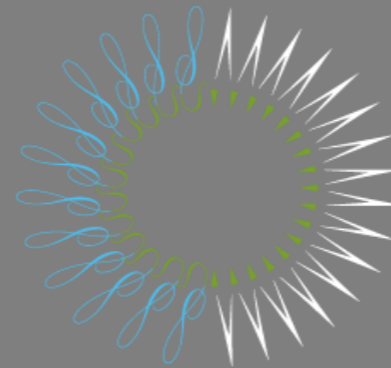


Breaking Down Prepaid Cards

Heartland Alliance Webinar



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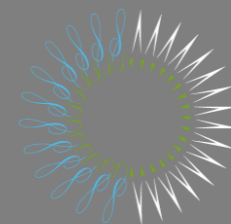
Susan Weinstock, Director
Safe Checking Project

May 21, 2013

Pew's Safe Checking in the Electronic Age Project

The Pew Charitable Trusts' Safe Checking in the Electronic Age Project advocates for policies that reduce risks and allow Americans to responsibly manage their checking accounts.

We provide the public with information about policies that promote a competitive marketplace and foster a level playing field among financial institutions.



Pew's Safe Checking in the Electronic Age Project



Still Risky: An Update on the Safety and Transparency of Checking Accounts

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SAFE CHECKING

THE PEW CENTER ON THE STATES

SURVEY

SAFE CHECKING IN THE ELECTRONIC AGE

Are consumers knowingly consenting to overdraft coverage or are they signing up for a potentially costly product that they don't understand?

Overdraft America: Confusion and Concerns about Bank Practices

Consumers generally have three choices when they have insufficient funds to cover a debit card purchase or ATM withdrawal. They can incur a) an overdraft penalty fee (median cost \$35) in which the bank makes a short-term advance to cover the transaction; b) an overdraft transfer fee (median cost \$10) when the bank transfers funds from a linked account like a savings account, line of credit, or credit card; or, c) if the consumer did not opt in to an overdraft penalty plan and did not apply for an overdraft transfer plan, the transaction will be denied with no fees charged.¹

A survey of consumers, commissioned by Pew's Safe Checking in the Electronic Age Project, found that although almost one-fifth (18 percent) of consumers have incurred an overdraft penalty fee in the last year, their understanding of overdraft rules is weak. More than one-third of respondents surveyed were not aware

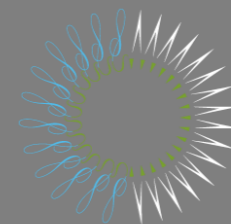
their bank offered overdraft coverage until they incurred a penalty, and many also did not know about the tactics banks use that increase costs to consumers, such as reordering deposits and withdrawals. Lower-income and younger consumers are hit the hardest by these penalty fees.

PEWTRUSTS.ORG/SAFECHECKING

MAY 2012

What is a Prepaid Card?

- A general purpose reloadable (GPR) prepaid card operates much like a “checkless” checking account.
 - GPR prepaid cards can be purchased at retail stores and online.
 - \$201.9 billion will be loaded onto GPR prepaid cards in 2013.*
 - This is up from \$28.6 billion in 2009.*
- * Source: Mercator Advisory Group.

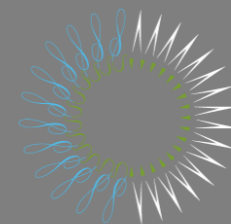


Pew's Safe Checking in the Electronic Age Project

Pew reports on Prepaid Cards:

1. **Key Focus Group Findings on Prepaid Cards (April 2012)**
2. **Loaded with Uncertainty: Are Prepaid Cards a Smart Alternative to Checking Accounts? (September 2012)**
3. **Imperfect Protection: Using Money Transmitter Laws to Insure Prepaid Cards (March 2013)**

www.pewstates.org/prepaid



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Pew's Safe Checking Project Prepaid Card Reports



KEY FOCUS GROUP FINDINGS ON PREPAID DEBIT CARDS

The market for prepaid debit cards¹ is large and growing fast. In 2009, \$28.6 billion was placed onto reloadable prepaid cards in the United States.² By 2013, that figure is expected to reach \$201.9 billion.³ While users without bank accounts may see these cards as a safe repository for their money, many purchasers may not be aware of both the myriad fees that deplete card balances and the overall lack of consumer protections for these products. In November 2011, the Pew Health Group's Financial Security Portfolio conducted focus groups with consumers who purchase and use prepaid debit cards to understand the motivation behind this practice.⁴

THE DESIRE TO AVOID INCURRING HIDDEN BANK FEES IS A FACTOR IN THE ADOPTION OF PREPAID CARDS.

Most participants in the focus groups have a checking account. Of these, many have previously incurred unanticipated fees on their account and are not happy about such an outcome. They prefer the \$2 and \$3 fees from prepaid cards over the potential of a \$35 overdraft fee on their checking accounts.

- "I don't like the fees on prepaid debit cards. ... It costs to load (them). It costs \$3.95. I don't like that I pay the \$3.95, but I'd prefer to pay the \$3.95 than have to deal with the things that I know that people go through with their checking accounts. I'm good with my checking account. Nobody wants to pay extra fees. If we had to, I'd take the \$3.95 any day over the \$35 overdrafting or for some other fees." —Female participant, Chicago
- "I think (prepaid card fees) are fair because they're upfront. I'm thinking in contrast to a checking account. I think the ambiance and the idea of the marketing behind a checking account is they're your friend; they're your hometown bank. You can depend on them. You can count on them and, really, they're just lulling you into the sense of comfort because they're going to whammy you with fees on the backside. Whereas prepaid debit cards, they're very upfront. This is the cost of the card; this is the cost for the services. It's up to you at that point." —Female participant, Houston
- "Compared to my situation, I went through a lot of late fees with the credit cards, extra fees with the checking accounts. I was paying monthly between \$35 to \$50 in fees compared to \$3.99 that I pay for a maintenance fee to get a card." —Male participant, Houston

www.pewhealth.org



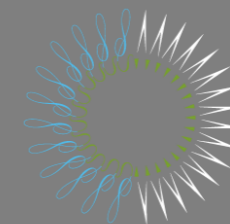
Loaded with Uncertainty:

Are Prepaid Cards
a Smart Alternative
to Checking
Accounts?



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CONSUMER FINANCIAL SECURITY

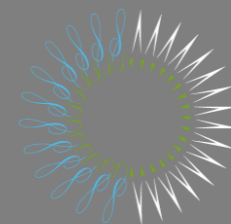


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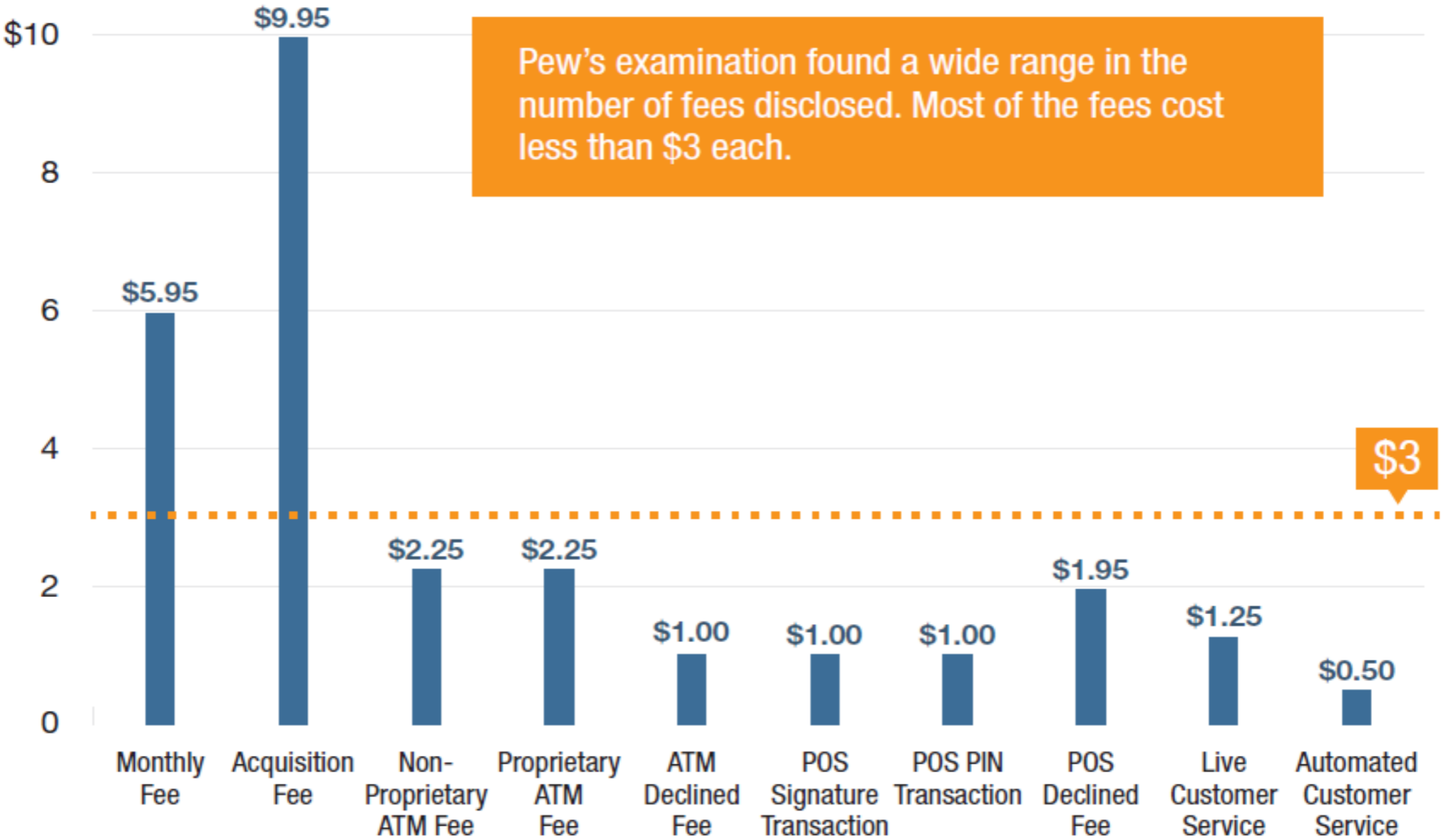
Loaded with Uncertainty: Are Prepaid Cards a Smart Alternative to Checking Accounts?

Key Findings

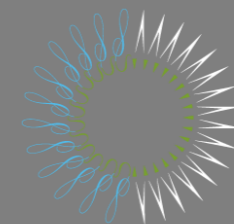
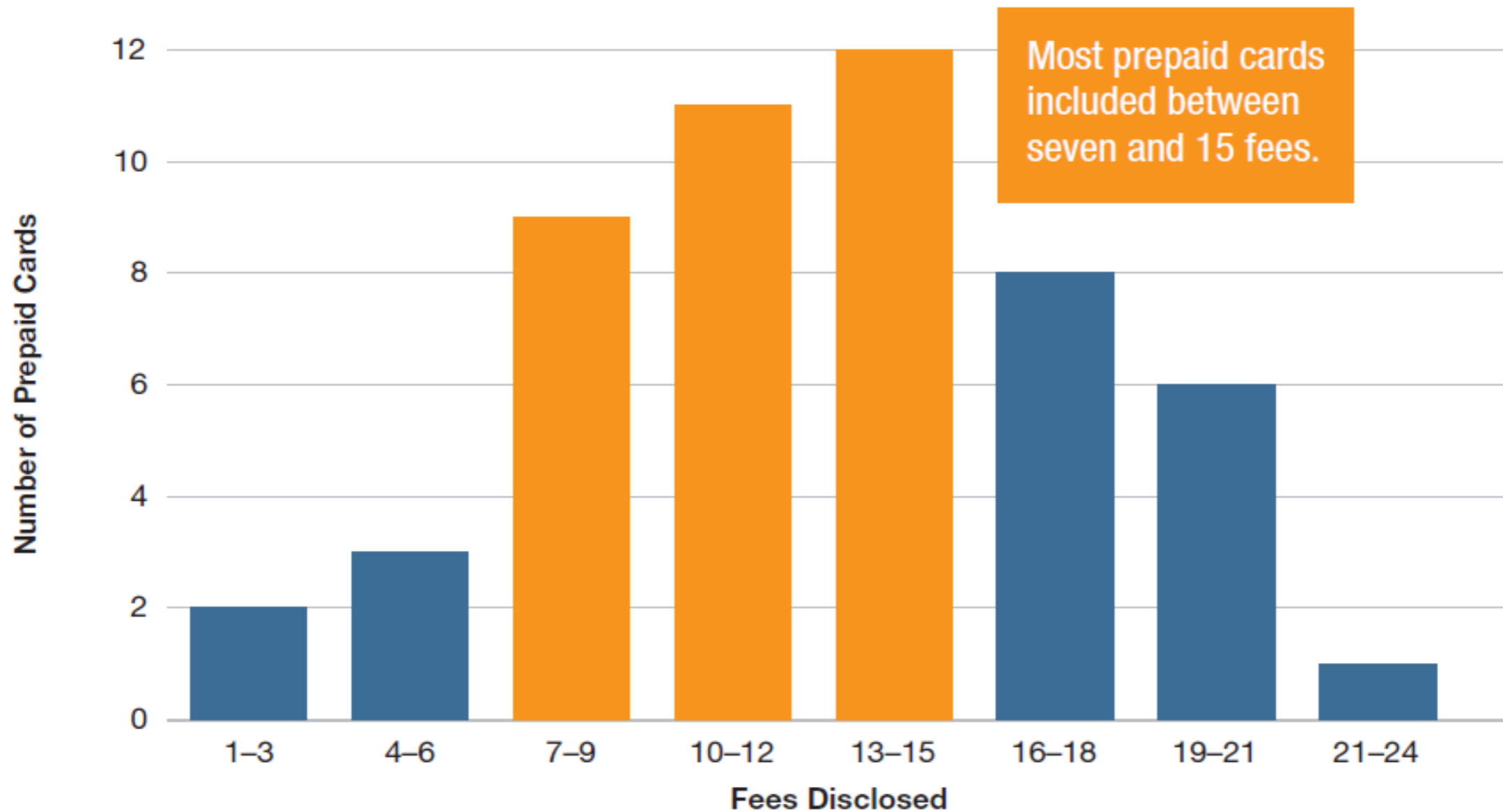
- 1. The varying fee structures and disclosures for prepaid cards make comparison shopping very difficult.**



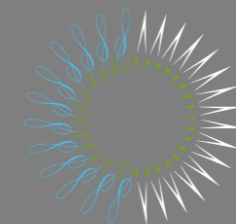
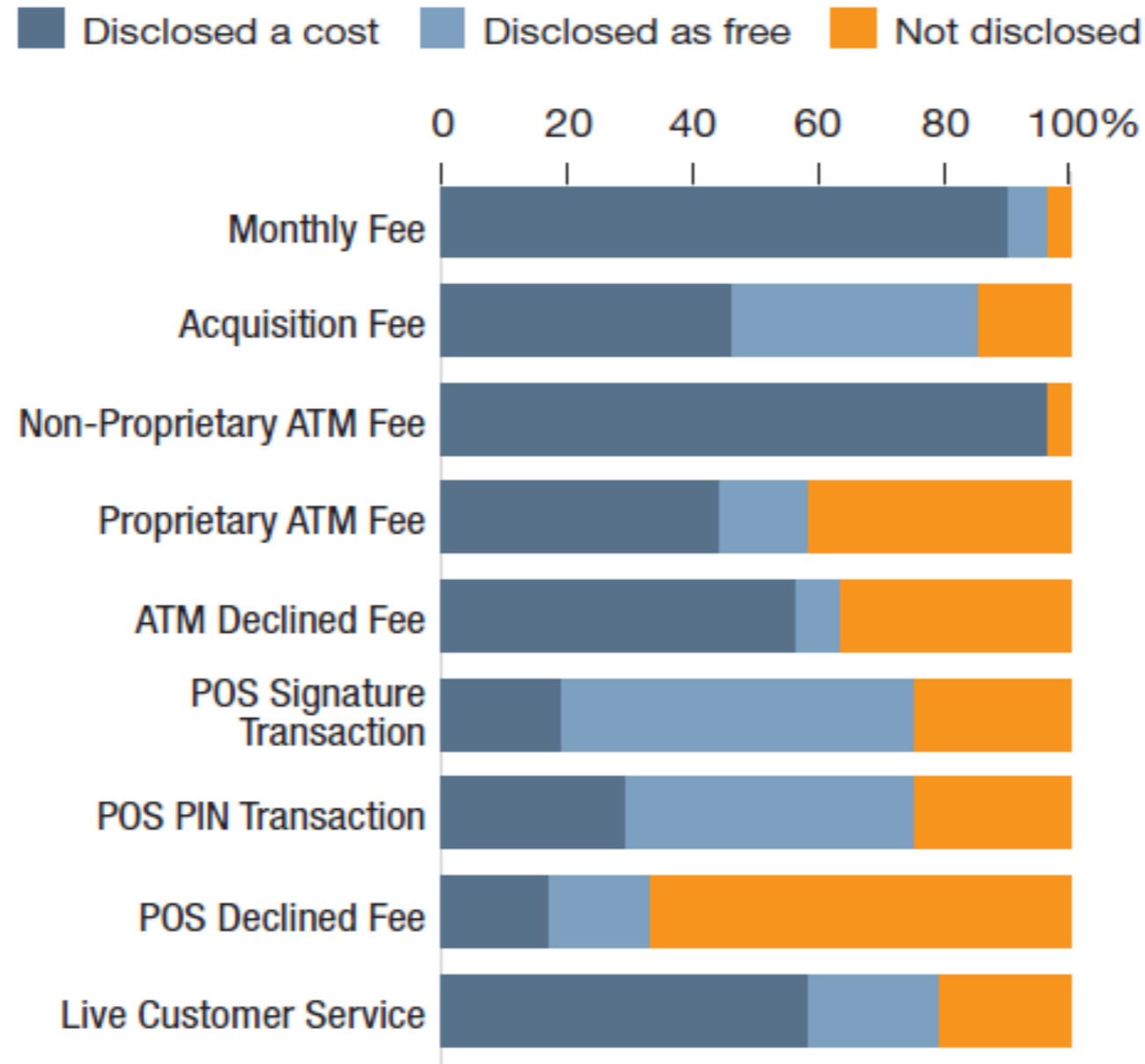
Median Service Fees for Prepaid Cards?



How Many Fees Do Prepaid Cards Disclose?



What Prepaid Card Fees are Disclosed?



Loaded with Uncertainty

Key Findings

2. Prepaid cards can be less costly than checking accounts for some consumers.

Consumer Models

Savvy Consumer

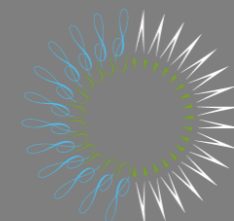
Avoids fees whenever possible; uses direct deposit

Basic Consumer

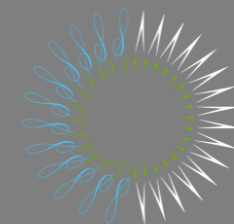
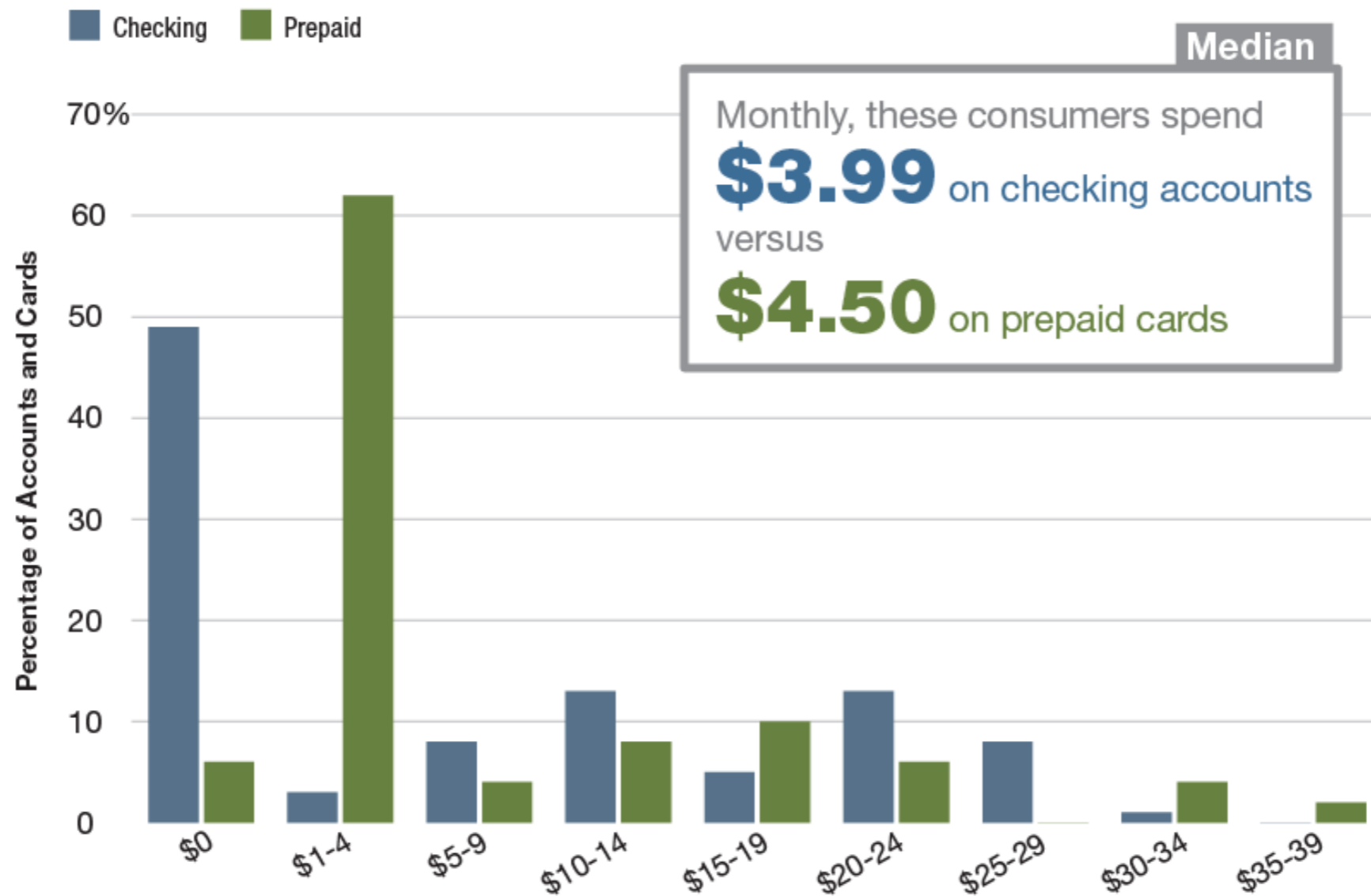
Not as proficient at avoiding fees; incurs one overdraft or point-of-sale decline fee per month

Inexperienced Consumer

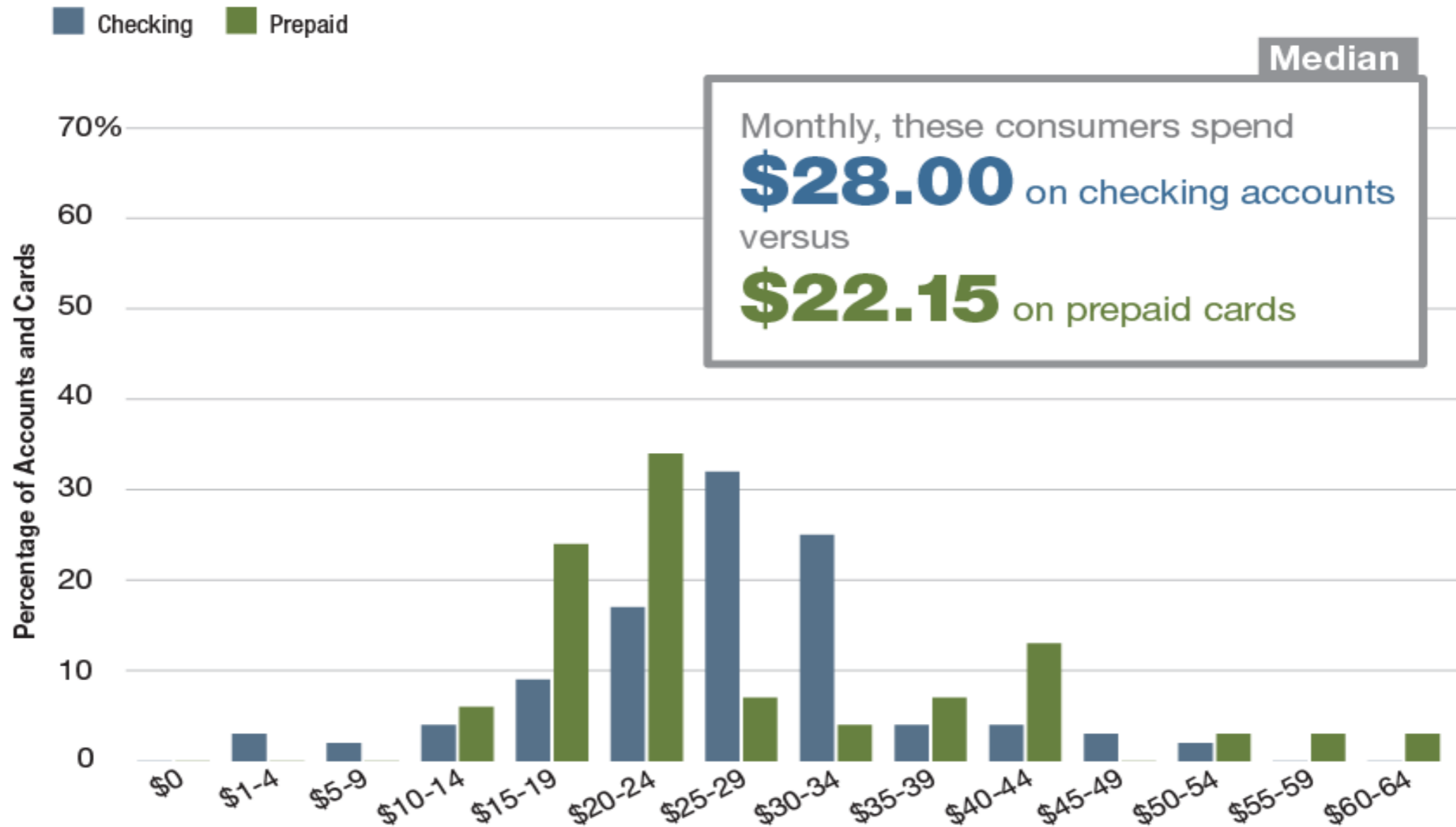
Makes heavy use of services and does not avoid fees; incurs two overdraft penalty fees or decline fees per month



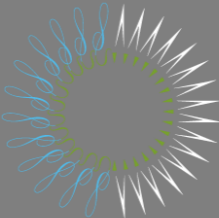
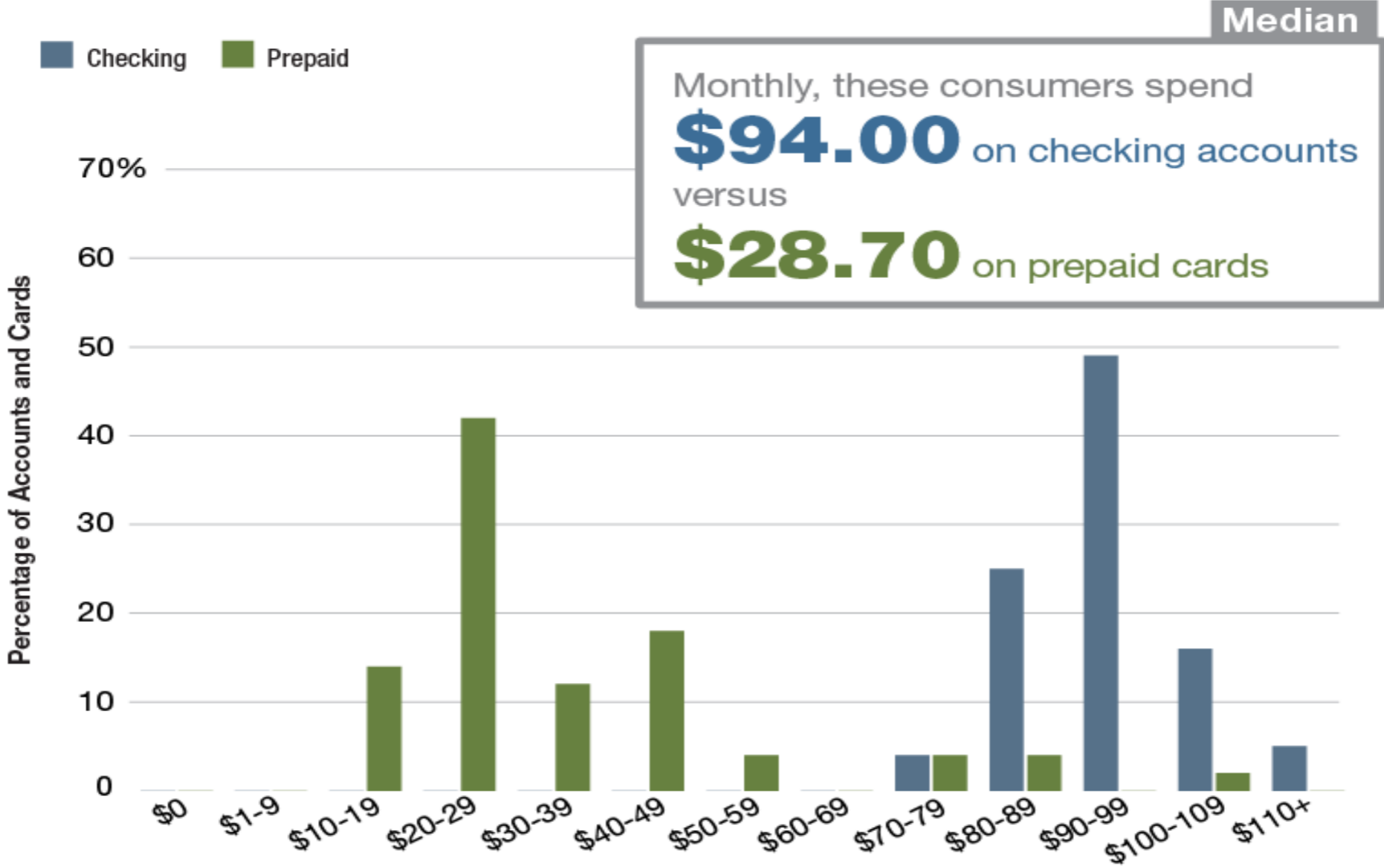
Monthly Costs for Model Savvy Consumer



Monthly Costs for Model Basic Consumer



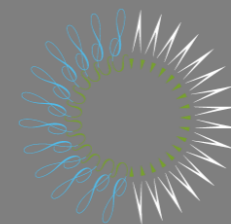
Monthly Costs for Model Inexperienced Consumer



Consumer Protection Gaps

Key Finding #3:

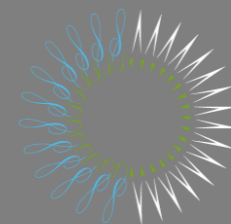
Significant gaps in consumer protections exist.



Consumer Protection Gaps – Electronic Fund Transfer Act

The Electronic Fund Transfer Act (EFTA) applies to checking accounts but not prepaid cards. Protections under EFTA from unauthorized transactions include:

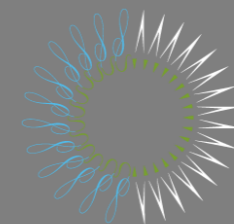
- **financial institution investigation of the claim;**
- **limits on the liability of consumers; and**
- **provisional credit to the account while a dispute is pending;**
- **periodic statements and customer access to past transaction information.**



Consumer Protection Gaps – FDIC Insurance

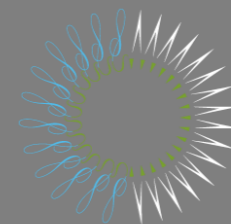
Key Finding #4:

FDIC Insurance does not necessarily apply to funds loaded onto GPR Prepaid Cards.



Consumer Protection Gaps – FDIC Insurance

- Although most cards disclose that the funds are covered by FDIC Insurance, this is not required.
- “Pass-through” insurance can apply to prepaid cards if certain steps are taken.
- One company is covering most of their prepaid cards products via state money transmitter laws rather than FDIC insurance, but these laws are a poor substitute.



Consumer Protection Gaps – FDIC Insurance



CONSUMER FINANCIAL SECURITY

ISSUE BRIEF

Imperfect Protection

Using Money Transmitter Laws to Insure Prepaid Cards

General purpose reloadable prepaid cards allow customers to direct deposit their paychecks and perform functions such as paying bills just like a checking account.¹ But unlike checking accounts, a fundamental financial product held by 9 in 10 American households and carrying up to \$250,000 in mandatory deposit insurance per customer, these cards are not required to carry deposit insurance.²

Nonetheless, the market for general purpose reloadable, or GPR, prepaid cards is growing fast, with Americans expected to load over \$200 billion onto these cards this year.³ Without this mandated insurance and other consumer protections that apply to checking accounts, these prepaid cards could become second-tier products that consumers purchase and use at their own risk.

In Loaded with Uncertainty: Are Prepaid Cards a Smart Alternative to Checking Accounts? (September 2012), Pew recommends that:

- All general purpose reloadable prepaid cards be required to carry federal deposit insurance

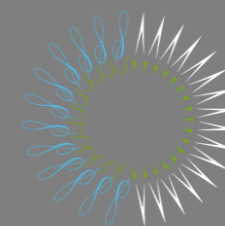
- The Federal Deposit Insurance Corporation and Consumer Financial Protection Bureau use their supervisory authority to make certain that all funds held on these cards are insured
- The FDIC modify its regulatory regime to close gaps in insurance coverage that could put consumers' funds that are loaded on prepaid cards at risk

Pew found that most prepaid card disclosures purport to hold funds in FDIC-insured accounts through what is known as "pass-through insurance," but at least one card in the market does not do so. Instead of holding funds in a bank so that each customer has up to \$250,000 in FDIC insurance should the underlying bank fail, the American Express/Walmart Bluebird card operates as a non bank money transmitter under state laws.³

In order to operate in this manner, a business must obtain a license in accordance with each state's law and is generally required to post a surety bond. A surety protects a creditor, in

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FEBRUARY 2013



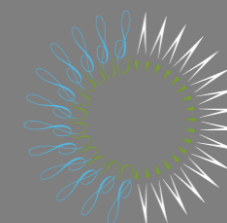
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Consumer Protection Gaps – FDIC Insurance

MONEY TRANSMITTER LAWS LACK CERTAINTY AND SECURITY

Funds held by non-bank money transmitters are not covered by FDIC insurance. Instead, these companies post surety bonds in accordance with state laws.

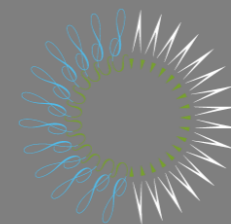
	Funds Held In A Bank	Funds Held By Money Transmitter
Regulatory Rules and Oversight	FDIC	Varies by state; no oversight in three states
Type of Security	Government-backed insurance	Private surety bond
Amount of Protection	\$250,000 per cardholder	Depends on size of surety bond and number of claims
When Funds Are Available After Default	Generally immediately, but always within one business day	Depends on the process, ranging from days to months



Prepaid Cards and Overdraft Service

Key Finding #5:

Overdraft products are antithetical to the purpose of GPR prepaid cards and should not be offered.

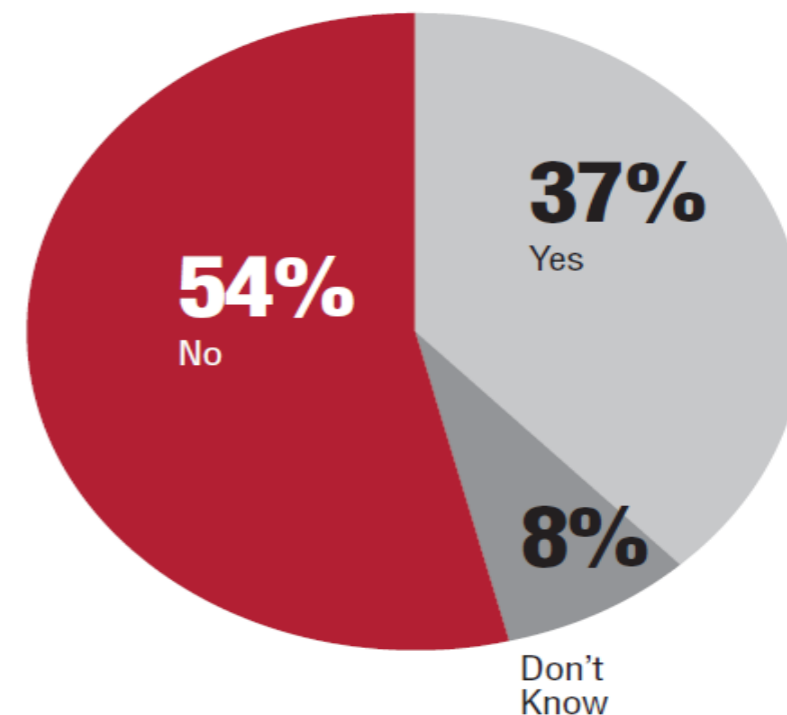


Prepaid Cards and Overdraft Service

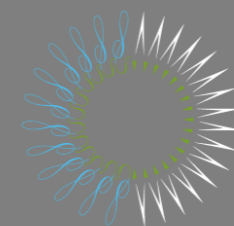
EFTA also requires opt-in to overdraft.

As of August, 2010 banks need affirmative consent to provide overdraft on debit point of sale and ATM transactions.

More than half of overdrafters did not believe they opted in to coverage.

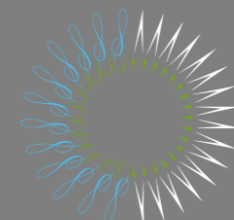


As far as you know, did you choose to sign up for overdraft coverage, where you are charged a fee for each overdraft, or not?



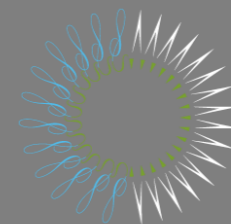
Conclusion

- **Substitutes for a checking account, like the ever-growing prepaid card market, need comparable protections.**
 - **Consumers have a significant new agency in the Consumer Financial Protection Bureau which should write new rules to ensure the safety of these products.**



Upcoming Pew Research Reports

- **Survey of prepaid card users' attitudes and experiences (August 2013)**
- **Loaded with Uncertainty 2 – another look at the disclosures and practices of prepaid cards (September 2013)**



The Pew Charitable Trusts

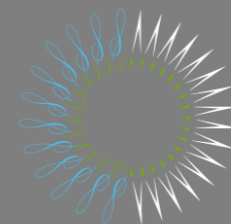
To follow up with the speaker:

Susan Weinstock, Director, Safe Checking Project

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