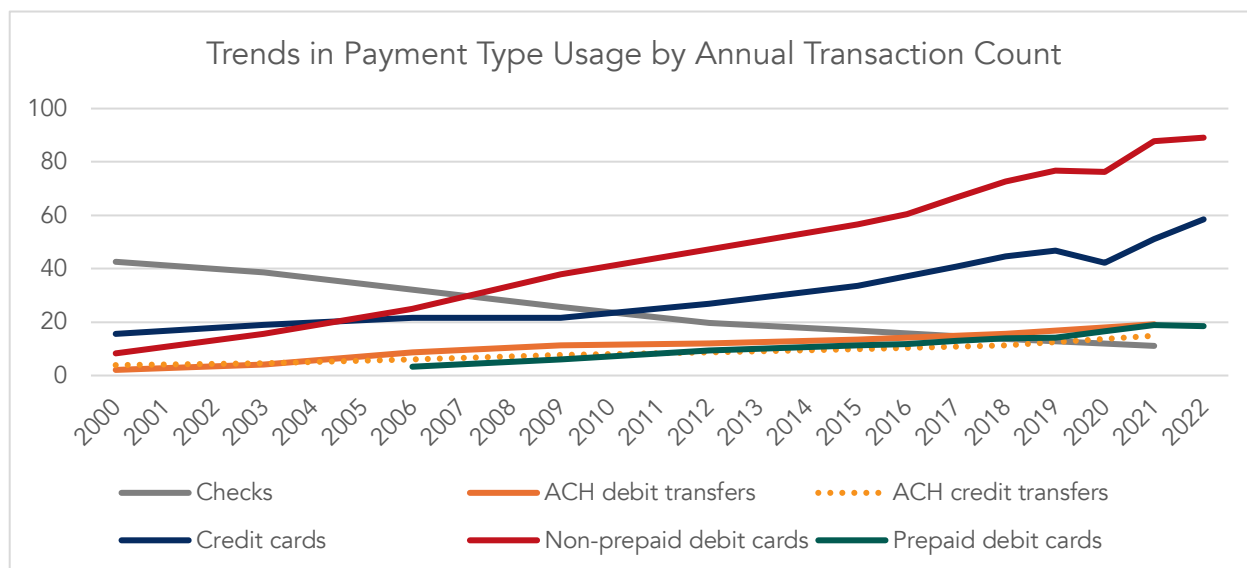
Meanwhile, within the card space, consumer preference for debit cards over credit cards has increased over time.<sup>v</sup> Debit cards are tied directly to a consumer's account balance and allow them to pay their bills and spend this balance at merchants in a "same as cash" manner. Debit cards are particularly popular among consumers who are more likely to require short-term lending products to meet their financial obligations: younger and more modest income consumers.



Source: S&P Market Intelligence<sup>vi</sup>

This popularity results from debit cards having inherent benefits that financially prudent consumers appreciate. For example, unlike credit cards, debit cards act as a natural budgeting tool: you can only use the money you have in your bank account. In addition to having a 1:1 impact on a user's checking account balance, debit cards also show users an updated account balance at the end of each settlement period, usually daily. While credit card users can track their card balance every day, the impact of their spending is not immediately apparent, nor is the use of paper check or ACH since the time required to settle transactions may take several days.

**Debit cards are ubiquitous.** 96% of consumers have a checking account, which is almost always associated with a debit card.<sup>vii</sup> Debit card ownership was long associated with checking account ownership, but the rise of fintech apps and neobank products with debit cards attached (such as Cash App, Venmo, and others) has increased the number of debit cards per consumer; the average adult now has more than four debit or prepaid cards in their wallet.<sup>viii</sup> Despite this, debit card products are still linked to secured funding sources, whether they be traditional checking accounts, or other types of secure funds, such as pre-paid wallets.



Source: Federal Reserve Board of Governors

Consumers are used to making purchases and payments using their debit card, and strongly associate debit cards with trust. The latest Federal Reserve Payments Study shows that by volume, payments using non-prepaid debit cards have outpaced all other forms of non-cash payment since 2007, as shown above.<sup>ix</sup>

Consumers often use ACH for recurring bill payments, but less frequently for other purposes. The need to enter account details has been highlighted as a deterrent for ACH usage, which often creates consumer friction and potentially errors that result in aborted or rejected payments. Open banking solutions, like Plaid, avoid this by pointing consumers to log into their banking app, but this incurs costs for lenders, adds friction to the consumer experience, and does not entirely match the familiarity of the debit card.

## Practical Considerations

On the point of cost, it is important to note that debit card acceptance is generally higher than the cost of ACH acceptance for lenders. Offering payment type choice to consumers is not necessarily an investment, but one that has the potential to meaningfully improve outcomes for borrowers.

In the payments industry, the conversation around cost is incomplete without a discussion of risk. The risk of non-sufficient funds (NSF) is particularly relevant in this case because it involves consumers who are more likely to live near the edge of their financial limits. NSF risk is closely linked to settlement timing, and the further the timing of an authorization is from clearing, the more likely the payment will fail. In the paper check and ACH system, lenders do not have real-time confirmation of the availability of funds. In contrast, debit cards offer real-time authorization of funds availability. As a result, the use of debit cards ensures that there is no NSF risk to lenders or merchants when a consumer uses a debit card. Furthermore, banks don't typically charge merchants NSF fees on debit card transactions because the payment is instantly declined.

For the customer, the risk associated with overdraft is higher for ACH or paper check than with debit card, as banks cannot charge a consumer for overdraft on one-time debit transactions unless you opt in. Overdraft can be charged on recurring electronic transactions regardless of opt-in, which is the same for ACH and checks.

In addition to cost, there are also rule-related implications of expanded payment choice. However, these generally apply to credit cards specifically. Federal and state governments prohibit the use of credit cards to make repayments on various types of loans, as do Visa and Mastercard rules.

Paying down a loan with another loan might make sense in certain situations, such as debt consolidation or refinancing, however many lenders don't allow this practice. In

general, debit cards and ACH are not considered forms of credit and are therefore widely accepted as methods of payment for debt. Lenders should be aware that certain buy-now-pay-later (BNPL) providers offer debit cards that are attached to their lending products. However, BNPL providers are increasingly implementing their own controls to restrict consumers from using their attached debit cards to repay loans by proactively blocking merchants with merchant category codes (often simply called “MCC codes”) that are common within the lending industry.

Lenders may also be concerned about the impact of payment type choice on the cooling off period for new loans. States’ regulators may view these intervals as a way to prevent a continuous cycle of debt for the borrower or as a way to allow consumers to change their minds about a new loan and cancel within a set timeframe. There may also be concerns around consumers taking out multiple loans in a short period. There are a myriad of cooling off intervals imposed by states, and the method of payment does not help or hinder consumers from taking advantage of a cooling off period – whether it is ACH, check, debit card, or some other form of payment.

## Conclusion

While lenders must weigh a variety of practical considerations in introducing expanded payment method choice for consumer borrowers, there are many benefits. Consumers enjoy an improved experience, which results in potentially higher repayment rates, benefitting lenders and the economy overall. Choice is particularly important for financially vulnerable populations who are more likely to use debit cards as a responsible, “same-as-cash” payment method.

## External Sources

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- i Federal Reserve Bank of New York
- ii Bankrate
- iii PayNearMe
- iv Federal Reserve Bank of Atlanta
- v PULSE Network Debit Issuer Study
- vi S&P Market Intelligence
- vii FDIC
- viii Motley Fool
- ix Federal Reserve Payments Study (FRPS)