8 Principles For The Reform Of The Prepaid Debit Card

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A Report from

Reinvestment Partners

"Advocating for economic justice and opportunity"

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FOREWORD

The prepaid debit card should give consumers access to a complete range of banking services in an affordable and safe package.

Reinvestment Partners advocates for economic justice and opportunity. This paper explains reforms that are needed in the prepaid card sector for it to be a financial service that helps not hurts users. The prepaid card product has the potential to be a useful low cost financial service with strong consumer protections. But a consumer buying a card today is challenged to know what functions it provides, what it costs and what consumer protections it offers. As advocates our worst fear is that as prepaid becomes widely accepted, it transforms into a vehicle for high cost credit similar to online payday loans. Reforms are needed to prohibit credit, provide clear disclosures, increase access, and improve services. Prepaid cards should not be a second-class product. Banks should offer wide access to affordable, safe, checking and savings accounts that do not have "gotcha" features like overdraft penalties and exorbitant credit features such as bank payday loans. Likewise, we argue that prepaid cards should meet this standard.

Prepaid cards should be affordable, safe, with useful features and with no penalties or credit.

How do customers use prepaid cards? The analysis of the prepaid debit card customer explains how card usage drives cost and informs policy.

The eight principles of reform explain a different aspect of how prepaid cards work and offer policy recommendations to further the reform principles.

- If you are an expert, try our prepaid math problems to see if you can cipher the costs of using a prepaid card on pages 29 to 31.
- If you failed the math quiz, we offer a model disclosure method that makes meaningful comparison of product costs possible on pages 32 to 34.
- If you are new to the subject of prepaid cards, we have provided a glossary of terms starting on pages 36 to 40.

Our hope is that this paper will further the understanding of prepaid cards so that regulatory reforms are supported broadly by advocates, consumers and industry. Prepaid cards hold potential to do good if a progressive regulatory reform is created now.

Peter Skillern, Executive Director, Reinvestment Partners

THERE ARE THREE QUESTIONS TO ASK WHEN EVALUATING A PREPAID CARD: IS IT AFFORDABLE? • IS IT FUNCTIONAL? • IS IT SAFE?

IS IT AFFORDABLE?

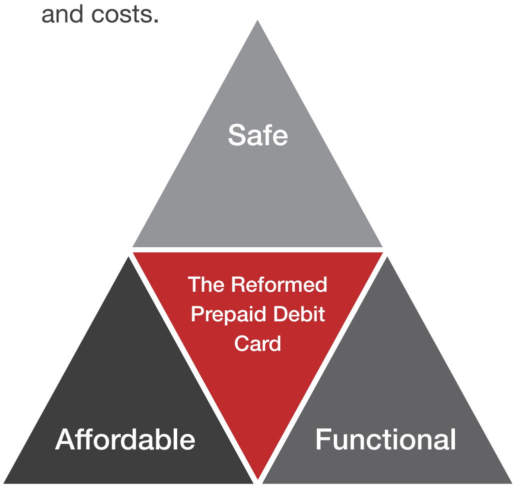
- The technology exists whereby it is possible for prepaid cards to cost less than regular bank accounts – but this is not always the case.
- Access to ATMs goes a long way toward determining how much it costs to use a prepaid card. Relative to their share of the unbanked and to their share of prepaid card holders, rural Americans are underserved.
- Consumers are moving to prepaid for a variety of reasons but a very common one is that basic checking has become too expensive for many low-wealth households. A survey of prepaid card holders found that overdraft-paying households made an average of 6.7 overdrafts in 2011.

IS IT FUNCTIONAL?

- Does it give consumers access to a wide network(s) of surcharge-free ATMs?
- Does it offer a savings account?
- Can consumers use a bill pay feature, access a free monthly statement, and transfer money between sub-accounts?
- Does it have potential to help consumers to bridge from the prepaid card to other beneficial financial products?

IS IT SAFE?

- Does it have a line of credit or an overdraft product?
- Disclosing costs is a three-part process: issuers should disclose not just the fees. They should draw from research to predict the frequency of use for each feature. They should factor those two inputs to predict a likely total cost.
- When fees from external partners are known – such as reload fees for partner networks – then disclosures should include those prices.
- Card marketers should provide live customer service to consumers without requiring that they "punch-in" their account number. This thwarts the ability of consumers to research card terms and costs.



UNDERSTANDING THE PERSPECTIVE OF THE PREPAID DEBIT CARD CUSTOMER

Prepaid cards are designed to serve low-to-middle income consumers, often within the unbanked and under-banked populations in this country. Not all prepaid card holders are unbanked and not all unbanked households use a prepaid debit card. Nonetheless, there is substantial cross-over among the two groups. Still, it makes sense to understand one in order to understand the other. People that have left or who have never entered a relationship with a bank in the first place are among the ones for whom the prepaid card can be of the most value. The following paragraphs present a short summary of both.

DEMOGRAPHICS OF THE UNBANKED AND UNDERBANKED:

The FDIC defines unbanked households as those without any kind of bank account, whereas under-banked households generally have either a checking or a savings account. Both groups are likely to utilize alternative financial services – check cashers, and money transmitters - to access the formal payments system. Some of the under-banked go to payday lenders.The FDIC's 2009 National Survey of the Unbanked said that 9 million American households (about 7.7 percent) had no bank account. Half of these households had never had a bank account (FDIC, 2009). The FDIC's 2009 survey of the unbanked reports:

- 21.7 percent of African-Americans, 19.3 percent of Latinos, and 15.6 percent of Native Americans were unbanked.
- Spanish was the only language spoken in 35.6 percent of unbanked households.
- 20 percent of households headed by single African-American females were unbanked. By contrast, less than 4 percent of married households were unbanked.
- Unbanked households are more likely to have an income below $30,000, to have less than a high school degree, and to be less than 45 years old. The likelihood that a household is unbanked is inversely correlated to age and educational achievement.
- The unbanked are located through the country, but the regions with the highest penetration are in the Southeastern United States and in rural areas. The regional disparity is partially a product of the comparatively higher share of African-Americans in the Southeast relative to the rest of the United States.

DEMOGRAPHICS OF PREPAID CARD USERS:

A research survey conducted in 2005 identified ten clusters of unbanked households. It linked those clusters to specific financial services. Of those, several were frequent users of prepaid cards

(Seidman, 2005). In their research, they identified three clusters of unbanked consumers that were drawn to general purpose reloadable ("GPR") cards.

YOUNG FAMILIES:

Young, lower-income families make up one core cluster of prepaid card users. These households tend to have at least a high school education and often they have pursued some post-secondary education. Most are African-American, with a median income of less than $25,000. The great majority of these families rent their home. They are likely to be interested in rebuilding their credit, buying insurance, paying down a student loan, and ultimately qualifying for a mortgage.

LATINO IMMIGRANTS:

Mostly born in Mexico, this group tends to avoid banks. Many have never had a bank account. Very few own their home. Indeed, only about 1 in 5 owns a car. Fewer than half have a high school degree. They trend young but they are very likely to have children. They are interested in building a nest egg. They use remittances and go to pawn shops for short- term credit. They are more likely to be paid in cash.

NEVER-BANKED:

This is a mainly African-American group born in the United States whose average income is less than $10,000. This group goes to check cashers, purchases money orders, buys furniture at rent-to-own stores, and sells items through pawn shops. They often rely on friends for financial advice. They prize the opportunity to buy life insurance (Market Research, 2007).

OTHER SIGNIFICANT CLUSTERS

RECIPIENTS OF GOVERNMENT BENEFITS:

The federal government is moving away from paying benefits through checks. All food stamp payments, for example, are now sent as electronic benefit transfers. These populations include senior citizens with Social Security payments (SSI), poor families with children (WIC, Medicaid and TANF), the disabled and others. These payments are often distributed through government cards rather than those operated by private corporations.

PREVIOUSLY BANKED:

Almost half of unbanked households previously had a bank account of some kind. Almost one in three closed their accounts either because they did not have enough money to justify one, or because they were unable to bear the cost of maintaining an account. Significantly, almost one in two of all previously banked households say that they would like to open a checking account at some time in the future. (FDIC, 2009)

WORKERS PAID IN CASH:

Construction workers, tipped employees, and those in the informal economy regularly earn wages paid in cash. Many use prepaid cards to migrate those funds into the payments system.

These groups do not constitute the entire spectrum of prepaid card users. Many people buy cards for short-term use. Thus, while Green Dot reports that it sells prepaid cards to a spectrum of consumers with incomes as high as $70,000 (Green Dot, 2011), the FDIC reports that only 4.2 percent and 1.5 percent of households with incomes between $30,000 and $50,000 and over $70,000, respectively, are unbanked (FDIC, 2009). A notable takeaway to the demographic evidence is that prepaid card users are more likely to come from groups which have historically been underserved by mainstream financial products. Prepaid cards may be filling a gap that was previously never met by banks and thrifts.

Cardholders use their cards in ways that are not similar to the habits of people with checking accounts. Prepaid cardholders open and close accounts more frequently than do holders of a checking account: It would be very unusual to open a checking account and hold it for less than a month, but the same is not true for a prepaid card. It turns out that where prepaid cards are purchased makes a big difference in how they are likely to be used. The Federal Reserve determined that the median life of a card purchased online ("web GPR") was three times greater than one purchased in a store ("retail GPR".) Payroll cards last even longer.

The table below shows that there are very divergent use patterns. Many people keep these cards for over a year, but more keep them for less than two months.

USE CHARACTERISTIC	RETAIL GPR	WEB GPR	PAYROLL
Made more than 50 purchases	11.5%	26.9%	32.8%
Made fewer than 6 purchases	54.5%	32.1%	32.9%
Loaded more than 8 times	18.2	30.2	44.2
Loaded more then 2 times	50.6	37.2	26.8
Median Purchase Volume - w/DD	3,033	4,404	1,634
" " - w/o DD	104	275	275
Median Load Volume - w/DD	$7.96	$8.81	$4.32
" " - w/o DD	$200	$425	$425
Percent of Transactions on DD	30.5%	53.6%	86.5%
Median Time Open	65 days	187 days	154 days

Source: Robert Hunt, et al. Federal Reserve Bank of Philadelphia (Hunt R. S., 2011)

Current Trends in Prepaid Cards are Driven by Changes in Basic Checking Accounts

In order to understand why so many people suddenly want to use a prepaid card as their primary means of banking, you must take into account the changes taking place at the local branch bank. More and more often, people are closing their checking accounts.

The share of households with checking declined four percentage points from 2010 to 2011. The share with a debit card fell 12 percentage points. The use of prepaid cards increased 2 percentage points in 2011. Today, 13 percent of US adults have a prepaid card. (Javelin Strategy, 2012)

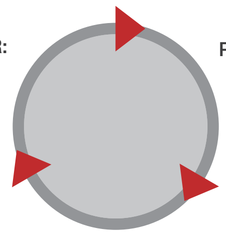
Banks are introducing new low-service accounts that mainly operate on an electronic platform. “Customers will have a choice,” said Bank of America Chief Accounting Officer Neil Cotty in a conversation with stock analysts, “of bringing more relationships to use or paying a maintenance fee. (Sidel, 2010)”

The customers that do retain to their regular checking account should expect to pay more for it in the future. A recent Wall Street Journal article suggested that banks record an expense of $250 and $450 per year per customer (Finkle, 2011). In the near term, their answer seems to be that they will pull in the reins on free checking. TCF eliminated “totally free checking” in January 2010 (Serres, 2010).

The differences in the level of service and the functional capacity is narrowing. Banks have begun to create a new class of ultralow service checking accounts. Many banks are creating e-accounts, which come without free paper statements and impose monthly maintenance charges to customers that do not use direct deposit. These accounts blur the line between a GPR card and a traditional bank account. Both move account holders out of the branch, apply fees for paper statements, and compel their holders to use direct deposit.

PRINCIPLE ONE
IT SHOULD NOT HAVE A LINE OF CREDIT OR AN OVERDRAFT FEATURE

Should a prepaid card come with a line of credit? This has emerged as a provocative question that divides the intentions of some prepaid card companies with the policy aims of most advocacy groups. Nearly as controversial is the issue of enabling overdraft on GPR. Banks often assert that overdraft is 'not a line of credit,' in order to qualify for exemptions under TILA, but this is a subterfuge. Realistically, both are credit. We believe that prepaid and credit do not mix.



Credit may not be for everyone. It is certainly inappropriate for low-income consumers. Too many households are entrenched in long- term poverty. Poor people remain poor, for a variety of reasons including: a lack of employment and a coincident lack of relationships with people who are employed (Wilson, 1987), fewer years of schooling, or fewer assets (Sherraden, 1991) Some poor people have a "lumpy" income. Far more live on fixed incomes or on flat earnings at a minimum-wage job.

Even within industry, some executives prefer not to offer credit. Steve Streit, CEO of Green Dot, says that his company's cards will never have a line of credit. He believes that offering credit would destroy his customer base. He rejects the idea that credit could serve to smooth out the income streams of card-holders.

CARD ISSUERS HAVE ALREADY DEVELOPED A LINE OF CREDIT FOR PREPAID.

Regulators smothered the first iteration of credit on prepaid cards. MetaBank, the Iowa thrift that issues prepaid cards and processes payments, created a cash advance product collateralized by a consumer's next direct deposit. It was known as the i- advance. In 2010, the OTS issued a directive which forced MetaBank to stop offering the i-advance. The cost of the credit was only one among several complaints. The directive censored MetaBank for its disclosures, which it said were unfair and deceptive. The OTS argued that MetaBank had no plan in place to educate consumers when they used the I-Advance product repeatedly, that MetaBank had failed to develop an adequate plan for complying with the Bank Secrecy Act, and that MetaBank did not have a valid internal audit program. The OTS concerns focused on the quality and transparency of how the credit was offered as much as on the presence of the credit itself.

LACKING A FINAL RULE, THE ISSUE HAS NOT BEEN RESOLVED.

The OTS cease-and-desist order against the MetaBank I-Advance program addresses this iteration of credit, but it does not settle the issue more broadly. Federal interchange rules effectively ban overdraft on prepaid cards issued by large banks. Treasury prevents overdraft on cards that receive government benefits payments. A final rule should be written to prohibit overdraft on small bank cards.

MetaBank lost the first battle over credit, but the war is not over.

On the regulatory level, the OTS has been subsumed by the OCC. The OCC has shown that it is open to high-cost credit on deposit accounts. It issued a proposed guidance in June 2011 to lay out a framework on "deposit-related credit products." (Office of the Comptroller of the Currency, 2011) Four national banks now offer short-term credit secured by a claim against a subsequent direct deposit. Each bears an APR of over 100 percent. If the OCC guidance on "bank payday" is a harbinger of how they will approach credit on GPR cards, then the future is not promising.

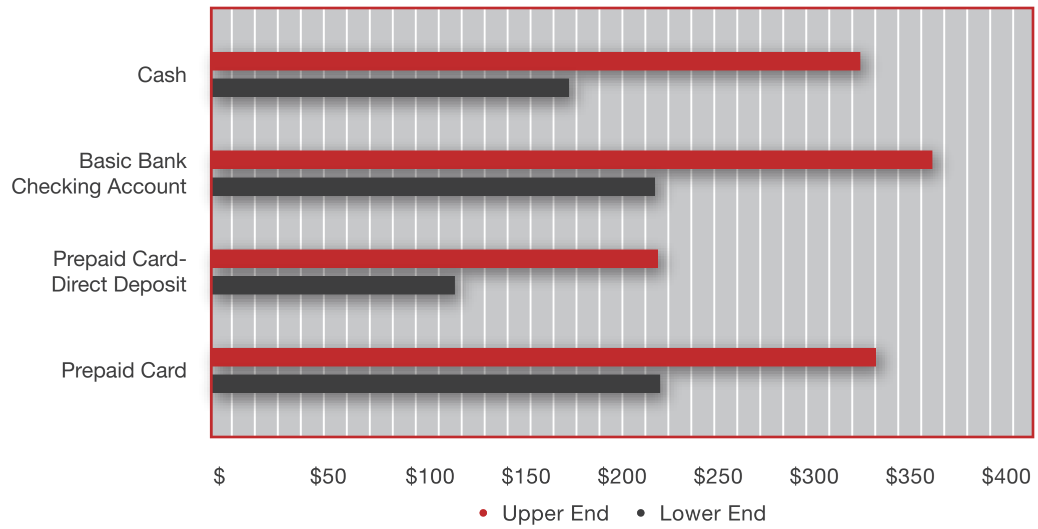
From the perspective of some GPR card companies, the opportunity remains intriguing. Some clearly want to revisit the question. Cash America, one of the nation's largest payday lenders, says that it wants to find a new partner through which it can offer a line of credit product for its GPR debit cards (Cash America, 2011). In March 2012, NetSpend CEO Dan Henry told the Senate Banking Committee that his firm could provide credit on their cards at a price below the standard costs for payday loans. We do not know the direction of the next innovation. What is clear is that there is a glaring need for regulatory guidance.

PRINCIPLE TWO:
IT SHOULD COST LESS THAN A BASIC CHECKING ACCOUNT

When people explain why they left a mainstream checking account, they cite fees more often than any other reason. Given how prepaid cards take advantage of technologies that lower operational costs, the cards should cost less to use than consumers would pay for a traditional checking account.

A general rule is that no fee should be charged when there is no corresponding benefit for a consumer. Thus, many fees are legitimate. Within those fees, though, it is also important that they be priced fairly. When one card can offer a full service plan with a monthly fee of $3.95 but another card provider charges $9.95, even with equivalent costs for transactions and services, then the latter is probably overstepping. The following chart shows the annual costs for four types of consumers: un-banked, checking account holders at a regular bank, GPR cardholders with a recurring direct-deposit enabled on their card, or GPR with direct deposit.

ACCOUNT COST ESTIMATES



Bretton Woods/NBPCA, 2010 NOTE: When Bretton Woods performed this analysis; the research design assumed that the target population for these cards would have six overdrafts per year. There are two things to take from the chart above:

Prepaid cards can cost less than a basic checking account. As this chart suggests, many people with prepaid cards are actually paying more to use their card than are other consumers with traditional basic checking. Increasingly, the price that people end up paying to have a basic checking account sets the bar fairly low. Bankrate.com says that the average monthly maintenance charge (which would exclude special costs for overdrafts and insufficient fund fees as well as any out-of-network ATM fees) for a non-interest bearing basic checking fee is $4.37 and more than $14 for an interest-bearing account (Wallack, 2012). If the likely costs entailed by several overdrafts over the course of the year are added to those basic fees, then the cost of prepaid becomes even more advantageous. The comparison is becoming better with time. In 2011, consumers with a prepaid card enabled with direct deposit experienced a cost savings of forty percent relative to a checking account (Flores, Analysis of Branded General Purpose Reloadable Prepaid Cards: A Comparative Cost Analysis of Prepaid Cards, Basic Checking Accounts and Check Cashing, 2012).

Prepaid accounts save people money when the card's annual costs fall below two hundred dollars. Bretton Woods says that a consumer with a financial profile that fits with prepaid cards would probably pay at least two hundred dollars (fees paid over the course of a year) for a checking account. This creates an important line in the sand for the price of using a prepaid card: until cards are safely below that point, choosing a prepaid card is probably not the best choice.

Any cost estimate that might be incorporated in to a disclosure is made more difficult by how the cards are used. Whereas many of the points of access for a basic checking account are fixed, things are more complicated for a prepaid card. People use them in different ways and for different purposes. This means that even “average” estimates of cost must report figures with broad ranges. An independent consultant estimated that regular users spend between ten and thirty dollars a month on card fees (Bretton Woods, 2009). How much they cost is a function of how they are used. Cardholders incur more fees when they break the unwritten rule for saving money with a prepaid card: you must sign up for direct deposit. Many cards drop monthly fees, and those direct deposits allow a person to avoid a load fee.

Eighty-three percent of GPR card holders said that having certainty over the cost of a transaction account is either very important or extremely important. Eighty percent said the same about the ability to avoid overdraft fees.

GPR cardholders think about cost differently that do other types of consumers. They appear to have a special apprehension for risk. Their hesitancy factors into how they perceive their experience with a checking account. Many previously banked consumers closed their checking accounts and opened a GPR card account because they were burned in the past by overdraft fees. It makes sense that unbanked households might approach a checking account with fear; overdraft fees punish low- income households. A study by the FDIC found that 93 percent of overdraft fees were paid by just fourteen percent of all consumers. In its most recent survey, Moebs Services found that when an account holder used overdrafts, they typically paid 6.7 overdraft fees in one year. While this was a drop from an average of 8.2 in 2010, Moebs noted that the average overdraft fee passed $30 for the first time ever (Yerak, 2012).

Formerly-banked households report that the most common reason for their decision to leave their bank was the cost (Seidman, 2005). A recent survey of two thousand low-income households in Los Angeles by the Pew Charitable Trust found that 32 percent left the banking system because of “hidden or unexpected fees” (Pew Charitable Trust, 2011).

Three factors largely determine how much it will cost to use a prepaid card. The first whether or not the consumer enrolls in direct deposit. Often an issuer will drop a monthly fee when an account has direct deposit. The second is how a consumer accesses ATMs. The third is driven by how a person puts money on to their card. If he or she pays for reloads, then costs go up dramatically.

The decision to enroll in direct deposit is very important. Using direct deposit allows card holders to skip the load process and re-locate their card activity through ATMs and the point-of-sale. These are lower-cost points of contact. Moreover, it is an encouraging sign that the card companies want their customers to use direct deposit.

> "Direct deposit customers tend to generate far greater lifetime revenue through longer retention and fees paid over the life of the card," reported Green Dot Chief Financial Officer John L. Keatley during a presentation to investors in 2011. "So while higher direct deposit penetration causes interchange revenue as a percent of GDV to decline, it is a big net positive to our business" (Green Dot, 2011).

Consumers signal that they will rely upon their GPR card as their primary access point to the payments system when they enroll the card with direct deposit. Such cards are used more frequently and the accounts are held open longer. The cluster of consumers with a direct-deposit enabled card loads almost $8,000 annually and keeps the card for about a year. (Federal Reserve Bank of Philadelphia, 2010) Green Dot says that about two in five of its cards have direct deposit, a share that represents a rapid increase over just one year ago (Green Dot, 2011). Green Dot is so interested in persuading consumers to enroll with direct deposit, in spite of the lowered interchange fees, that they currently pay $10 to anyone who enables his card to receive an automatic payment.

When consumers set up their cards with direct deposit, it creates a series of benefits: consumers commit to holding their cards for a longer time, they save money on fees, and they stabilize their finances.

Trends are reassuring. At NetSpend, where the overall count of cards is growing, the percentage of those cards enabled with direct deposit has increased 51.8 percent since 2009 (NetSpend, 2011). Dollars loaded by direct deposit surged 46 percent in 2011 and 38 percent in 2010 (Green Dot, 2012).

Without direct deposit, cardholders pay far more to put cash on their cards through reloads. The Network Branded Prepaid Card Association ("NBPCA") estimates that even light users ultimately buy more than one reload per month. Since cards often tie their users to a specific reload network, the cost of those reloads is a major factor in the overall price. Clarity about the reload networks that will work with a prepaid card matters because their prices vary: nFinanse charges $2.95 to load funds through its reload network – the lowest price in the marketplace. Western Union charges $4.95. With the exception of loads in Wal-Mart, Green Dot MoneyPak reloads cost $4.95, the ReLoadIt network by Blackhawk costs $3.95, and MoneyGram reloads incur charges between $3.95 and $4.95 depending upon location.

Part of the solution has to involve connecting employers, who generally prefer direct deposit because it saves them money, to the merits of the prepaid card. Only 19 percent of card holders report that their employer loads funds directly onto their card (Network Branded Prepaid Card Association and the Center For Financial Services Innovation, 2009).

Some fees seem to genuinely manipulate people. Charging a lost card fee that exceeds the cost of opening a new account is one such fee. Many consumers carry low balances on their cards. For those individuals, paying twenty to fifty dollars to recover their old card is irrational. It could cost less to open a new account instead. That is a problem, not only because a cardholder has probably lost some money, but also because he or she has to set up direct deposit again.

One of the nation's largest GPR program managers says that only 39 percent of its cardholders use direct deposit. Netspend 10-K, March, 2011

GPR cards can cost less than regular checking accounts, but they are not free. The challenge is to protect consumer value. We should ask "Can these cards can provide functional and adequate access to the payments system at a reasonable price?"

PRESCRIPTION FOR POLICY:
Replacement card fees should be less than the fee to open a new account with the same card.

PRESCRIPTION FOR POLICY:
Encourage more business owners to switch from paper checks to direct deposit on to prepaid cards for their employees that do not have a checking account.

PRESCRIPTION FOR POLICY:
Disclose the names and the costs of the reload networks that card holders will have available to them after they sign up for a GPR account.

PRESCRIPTION FOR POLICY:
A new approach to CRA exams for iso-issuers (banks that hold most or all of their deposits in prepaid cards) should provide rewards for banks that add to the size of the surcharge-free ATM networks.

PRINCIPLE THREE

IT SHOULD OFFER ALL THE FUNCTIONALITY OF A LOW-COST CHECKING ACCOUNT

If prepaid cards can offer the same services as a regular checking account, then there is no reason to look at them as second-class products. Today, a standard checking account usually comes with a set of ancillary benefits: access to free transactions at a network of ATMs, the opportunity to ask questions inside a branch, printed statements, and free online bill payment. Short of the ability to offer in-person service, any prepaid card should be constructed to match a bank service-for- service.

One survey estimated that an "average" prepaid card holder makes three ATM withdrawals, three bill payments, eight point-of- sale purchases, four balance inquiries, and two deposits over the course of a month. (Jun, 2009) Twenty times may seem like a lot of transactions, but for many people it is actually fewer than normal. Four balance inquiries stands out as a habit that exceeds norms for the use of basic checking accounts. According to the Federal Reserve, the primary use of the prepaid card is to purchase everyday products in retail stores: for groceries, restaurant meals, and gasoline (Federal Reserve Bank of Philadelphia, 2010). The Federal Reserve's rulemaking on how it grants exemptions on interchange caps effectively precludes large banks from offering bill pay, overdraft, or ACH transactions on prepaid cards. It may prevent consumers from being able to set up automatic transfers from their prepaid account to another account held at a bank in their name.

Unfortunately, excluding bill pay and ACH renders the cards less useful. Without both, a GPR card is not a competitive payment product. Thirty-nine percent of GPR account holders want to use the prepaid card to pay a recurring bill, such as the monthly fee for a cell phone or a cable television subscription (Network Branded Prepaid Card Association and the Center For Financial Services Innovation, 2009).

PRESCRIPTION FOR REFORM:
Continue to protect cardholders of large bank issued prepaid cards from overdraft. Eliminate overdraft from cards issued by small banks as well.

PRESCRIPTION FOR REFORM:
Restore Online Bill Pay and ACH capability to Large Issuer Prepaid Cards

PRESCRIPTION FOR REFORM:
Identify best practices from behavioral economics to incent consumers to save.

PRINCIPLE FOUR

IT SHOULD OFFER EXTENSIVE ACCESS TO SURCHARGE-FREE ATMS; IT REDUCES THE REAL COST OF USING ATMS

Access to surcharge-free ATMs is a critical factor in how much it ultimately costs to use a GPR card. ATM withdrawal fees represent slightly more than half of all the costs paid by GPR cardholders, including regular monthly maintenance fees (Federal Reserve Bank of Philadelphia, 2010).

The ATM matters more to a GPR cardholder than it does to a debit card customer. There are no checks, so GPR cardholders use ATMs more frequently. They use them more often to withdraw cash and also more frequently to check their balance. At the MoneyPass Network, an ATM network that serves prepaid and debit cardholders, GPR cardholders go to an ATM to check their balance forty percent more often than do their customers holding debit cards (Miraglia, 2012).

Reports vary on how many times a GPR cardholder visits an ATM per month, but findings from recent research place the range at between two (Flores, Comparative Analysis of Pay Cards to Other Payment Options, 2011) and three (Jun, 2009). This "average" user would pay somewhere in the range of $10 in ATM fees per month. Full-time cardholders use ATMs even more frequently. One industry executive estimated those cardholders may visit an ATM more than 6 times per month (Miraglia, 2012). Whereas card issuers and consumers both benefit from the use of direct deposit, their economic interests clash when it comes to expanding access to surcharge-free ATM networks. It is good for consumers, but no so good for the issuers. Card program managers like to charge for an ATM visit because they generate no interchange fees. They grant free withdrawals on PIN transactions at the point-of-sale because those transactions do provide interchange.

Right now, the card issuers are winning. Research shows that GPR cardholders only go in-network for one out of every five visits Flores, Comparative Analysis of Pay Cards to Other Payment Options, 2011). The conclusion to draw from the evidence is simple: something is not working. At least part of the problem must be barriers to access the in-network ATMs. One prepaid card executive suggested that signage is part of the problem.

Raw counts of ATMs operated by the major independent ATM networks would seem to say that service is widespread. The MoneyPass Network has approximately 22,000 surcharge-free ATMs (Miraglia, 2012). The AllPoint Network has about 35,000 (MoneyPass, 2011). (AllPoint, 2011). They represent just a fraction of all ATMs – there are over 425,000 right now – but their numbers exceed the count of ATMs offered by any of the individual "big banks."

One problem that should concern policy makers is the geographic dispersion of ATMs. The independent ATM networks over-locate in urban areas, but they are missing the boat in rural America. Research by the FDIC shows that under-banked and unbanked households are disproportionately concentrated in rural and urban areas (FDIC, 2009). We have a regulatory approach in place to encourage banks to put more branches in the inner city or in rural America, but not for GPR cardholders.

The rural unbanked are underserved by the independent surcharge-free ATM networks.

On their own, "iso-issuer" banks (banks with ATMs in only a small fraction of their service area – i.e. MetaBank, Bancorp Bank, Urban Trust Bank, or Green Dot Bank) are unlikely to pay to offer more ATMs in "underserved" areas. However, as the creators of demand for ATMs, the expansion of ATM networks is incumbent upon the banks. Banks pay to join these networks and they pay transaction fees when the cards are used by their cardholders. "Our philosophy is that [the location of] ATMs should follow the same as with a grocery store: you put them where there is enough population to make it work."

Issuers should be held accountable for expanding access to ATM networks. The way to address this problem is to put responsibility for resolving it upon iso-issuers. This approach brings GPR cards closer to meeting the goals expressed in two principles – reducing costs and adding functionality. Issuers enhance the functionality value of a card with each new network. At MoneyPass, issuers pay more when they add a network – through both an upfront membership cost as well as through a per- transaction compensation payment to the network. Thus, a low-cost card that offers a smaller ATM network is actually not a low- cost card. It would generate cost savings for card holders of any prepaid debit card if their bank issuers paid to join additional ATM networks. If regulators are wondering how the affirmative obligation placed on branch banks and thrifts under the Community Reinvestment Act could be adapted to "iso-issuers" of prepaid cards, then holding them to the expectation to enhance access to ATMs in underserved areas is a good place to start.

Until they do so, access will suffer. The nearest bank branch may easily be miles away – just as the nearest free AllPoint or MoneyPass ATM may be many miles away. The following table shows the counts of ATMs in a selected group of cities in North Carolina. It compares that availability with the two largest banks in the state, Wells Fargo and Bank of America.

	GEOGRAPHY		IN NETWORK GPR ATMS		BANK BRANCHES		
	CITY	COUNTY	MONEYPASS	ALLPOINT	# OF BRANCHES ALL BANKS	B OF A	WELLS
RURAL	Sparta	Sparta	0	0	6	0	0
	Wadesboro	Wadesboro	0	0	8	0	0
	Windsor	Windsor	0	0	7	0	1
	Yanceyville	Yanceyville	0	1	2	0	0
	Edenton	Edenton	0	2	5	0	0
	King	King	1	0	6	0	1
	Oxford	Oxford	1	2	10	0	0
URBAN	Durham	Durham	14	31	50	14	14
	Fayetteville	Fayetteville	29	15	51	29	5
	Raleigh	Raleigh	12	27	134	12	24
	Charlotte	Charlotte	37	75 +	198	37	44
	Greensboro	Greensboro	19	18	98	19	17
	Chapel Hill	Chapel Hill	4	11	33	4	7
	Asheville	Asheville	5	15	89	5	8

Source: FDIC Summary of Deposits(June 30, 2011), MoneyPass, AllPoint, and the NC Rural Center.

Each of the communities classified under the rural section are the largest within the county. Most are county seats. With the exception of Chapel Hill, the urban communities are also county seats.

This table evidences the gaps for rural Americans to surcharge-free prepaid card ATMs. First, AllPoint and MoneyPass are focusing on urban areas. Second, the shortage of prepaid ATMs in rural areas is worse than the much publicized shortage of branch banks in rural areas. Third, the alternatives posed by rural bank branches depend upon small banks, since the main providers of ATMs in those areas are not large banks but rather the smaller local banks. The last point suggests that the FDIC, as the most common regulator of smaller banks, has an outsized role in acting to address ATM access.

PRESCRIPTION FOR REFORM:

Re-Frame CRA for Iso-Issuers of Prepaid Cards, Incent CRA-Obligated Card Issuers to Enhance ATM networks. Card issuers should be encouraged – either with a “carrot” or with a “stick” – to offer access to surcharge-free ATM networks.

PRESCRIPTION FOR REFORM:

Re-Frame CRA for Iso-Issuers of Prepaid Cards, Incentive CRA-Obligated Card Issuers to Enhance ATM networks. Card issuers should be encouraged – either with a "carrot" or with a "stick" – to offer access to surcharge-free ATM networks. MoneyPass and AllPoint are two national surcharge-free networks.

- First, issuers should receive credit when they join a new network.
- Second, they should receive credit when they can show that cardholders are increasing the share of ATM visits that they make on surcharge-free networks.

PRESCRIPTION FOR REFORM:

When designing a means for estimating the cost of using a prepaid card, policy makers should give more weight to the cost of using an ATM. GPR cardholders will visit an ATM more often than will a person that uses a debit card. There is also a different mix of uses. Balance inquiries make up thirty-five percent of ATM visits (Miraglia, 2012).

PRESCRIPTION FOR REFORM:

The Federal Reserve should bring the big banks back into the prepaid fold by rewriting the exemptions for Durbin. Large banks offer a unique opportunity, given their widespread ATM networks, to help unbanked people save money.

PRESCRIPTION FOR REFORM:

The FDIC and other regulators of smaller banks should create their own minimum free ATM standard. It should give card holders at least one free ATM visit per month.

PRINCIPLE FIVE

IT SHOULD OFFER THE FULL SUITE OF CONSUMER PROTECTIONS FOR DEPOSIT ACCOUNTS

The GPR card should be enhanced with the full suite of consumer protections that are given to other payment products.

FDIC Insurance:

In practice, most people using a GPR card are given the benefit of deposit insurance. But, organizing deposits into pass-through accounts, the regulatory requirement outlined for FDIC-insured institutions, is not an industry practice. The 2008 rule says that if funds can be withdrawn through a traditional banking instrument and if the account is held in the depositor's name, then it will be insured in a manner similar to a deposit in a checking or savings account.

Under EFTA, a cardholder's liability against theft or loss is limited to $50 if they notify the issuer within 48 hours of its discovery. After that period, liability is still capped at $500. Under TILA, consumers are protected in the case of a dispute with a merchant.

Regulators need to act quickly to address the issue of FDIC insurance. There has never been an instance of insolvency at a bank that issues prepaid cards. Such an event would trigger unprecedented problems. It could be very difficult to determine the location of many consumers. Many GPR cardholders are transient, with frequently changing addresses and telephone numbers. Some of the larger groups of card users have a skeptical notion of the government. Illegal immigrants and seniors are often suspicious of calls from government agencies. The same is probably true for people who receive calls from debt collection agencies. The last problem is a product of the fragmented set of corporate relationships in play in the issuance and marketing of most GPR cards. While the FDIC would interact with card issuers, many of the necessary records for locating customers would be held at non-bank financial institutions.

Fraud Protection:

Equally significant is the need to close the gap in protection from fraud. Consumers need to be fully protected by law from unauthorized use of their cards, from problems arising from the loss of those cards, and from errors on their statements. Debit cards and credit cards offer protection for consumers against fraudulent charges. The protections are much more limited for holders of prepaid cards. The VISA and MasterCard networks provide their cardholders with zero liability and fraud protection, but this service is not required by law. Account monitoring is a key element of VISA and MasterCard fraud protection, but it is not clear how or by whom it is done for a prepaid card.

PRESCRIPTION FOR REFORM:
Mandate full FDIC or NCUA insurance for GPR card accounts.

PRESCRIPTION FOR REFORM:
Establish fraud and redress protections that are equivalent to those afforded for credit and debit cards.

PRINCIPLE SIX

IT SHOULD COME WITH A STANDARDIZED SET OF TRANSPARENT AND SIMPLE DISCLOSURES

The GPR card needs to come with better disclosures. If you spend time shopping for a prepaid card, you quickly come to realize the difficulty of the task. Even though consumers are trying to find a low-cost way to manage payments, there is really no way to comparison shop for a prepaid debit card. -- there is really no way to comparison shop. There is no standard for how disclosures are made or for how they arecomposed.

Disclosure Agreements Rarely Reflect the Full Cost of Using a Card. Too often the problem is a product of omission. Card disclosure agreements sometimes express costs in terms of the fees that a consumer will pay to the issuer and the MSP, but not the fees that the consumer will pay to other entities. For example, many cards fail to indicate if there is a fee for either a PIN transaction or a signature transaction.

Under the Federal Trade Commission Act, an advertisement is deceptive if it contains a representation that is incorrect or if it omits information that would be likely to mislead consumers who were acting reasonably to understand the product.

The lack of disclosure confounds one of the prime reasons that consumers use GPR cards. Most users say that they value cost certainty. However, these cards make it very difficult to gauge the likely costs because of the paucity of disclosures.

Currently, most cards come with disclosures. Often there is one set of prices listed for the most common uses. These include point-of-sale transactions, balance inquiries, ATM withdrawals, and periodic fees. Most cards have two fees to replace a card – one for the replacement and an additional one for an expedited return. However, the length of time it takes for a regular replacement versus an expedited return is not specified, making a decision difficult for the consumer. Many cards are silent on the cost of a paper statement. Disclosures for the cost of ATM decline fees, balance inquiry fees and out-of-network ATM withdrawal fees are generally available, but are not uniform.

Another important question for disclosure surrounds the answers given by customer service over the phone or through chat messaging. In my experience, there are two significant problems with how consumers can get information about a card prior to purchase. The first problem is one of access.

There is no way to reach customer service and ask for a verbal explanation about a card service prior to opening an account. Secondly, customer service representatives often fail to give the correct answer. In my experience, many CSRs lack training. CSRs should know:

- The name of the bank that issues the card.
- The reload networks that will work with the card.
- All fees and functionalities.

Interest Rates and Interest Charges	
Annual Percentage Rate (APR) for Purchases and Cash Advances	**12.99%** Fixed Rate
Penalty APR and When it Applies	None
How to Avoid Paying Interest on Purchases	No grace period is provided.
Minimum Interest Charge	If you are charged interest, the charge will be no less than $.50.
For Credit Card Tips from the Federal Reserve Board	To learn more about factors to consider when applying for or using a credit card, visit the website of the Federal Reserve Board at **http://www.federalreserve.gov/creditcard**.

Fees	
Set-up and Maintenance Fees	Notice: Some fees will be assessed before you begin using your card and will reduce your initial available credit. For example, if you are assigned the minimum credit limit of $200, your initial available credit will be $150 (or about $110 if you choose to have an optional benefit, such as Applied Advantage).
• Annual Fee	$50 (first year only)
• Monthly Maintenance Fee	Beginning in the second year, $9.95 per month ($119.40 annually)
• Account Set-up Fee	None
• Additional Card Fee	$30
Transaction Fees	
• Balance Transfer	N/A
• Cash Advance	Either $5 or 5% of the amount of each cash advance, whichever is greater.
• Foreign Transaction	3% of each transaction in U.S. dollars.
Penalty Fees	
• Late Payment	Up to $35
• Overlimit Fee	Up to $35
• Returned Payment	Up to $35
• Dishonored Check Fee	Up to $35

The Schumer Box is used to disclose fees and conditions for credit cards. It is not an appropriate model for a prepaid disclosure box

The Schumer Box describes credit cards. Unless a consumer violates some portion of the agreement, there are no conditional fees with credit cards. There are never per-transaction fees. There are no third-party partners, no reloads, and the use of an ATM is rare." Unfortunately, the model prepaid disclosure must be more

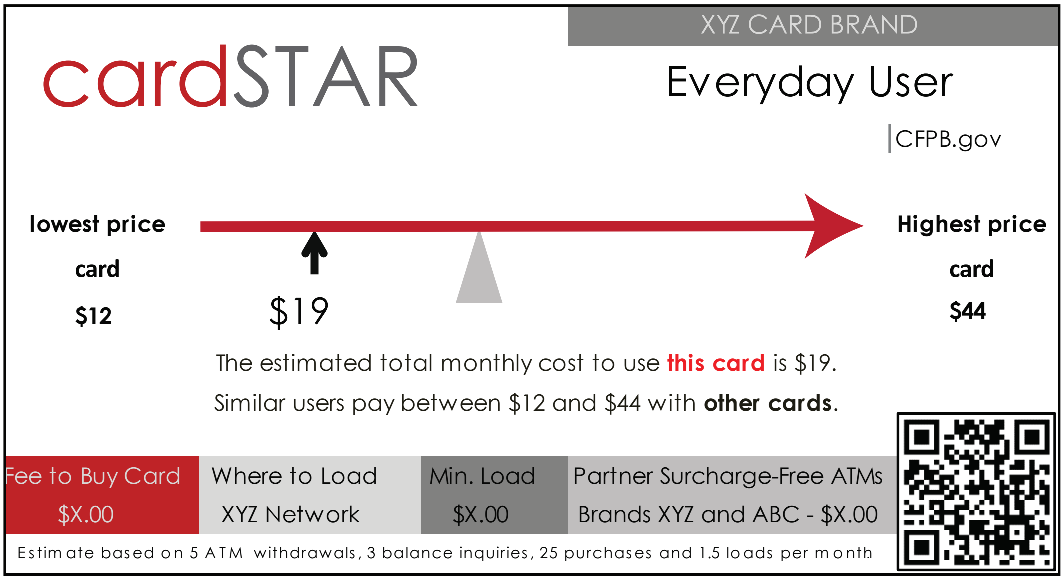
In the past, ISOs and MSPs have operated with limited scrutiny from regulators. In the future, their status as non-bank financial institutions means that they will be closely watched by the Consumer Financial Protection Bureau. The CFPB has still not determined how it will establish its large-participant definition for this industry, but it stands to reason that any definition will bring the larger players (NetSpend, Green Dot, Emerald, RushCard, and Account Now) under their purview.

Many advocates are calling for policy makers to develop some iteration of a cost disclosure form for prepaid cards. Usually,

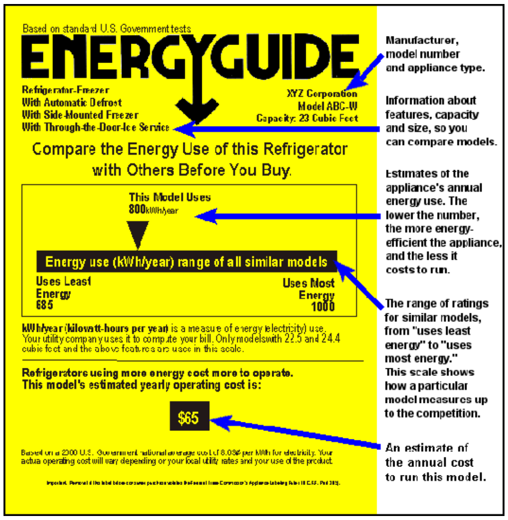
the idea is linked to a model similar to a Schumer Box. Consumer use of prepaid cards is more complex than their use of credit cards. A better model is the one developed by the Environmental Protection Agency to help people estimate the cost savings associated with home heating and cooling products. The EPA standard is a better disclosure model for prepaid because:

- Establishes costs for inputs. Allows for multiple cost factors (energy cost, appliance efficiency).
- Estimates likely levels of usage according to an average consumer demand (house size, duct leakage, family size, bedroom size).
- Translates those costs and use factors to dollars, but expresses those costs in the context of the range of brands in that market segment.

The EPA inputs include not just the appliance, but also the environment where it is used: regional location of home (North and South), size of home, and duct leakage. As well, the EPA regularly updates its cost predictions to account for changes in energy costs.



The EPA's final estimate also recognizes the value of expressing its estimate in the shape of comparison. The Agency provides a range of costs as well as a relative estimate of the efficiency of that unit compared to other units in the same energy category.



The EPA Energy Guide disclosure. The disclosure is applied directly to the surface of new household appliances.

The EPA standard still must be adapted to fit the specifics of the prepaid card. The prepaid card audience demographic is clustered by four user groups, for instance.

example: new EPA mileage efficiency disclosure.

PRESCRIPTION FOR REFORM:

Require card managers to answer questions from potential customers over the phone.

PRESCRIPTION FOR REFORM:

Establish a uniform disclosure form which accommodates sensitivity to a variety of levels of usage.

A QR box on a j-hook prepaid card package sold in a retail store will allow smart phone users to access more disclosure information at the point-of-sale.

PRINCIPLE SEVEN

THE CARD SHOULD BE AN ON-RAMP TO THE REST OF THE BANKING SYSTEM

Prepaid debit cards should be one means for people to graduate to the use of full checking accounts, as well as to other financial products such as insurance or savings accounts. We believe that these cards can be the first step toward accessing a variety of financial products.

Typical prepaid consumers may be many steps away from a mortgage or a small business loan, but they are still likely to have a need for more than one financial product. The ideal card serves as a conduit to multiple of financial needs. When the cards themselves have direct linkages to some of those services it is all the better. With each additional service, unbanked household make more transactions through banks and not through providers of alternative financial services providers.

Almost one in two previously banked households would like to open a checking account in the future.

Interest-on-savings is a plus, but given the likely sums to be placed in these accounts, a better bar for defining a "good" account is one without fees. Green Dot CEO Steve Streit says average annual savings account balance on a Green Dot savings account is just $78.

Savings accounts "are an aspirational product," he says. Research sponsored by the NBPCA says that the average balance in an actively-used card spend account is often less than $200 (Flores, 2011).

In order to be attractive to low-wealth households, they need to provide some incentive to convince cardholders that they are worth opening and maintaining. Unfortunately, some savings accounts do not achieve that standard. Some have charged fees to transfer money between "savings" and "spend." In 2010, the New York Attorney General's Office forced H&R Block to repay approximately $20 million to their Express IRA. The accounts included hidden fees that wiped out the entire gain earned on interest payments by 85 percent of their customers (Stempel, 2010). These penalties convince unbanked households to give up on saving money. A good savings account is not expensive and it does not make false promises.

The cards should establish a pathway for cardholders to buy insurance: Many un-banked and under-banked households are still going to need car insurance, life insurance, or renter's insurance. These are products that can provide financial security against an emergency. The Mango Card, issued by Inter National Bank, sells renter's insurance. Given their broader set of products, GPR cards issued by the big banks should enjoy a comparative advantage. For some unbanked clusters, their first financial goal is to buy life insurance (Seidman, 2005).

The cards should seek to enhance the financial literacy of their card holders. Websites and text messaging are both ideal platforms for communicating with card holders. One national prepaid card has built a financial literacy blog on to their website. The prepaid platform is one of the most important places for communicating about the subject, as the cards serve so many people that are otherwise disconnected from the banking system.

During our surveys, prepaid card users told us one of the features they valued most about their prepaid cards were the text message services. They set up their accounts to deliver regular balance updates, to record when their deposits cleared their accounts, and to know when the other account holders on their card were making purchases.

The ideal card facilitates the development of a financial identity. To the extent possible, consumers should be able to carry their card history from one account to another. The average life of a prepaid account with direct deposit is only 385 days (Federal Reserve Bank of Philadelphia, 2010). This is far shorter than the lifespan of a checking account. If an account is closed or a card is lost, then the ability to demonstrate a history of payments is jeopardized. It is not hard to imagine that a consumer could hold an Emerald Card in 2008, an AccountNow Card in 2009, a Green Dot card in 2010, and a Rush Card in 2011. Finding a way to link those account histories would bring a benefit to these users.

PRESCRIPTION FOR REFORM:
Record the Use of Cards by a Unique Customer ID: Policy makers should find a way to develop a universal database with a unique ID for each consumer. The system would link card usage across different issuers and across different accounts. The result is a portable history.

PRESCRIPTION FOR REFORM:
Structure cards to encourage savings accounts. Shield the accounts from minimum balance fees and from fees to transfer funds between card sub-accounts.

PRESCRIPTION FOR REFORM:
Through the mechanism of the Community Reinvestment Act, incent card issuers to create robust financial literacy programming on their card web sites.

PRINCIPLE EIGHT

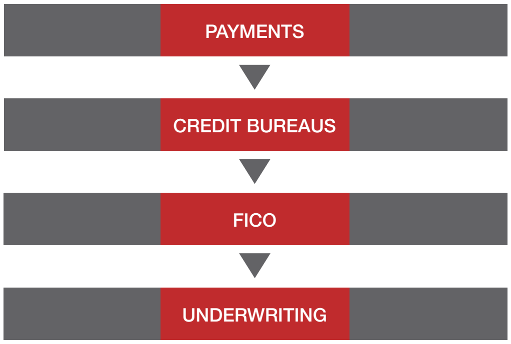
IT SHOULD OFFER THE CHOICE TO USE AN EFFECTIVE CREDIT BUILDER

Our intention is not to pave the way for credit on prepaid. Prepaid should be a safe harbor from credit, from overdraft, and from NSF. But there is still merit in improving credit - it can help to qualify for a job or alleviate a 'thin-file.'

First, it should report to a major credit bureau. Second, the data should never be resold to a third-party. Still, its a mistake to advance a less-than-optimal substitute. Until the credit builder can be perfected, it should remain out of the marketplace.

However, the same is not true when you pay a utility bill, cable bill, or the rent. Some people do not record the kinds of transactions that contribute to a credit score. Low-income families have fewer bills and they are much less likely to have revolving lines of credit. In the instances when they do use a credit product that reports to the bureaus, it is likely to be a very costly loan. Buy-Here-Pay-Here car lenders and rent-to-own furniture stores are two examples of high-cost credit sources that will report to the bureaus. The secured credit card still represents an offer of credit, and in many instances, secured cards have high fees. A prepaid card with a credit builder is a far better product than the alternatives. It can improve credit without requiring that a consumer take out a high-cost loan.

The credit builder is yet to be perfected. In the graphic on the left, payment records are reported to the credit bureaus. In a previous iteration of the credit builder, payments were reported to FICO. Since the additional “shoe box” data came separately from information sought by FICO for their score, they were unable to incorporate it into their standard credit report. The lender was given a report with credit score data as well as shoebox records.



This is a major procedural problem that must be addressed in order to provide the grounds for unbanked consumers to return to the mainstream banking platform. A better solution will solve two problems: the cost to lenders and the fit within the FICO score. When a credit score is separate from the “shoe box data,” analysis is difficult:

CREDIT	CUSTOMER 'A' PAYMENT HISTORY			CUSTOMER 'B' PAYMENT HISTORY		
	ACCOUNT HISTORY (MONTHS)	ON TIME	MISSED	ACCOUNT HISTORY (MONTHS)	ON TIME	MISSED
FICO	665			635		
Rent	12	12	0	18	17	1
Cable	26	25	1	98	97	1
Utility	22	22	0	55	54	1
Child Support	34	34	1	NEVER MARRIED		
Cell	NO ACCOUNT			14	34	34

Which customer is more trustworthy? Customer A has missed fewer payments. Customer B has more missed payments, but has a much longer credit history. Customer B has brought more documentation to the lender. There also may be some doubt about the missing data. Can a lender trust that Customer A never had a cell phone? The additional data confuses underwriters. The result is a second-best situation where lenders accept additional payment records (as required by ECOA), but then ignore that information in their underwriting.

Even though a fair share of unbanked households should not have credit, they still need a good credit score. Life insurance, renter's insurance and auto insurance all set pricing based upon credit scores. In 2007, each of the 15 largest car insurance companies used credit-based insurance scores in order to set pricing (Federal Trade Commission, 2007). One of every six employers (Pilon, 2009), particularly those that hire for jobs like cashiers, office maids, child care workers, and salespersons, uses a credit score to evaluate a job application. Some government-subsidized low-income housing tax credit developments, run credit checks to qualify potential applicants for their rental apartments. The need for a score filters down to buying basic necessities; to get a cell phone plan, consumers must submit to a credit check. People with lower credit are also more likely to need to put down a deposit for utilities

PRESCRIPTION FOR REFORM:

Consumers must first grant their permission before a credit building organization can disclose private information to a third-party.

PRESCRIPTION FOR REFORM:

No automatic credit builder purchases.

PRESCRIPTION FOR REFORM:

Credit builders should be required to report data to credit bureaus.

CONCLUSION:
A PRODUCT WITH AN UNCHARTED REGULATORY FRAMEWORK

The prepaid debit card should be affordable, functional, and safe. To get there, policy makers need to first gain a better understanding of the product. To this end, 8 Principles for the Reformed Prepaid Debit Card seeks to clarify the assumptions that policy makers bring to this discussion. Consumers are telling policy makers that they are ready to re-examine how they want to pay their bills. Changes in payment processing technology, a long-term re-orientation toward digital transactions, and a sea change in pricing for basic checking are propelling low wealth households out of the traditional banking system and toward prepaid debit cards.

Are policy makers ready to respond? In spite of those signals, the regulatory environment surrounding these cards is still being divined. It is not just that policy makers disagree about how to solve the problems that they are confronted with by the prepaid card. It is that they cannot even agree on what assumptions should undergird their response to the new cards. As often as someone sees the cards as a product that takes advantage of new technology to lower costs, others have labeled them as "second-tier bank accounts." The lack of consensus is less true about the required protections, but there is more division about evaluating functionality and how they contribute to cost.

The design of a disclosure box is probably the next step in the regulatory supervision of these cards. There are other pressing matters on the near-term agenda - extending Regulation E protections and requiring FDIC pass-through insurance on all cards deserve immediate attention - but better disclosures are not just important but also fairly urgent. If successful, a better disclosure box will put downward pressure on fees. It will not set prices, but it will help people to make better choices.

Most people start with the same set of questions: How much do they cost to use? Why would someone find a prepaid card preferable to a bank account? Others need to grasp the basic mechanics: Do they come with checks? How do you put money onto one of these devices? What happens if you overdraft your account?

The same knowledge has to be in place before a policy maker can understand the motives that compel people to buy a prepaid card, rather than use a traditional bank account. Those questions are often qualified by a concern that work to enhance the prepaid debit card may undermine broader efforts to hold mainstream banks accountable for serving low-income and minority populations. We believe that both are important. Prepaid debit cards are a basic deposit services product, just like the checking accounts available at the local branch bank.

We want to hold prepaid cards to the same standards that currently govern expectations for basic checking accounts.

They should be a product that delivers access to the financial system in a package that is safe, affordable, and functional.

PREPAID CARD QUIZ

QUESTION ONE:

Compare the prices for regular ongoing use of the card. These costs are important for the consumers that use a prepaid card as their main mode of making payments.

The question is straightforward: DETERMINE THE CARD THAT BEST FITS YOUR NEEDS. If you like, you may imagine that you are in a convenience store, a Wal-Mart, or a drug store.

Table One: Fees for various popular prepaid cards.

CARD	MONTHLY	WAIVER	PIN FEE	SIG	FREE ATMS	IN-NET-WORK	OUT-OF-NET-WORK	BALANCE INQ. **
Rush Card Monthly	$9.95	No	$1	$-	2	$2.50	$2.50	$0.50
NetSpend Pay-Go	$ -	N/A	$2	$ 1.00	-	$2.50	$2.50	$0.50
Wal-Mart Money	$3	$1,000	$0	$0	-	$2.00	$2.00	$1.00
Mango Card	$5	$500	$0	$0	-	$2.00	$2.00	$0.50
Green Dot	$4.95	$1,000	$0	$0	-	$0	$2.50	$0
BB&T	$10	$5/$500	$0	$0	∞	$0	$2.50	$0**
mPower Prepaid	$6.95	$1	$1	$0	-	$2.00	$2.00	$0.75
Upside Prepaid	$4.95	$500	$0	$0	-	$1.95	$1.95	$0.99
Vision Premier w/DD	$7.95	$No	$0	$0	-	$2.50	$2.50	$0
ACE Cash Elite FeeAdvantage	$9.95	No	$0	$0	-	$2.50	$2.50	$0.50
AccountNow Gold	$9.95	$2,500	$0	$0	-	$2.50	$2.50	$1.00
Approved Card	$3	No	$0	$0	-	$2.50	$2.50	$1.00

**At a BB&T ATM **in-network*

If you have trouble making a choice, then you have come to the point of the questions. It is very difficult to comparison shop for the best deal with no sensitivity to patterns of use nor with an integration of the discounts made available for some behaviors (frequent use, direct deposit, high deposit volume) - is essentially the makeup of the standard disclosure box recently proposed by a leading policy group working in the prepaid field.

QUESTION TWO:

Question Two is going to be easier, because I am going to give discrete estimates for how you are likely to use your prepaid card. There are four categorical levels of usage. Now, DETERMINE WHICH CARD IS BEST FOR YOU.

Table Two: Expected levels of usage for different customer groups.

CARD USES		USE STYLES			
CATERGORY	SERVICE	LIGHT USER	MEDIUM USER	HEAVY USER	AVERAGE*
Payments	PIN	1.14	4.18	17.36	4.8
	Signature	1.86	6.82	14.41	3.2
	Bill Pay	0	1	3	2
	Loads	1.24	1.37	1.41	1.25
Cash Access	ATM Cash Withdrawsls	0.5	1.25	5	2.85
	ATM Declines	0	0.25	0.5	0.25
	Balance Inquires	0.48	1.51	3.38	1.06
Communication	Customer Service: AVR	0.2	0.4	4	0.5
	Customer Service: Live	0	0.4	0.75	0.5

Answer: Knowing how you might use the card helps to predict the ultimate costs of the card. However, the math is still complicated.

QUESTION THREE:

Now that you have read a series of fee schedules, see how well you can remember them by name. The answer is in the last column at the right. Cover up the shaded column and then check your answers. How many matches can you make?

Table Three: Cards and Card Monthly Fee Pricing.

	MONTHLY FEE		TRANSACTION COSTS		ATM WITHDRAWAL		YOUR GUESS	ANSWER
	STANDARD	FREE WITH DIRECT DEPOSIT OF:	PIN	SIGNATURE	IN	OUT		
Card A	$3.00	$1,000	$ -	$ -	$2.00	$2.00		Wal-Mart Money
Card B	$10.00	$5 with $500 in DD	$ -	$ -	$ -	$2.50		BB&T Money
Card C	$9.95	No Waiver	$1.00	$ -	$2.50/2 free	$2.50/2 free		Rush Card Monthly
Card D	Free	Free	$1.00	$1.00	$1.95	$1.95		Rush Card Pay-As-You-Go
Card E	$5.00	$500			$2.00	$2.00		Mango Card
Card F	$6.95	$1	$1.00	$ -	$2.00	$2.00		Mpower VISA
Card G	$5.95	$1000, 30 transactions	$ -	$ -	$ -	$2.50		Green Dot(Not Wal-Mart)
Card H	$9.95	$2,500	$ -	$ -	$2.50	$2.50		AccountNow Gold
Card I	Free	Free	$2.00	$1.00	$2.50	$2.50		NetSpend Pay-As-You_Go
Card J	$9.95	No Waiver	$ -	$ -	$2.50	$2.50		NetSpend Fee Advantage
Card K	$9.95	$5 with D/D	$ -	$ -	$2.50	$2.50		Ace Elite Fee Advantage
Card L	$3.00	No Waiver	$ -	$ -	$1.00*	$2.50		Suze Orman Approved
Card M	$9.95	$7.95 with D/D	$ -	$ -	$2.50	$2.50		Vision Premier Visa

Which card is the best deal for someone who thinks he or she will use the card as his/her main banking instrument? Which one is the best deal for a person who will use it very infrequently?

▶ **Answer:** There is no right answer. However, the Wal-Mart Card and the Suze Orman Approved Card might be among the better deals for a regular user, whereas one of the pay-as-you-go cards might be a better choice for an infrequent user. The Mango Card might be the best choice for a user that wants to be able to buy renter's insurance or make a low-cost mutual fund investment.

QUESTION FIVE:

American Express recently issued a prepaid card. The New York Times described the card as "low on fees." CBS News said "this is a pretty impressive card." Yet there are a few problems with the card. Can you say why the popular media may be mistaken about this card?

▶ **Answer:**

a) Funds on the card are not FDIC-insured. The funds are not kept in a bank.

b) Since Amex runs transactions on its prepaid debit card as credit, consumers cannot withdraw cash at the point-of-purchase. With other cards, taking money out at the point of sale is the best way to avoid an ATM withdrawal fee. The claim that there is only one fee with the card is misleading. Moreover, Amex offers one of the smallest free ATM networks of any prepaid card. Consumers will pay out-of-network ATM fees for every ATM transaction and load fees for Green Dot MoneyPaks.

QUESTION SIX:

As of 2010, how many credit card accounts were open in the United States? What was the average credit card debt per household (Federal Reserve Bank of Boston, 2010)?

a) 110 million / $4,100 in debt per household.

b) 610 million / $15,800 in debt per household.

a) 240 million / $15,800 in debt per household

b) 610 million / $4,100 in debt per household.

▶ **Answer:** B

CARD STAR: MODEL DISCLOSURE FORM

If policy makers accept that card disclosures should incorporate sensitivity to the wide variety in usage levels, then the next question concerns how the CFPB should require card marketers to disclose those costs. The cost estimates pivot on a number of complicated calculations. The spreadsheet is based on three steps:

a) A full list of the specific fees associated with using the card.
b) A matrix of the expected number of uses by consumers of each different card service. The matrix includes four different cardholder usage profiles: infrequent user, average user, heavy user without direct deposit, and heavy user with direct deposit.
c) A mathematical product. The equation multiplies the number of uses by the fees for those uses. It is sensitive to cost structures that have "if-then" scenarios. structures that have "if-then" scenarios. For example, if a card user gets one free in-network ATM visit per month, then the product should be given as (times of use – free uses) * (cost per use).

The upper half of the next table prints the first and third steps. It hides the number of expected uses. This is for the sake of simplicity. Even so, the table remains very complicated.

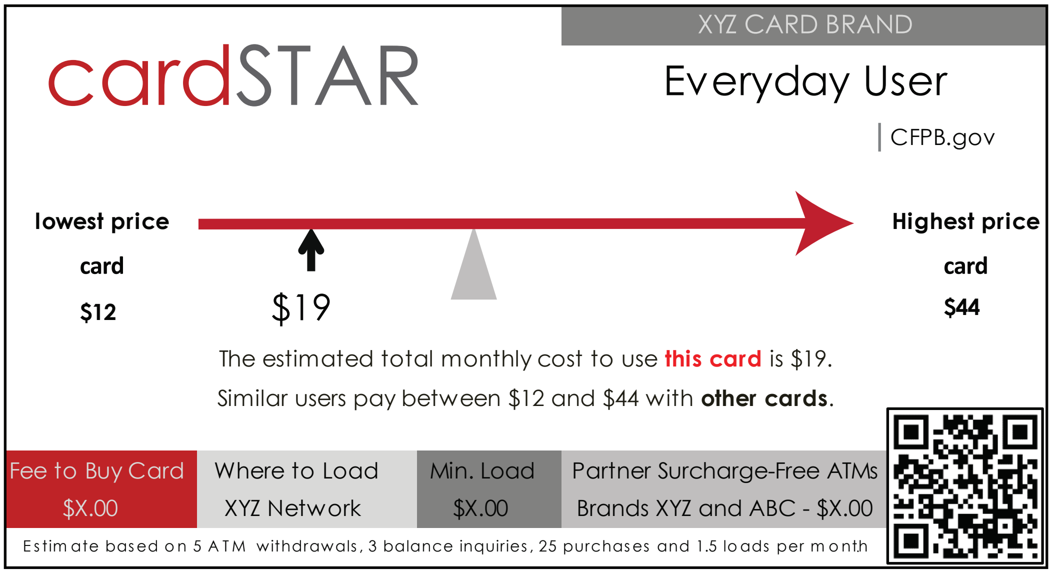
The lower part of the table focuses on the array of functions offered by the card. The table should have a list of possible services that would be uniform across all card disclosures, regardless of their actual capacity. In this system, cards that lack a specific function – bill pay, ACH, overdraft (as they should) – would have a "NO" in that cell.

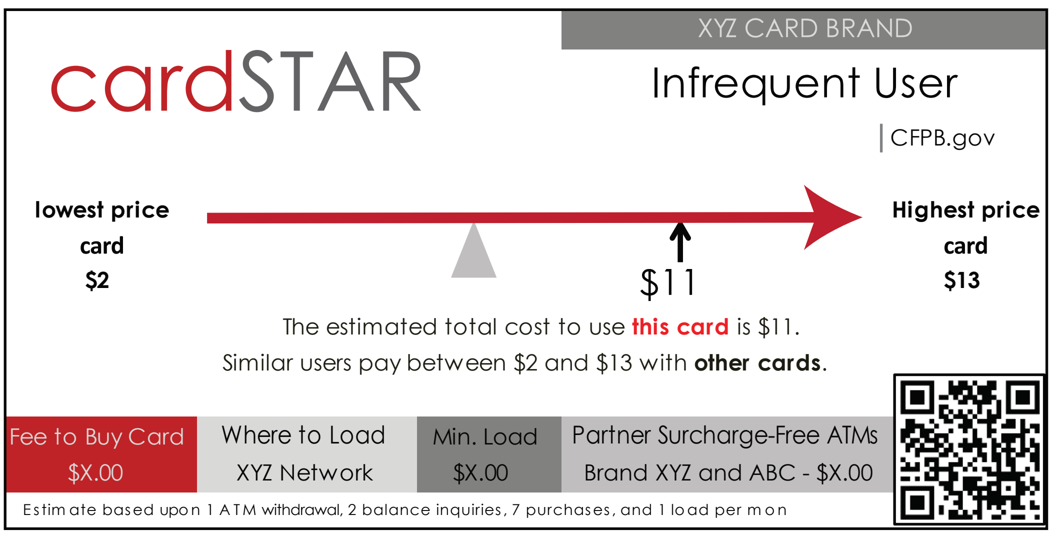
The QR Code takes the consumer to this disclosure form.

When a consumer uses their smart phone to scan the QR code, the subsequent link will take them to the following disclosure box. This box describes a card's costs, functional capabilities, and safety features in more detail.

<table>
<tr><th colspan="6">CARD STAR</th></tr>
<tr><td colspan="2" rowspan="2">Estimated Monthly Cost To Use This Card</td><td>Infrequent User</td><td>10x Per Month</td><td>Everyday User</td><td>Everyday, with DD</td></tr>
<tr><td>$X.00</td><td>$X.00</td><td>$X.00</td><td>$X.00</td></tr>
<tr><td colspan="2" rowspan="2">Average Monthly cost Among All Cards</td><td>Infrequent User</td><td>10x Per Month</td><td>Everyday User</td><td>Everyday, with DD***</td></tr>
<tr><td>$X.00</td><td>$X.00</td><td>$X.00</td><td>$X.00</td></tr>
<tr><td colspan="2">Compared to other cards, you will pay more or less than average with this card:</td><td>High</td><td>Low</td><td>Low</td><td>High</td></tr>
<tr><th colspan="2">Add Money</th><th colspan="2">Get Money</th><th colspan="2">Spend Money</th></tr>
<tr><td colspan="2">Direct Deposit is Free</td><td colspan="2">Cash Back At Store Is Free</td><td>With Your Pin</td><td>$X.00</td></tr>
<tr><td colspan="2">Discount w D/D on Monthly fee ($X.XX)</td><td colspan="2">plus: $X.00 at our ATMs</td><td>With Your Sig.</td><td>$X.00</td></tr>
<tr><td colspan="2">Load $X.XX</td><td colspan="2">From Teller: $X.XX</td><td colspan="2">Online Bill Pay: Yes or No</td></tr>
<tr><th colspan="6">What This Card Will Do</th></tr>
<tr><td colspan="3">This Card Has/Does Not Have a Savings Account</td><td colspan="3">Build Your Credit</td></tr>
<tr><td>Minimum Balance for interest: $XXXX</td><td>With/Without Fee to Transfer:</td><td>Pays X% Int.</td><td>TransUnion(e.g)</td><td>Optional</td><td>$X.XX per month</td></tr>
<tr><th colspan="3">How You Are Protected</th><th colspan="3">How You Are At Risk</th></tr>
<tr><td>FDIC Insured</td><td>From Loss Or Theft</td><td>You Can/Cannot Reverse an Unauthorized Payment</td><td>Overdraft Fee</td><td>Inactivity</td><td>Go To Out Of Network ATM</td></tr>
<tr><td>$250,000</td><td>Max $50</td><td>Yes Or No</td><td>Yes/$X.00</td><td>$X.00 Per Month</td><td>$X.00 Per Visit</td></tr>
<tr><th colspan="3">Manage Your Account</th><th colspan="3">Communicate</th></tr>
<tr><td>Paper Statement</td><td>Buy A New Card</td><td>Replace A Lost Card</td><td>Online Or Text</td><td>Automated Call</td><td>Speak To A Person</td></tr>
<tr><td>$X.00</td><td>$X.00</td><td>$X.00</td><td>Free</td><td>$1 - 1 Free</td><td>$X.00</td></tr>
<tr><td colspan="6">Save Money By Using This Card With Our Partners</td></tr>
<tr><td>Surcharge-Free ATMs</td><td># ATMs</td><td>Reload At:</td><td>Fee To Load</td><td>WEBSITE</td><td>Call Us At (xxx)-xxx-xxxx</td></tr>
<tr><td>XYZ Brand</td><td>XX,000</td><td>XYZ Brand</td><td>$X.00</td><td colspan="2">Problems: Call The CFPB At (202) xxx-xxxx</td></tr>
</table>

** estimate should be submitted and approved by regulator | ** Should be derived from market research*
****Direct Deposit*


XYZ CARD BRAND
cardSTAR
Everyday User
CFPB.gov
lowest price card $12
Highest price card $44
$19
The estimated total monthly cost to use this card is $19.
Similar users pay between $12 and $44 with other cards.
Fee to Buy Card $X.00
Where to Load XYZ Network
Min. Load $X.00
Partner Surcharge-Free ATMs Brands XYZ and ABC - $X.00
Estimate based on 5 ATM withdrawals, 3 balance inquiries, 25 purchases and 1.5 loads per month


XYZ CARD BRAND
cardSTAR
Infrequent User
CFPB.gov
lowest price card $2
Highest price card $13
$11
The estimated total cost to use this card is $11.
Similar users pay between $2 and $13 with other cards.
Fee to Buy Card $X.00
Where to Load XYZ Network
Min. Load $X.00
Partner Surcharge-Free ATMs Brand XYZ and ABC - $X.00
Estimate based upon 1 ATM withdrawal, 2 balance inquiries, 7 purchases, and 1 load per mon

THE LOGIC BEHIND CARD STAR

The key distinctions to our disclosure box:

1. Cost predictions are broken out for 4 user segments.
2. Disclosures tell consumers about fees charged by third-parties.
3. Disclosures say what the cards can and cannot do.
4. Disclosures warn consumers about the risks associated with using the card.
5. There is a visual graphic attached to the disclosure box.
6. Our disclosure uses a QR code. The QR Code, located in the bottom right hand corner, will lead a consumer directly from a printed disclosure to a web page with the more expansive disclosure box located on the 3rd page of this paper. The QR code link channels consumers to more information via a channel of choice - the smart phone. We know that consumers make better choices with better information. This operationalizes that knowledge.

CARD STAR IS DIFFERENT THAN A SCHUMER BOX

The Schumer Box is the right inspiration but the wrong model. Consumers use credit cards differently than prepaid cards. With a credit card, there are fewer functions and fewer price points. Consumers are likely to pay an interest rate and potentially two or three possible penalties fees. With prepaid, the scale of use determines costs. Slightly more than one in four prepaid card users makes more than 50 transactions per month, but almost one in three make fewer than six (Hunt, 2011). Since there is so much variation in how frequently the cards are used, comparing prices is very difficult.

Cost structures for prepaid cards are built upon conditional scenarios. For example, many cards cancel monthly fees to consumers that use direct deposit. The prepaid cost structure is an “if-then” system. For this reason, costs can only be estimated when they are contextualized by the level of use. This Card Star provides cost estimates for four different consumer groups. This is a significant difference between this box and all others.

Currently, prepaid card holders have relatively little access to information about how much other consumers are paying to use a prepaid card. Comparison shopping is thus much more difficult. Every week, Freddie Mac releases the Primary Mortgage Market Survey. A similar attempt to collect and disseminate standard costs for prepaid cards does not occur. A regulatory agency could easily make an periodic empirical analysis of how much prepaid cardholders are paying. That data should then be incorporated to cost estimates published with the Card Star.

On their own, card shoppers are unlikely to know how much they will use the various features offered by these cards. The knowledge gleaned from professional research should be drawn upon when these forms are designed. Recent research says that median-use cardholders make 4.2 signature transactions and 6.8 PIN transactions per month.

People will benefit from the clarity created by the visual graphic in Card Star. For card shoppers with a lower level of literacy, this box enhances their ability to make an informed choice. Furthermore, the QR code establishes a communication that will easily cross over to shoppers that use mobile banking.

Like the Schumer Box, this Card Star is not a voluntary standard. It will require the role of federal regulators – both the CFPB and perhaps by the regulators of the appropriate banks – to update the ‘average cost’ estimates.

A GLOSSARY OF TERMS FOR PREPAID CARDS

Activation: The process of opening an account for a GPR card. Activation often comes with a fee to cover the sunk costs.

Automated Clearing House (ACH): An electronic payment network that can be used to process batch debit and credit transfers between financial institutions. In some cases, payroll and government-funded prepaid cards are funded through an ACH transaction. ACH transactions function like electronic checks.

Balance Inquiry: A request made by the card user to identify the available balance on the card account. Balance inquiries can be made through a text message (“balance notification via text”), through an automated call (“IVR”), by computer, or by a call through a live customer service agent.

Balance Notification via Text (SMS): Through this feature, a cardholder can request that a text message with their current balance be sent to their cell phone.

Bank Secrecy Act (BSA): The BSA sets requirements for reporting certain transactions by private individuals, banks, and other financial institutions. The reporting facilitates efforts by regulators and law enforcement officials to track the source and volume of currency movements across borders.

Card Network Brand: Cards carry logos of their network brands. Common network brands include VISA, MasterCard, Discover, or American Express.

Card issuer: The bank or thrift institution that holds the deposits and provides the charter used to offer a prepaid card. A card issuer is an essential element of a prepaid card. According to the NBPCA, a card issuer is “responsible for all elements of a prepaid card program for which it acts as the issuer.”

Card replacement fee: When consumers lose their card, as they often do, the card issuer may charge a fee for replacing the card. The replacement fee is often coincident to a card replacement expediting fee. The expediting fee can be more than $25. These high fees are one of the reasons that so many cards are abandoned with a remaining balance. When a consumer loses a card that they have not used recently, the prospect of paying a replacement fee and paying the attendant fees can make a replacement worthless.

Card-to-card transfer: A transaction that moves funds from one prepaid card account over to another prepaid card account. This capacity is usually offered from either a payroll card or a parent-child card.

Card Verification Value (CVV)/Card Verification Code (CVC): The three or four digit number printed on the back of a card. The code is often used to verify a purchase over the phone or online. These transactions are sometimes known as “card not present” transactions.

Closed-Loop: A description for a card that can only be spent at a specific location. For example, the gift cards and store credit cards issued by a department store which can only be spent at that store are types of closed-loop cards.

Credit Card Accountability Responsibility and Disclosure Act of 2009 (The CARD Act): Title V of the CARD Act amends the Electronic Funds Transfer Act to create new consumer protections. The CARD Act adds protection for gift card purchasers and recipients.

Direct Deposit: A one-time transfer of funds through an electronic network that goes from an external source onto the account of the card holder. Many account holders get their paycheck transferred to their account through a direct deposit. Most cards incentivize people to use direct deposit. Often, they lower or remove monthly fees when a source of a recurring direct deposit is connected to the account.

Direct Express: A program offered by the Department of the Treasury in conjunction with Comerica Bank. Comerica acts as the card issuer. The Direct Express card is used to receive payments to Social Security recipients via direct deposit.

Distributor: A third-party entity that packages, ships, and stores prepaid cards.

Electronic Funds Transfer (EFT): A network (NYCE, Star, PULSE, InterLink, or Maestro) that supports POS (point-of-sale) purchase transactions.

Electronic Funds Transfer Act (“EFTA”): Legislation to create consumer protections for electronic transactions. It includes rules for disclosures and for the resolution of errors. It is the basis for Regulation E and covers payroll cards and gift cards. The EFTA protects many forms of government benefits delivered to consumers through direct deposit.

Electronic Benefits Transfer (EBT): The mode for delivering government benefits onto prepaid cards. The EBT function has delivered payments for the USDA Food Stamp program (“SNAP”) since the 1990s. It can also be used to distribute money for child support, Social Security, and workmen’s compensation.

Escheat: the legal name for the process of turning unclaimed property over to a local government authority. In many cases, owners of prepaid cards abandon the card with some dollars left on the card. Most issuing banks benefit from that practice by charging inactivity fees. As a result, funds never transfer to escheat status.

General Purpose Reloadable Card: These cards can accept new deposits. Like open-loop cards, funds on GPR cards can be spent anywhere within the card's network. Deposits can be added to a GPR account, unlike most gift cards, and they can be used to conduct transactions across card networks.

Health Savings Account ("HSA"): IRS regulations provide tax incentives to employees and employers to contribute funds to specially designated spending accounts for health care-related expenses. HSAs are sometimes kept on prepaid cards.

Inactivity Fee: A fee charged by an issuing bank to a customer account that has not generated a transaction in a period of time. Usually the time is more than three months. See escheat.

Government Funded Prepaid Card: Prepaid cards funded by the government to replace benefit checks. Examples include SNAP, Direct Express (for Social Security), workmen's compensation, child support payments, and the Treasury Direct card.

Iso-Issuer: A bank or thrift whose footprint of cardholders dramatically exceeds its footprint of physical branches and bank ATMs. All of the national prepaid card products are issued by "iso-issuers."

ISO/MSP: Acronyms for Independent Sales Organization and MasterCard Service Provider. These are sometimes called "program managers." Both are names for entities that manage cards through the MasterCard network. Examples include NetSpend, AccountNow, and Mango.

Interactive Voice Response ("IVR"): The formal name for the automated telephone answering systems that are commonly employed for "customer service" programs. IVR calls are generally less expensive for consumers. According to one large bank, the cost to the bank per IVR is about $1, whereas it can be as much as $6 for each call handled by a live person.

J-Hook: A looped hook used by retailers to hang prepaid cards, usually in a display rack at the end of an aisle in a store.

Know Your Customer ("KYC"): A set of principles employed by financial institutions to comply with the Bank Secrecy Act. Under the BSA, institutions must use some form of due diligence to verify the identity of their customers.

Load: See reload. Unless the customer has direct deposits, most card programs will charge consumers a load fee when they add funds to their cards. Generally, loads are purchased. The charge is per load and not per the amount loaded, although there are often maximum load amounts ("load limits").

Mobile Alert: An electronic alert which tells a consumer when their balance is low.

Monthly Fee: Sums deducted from the balance of a card on a monthly basis. Generally, the monthly fee serves to compensate card issuers for the fixed costs of offering cards. In some cases, issuers will discount or eliminate a monthly fee if a cardholder uses the card enough. Card issuers recover their costs through interchange fees.

Near Field Communication: An important technology ("contactless technology") that is not yet fully deployed, "NFC" uses a chip inside a phone to promote payments via cell phones. NFC is the technology that allows merchants to collect payments merely by holding a customer's phone to a payment device.

Non-bank financial institution: A financial institution that does not hold deposits. The Dodd-Frank bill instructs the CFPB to supervise, enforce, and write rules governing non-bank financial institutions. The prepaid field works through many non-bank institutions: payment processors, card program managers, card networks, and others. NetSpend is a non-bank financial institution, whereas the banks that issue its cards are not.

Open-Loop: A prepaid card that can be used to buy goods and services or to access cash anywhere in the card network – VISA, MasterCard, Discover, American Express, et al.

Payment Processor: An entity that manages the process of moving funds between accounts.

Payroll Card: A card established through an employer with the implicit purpose of receiving electronic paychecks. The payroll card is a means for an employer to reduce their costs of printing paper checks.

PIN Transaction: A transaction where a consumer punches their passcode into a keypad to make a purchase. An ATM withdrawal is not considered a PIN transaction, although a "cash back" request is defined as a PIN. When PIN transactions trigger a fee, it is usually more than the signature transaction.

Point-of-Sale ("POS"): A physical location where a prepaid card is used to make a purchase. When a consumer uses his GPR at a grocery store, the transaction takes place at a POS. POS sales include both signature and PIN transactions.

Program Manager: an entity that provides a full suite of services to issuers in support of a prepaid card. Program managers take responsibility for back-office support, account set-up, balancing and reconciling, dispute resolution, lost or stolen card reporting, fraud reporting, and customer service.

Regulation E/FDIC insurance for cards: Generally, prepaid debit cards come with

FDIC insurance. However, in order for a consumer to get protection, the account must be in his name. When funds are stored in a pooled account, the account does have protection but the limit of coverage is the same as if it was a personal account. Gift cards, where funds are not held in the name of the account holder, do not have FDIC insurance.

Reload: Consumers place deposits onto a GPR card by "loading." Generally, a "load" is sold on a per-service fee. Most cards offer one or two free "loads" per month, usually through a specific set of ATM machines. Consumers can load at retail check-outs by swiping and then paying cash to a cashier. Loads are often purchased from kiosks in stores. See also "load."

Reload Network: An entity that provides a network for consumers to put money into their prepaid accounts. The reload networks generally work through a relationship with an ISO, rather than as a result of a choice made by a consumer. Reload networks include Blackhawk, Green Dot MoneyPak, and Western Union.

Signature Transaction: A transaction where a consumer signs for the purchase. Generally these transactions are processed as credit by the merchant. In such cases, they garner higher interchange fees for the issuing bank. Most prepaid cards have a lower transaction fee, if any, for signature transactions than they do for PIN transactions.

SMS: See balance notification via text.

Spend: The portion of some cards where funds are made available for spending. Some cards have multiple sub-accounts. When a card has a savings account, for instance, the consumer needs to move funds from the savings sub-account over to "spend" before they can access the funds.

Teen Card: A prepaid card purchased by a parent for the use of a minor. These cards generally enable parents to monitor the use of the cards. Parents can sign in to a password-protected website to review spending and get transaction alerts.

Unbanked and Under-banked: Consumers who have limited access to the payments system. Generally, unbanked consumers have neither a checking nor a savings account. Under-banked consumers can have one but not the other. Another possible definition for either is a consumer that uses alternative financial services such as a check casher, a payday lender, or a money transmitting service.

Some terms above are directly quoted from the Network Branded Prepaid Card Association Prepaid Glossary.

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