

Treasurer Kurt Summers
City Treasurer's Office
City of Chicago
121 North LaSalle Street
City Hall, Room 106
Chicago, Illinois 60602



CC: Alexandra Sims, Director of Programs

July 14, 2015

Re: Bank On Chicago Prepaid Card Recommendations

Dear Treasurer Summers,

On behalf of the Illinois Asset Building Group and the Bank On Chicago community partners, thank you for your interest in addressing prepaid cards as part of the Bank On Chicago initiative. We believe all people deserve access to the tools needed to build financially secure futures for themselves and their children – including access to safe banking products. The Bank On Chicago program is a way to demonstrate reliability and safety in a financial product that individuals can trust.

We write to offer our recommendations for a healthy, safe, and affordable prepaid card product that would meet the needs of Chicago households. These recommendations are based on input from community partners, including a survey of more than 100 individuals who use prepaid card products.

Prepaid cards are a growing, yet highly unregulated industry. According to the Pew Charitable Trusts' 2014 report *Why Americans Use Prepaid Cards*, approximately \$65 billion was loaded onto prepaid cards in 2012 – more than double the amount loaded in 2009. Widely used by un/underbanked populations, prepaid cards are often used as an alternative to checking accounts. Most people who use prepaid cards are trying to gain control over their finances. The Pew Charitable Trusts' report found that three of the top reasons people use prepaid cards are to:

- Avoid credit card debt
- Avoid spending more money than they have
- Avoid overdrafts

We believe, however, that the majority of prepaid cards - specifically GPR, or "General Purpose Reloadable" cards – are not meeting the needs of the un/underbanked population and those who are trying to gain control over their finances. Most prepaid cards have a long list of fees, many of which are hidden and predatory. Individuals are often unaware of these fees until they show up on their account statement. Account information for prepaid cards can be difficult to access, and many prepaid cards have credit features, which many people are specifically trying to avoid when they purchase a prepaid

card product. Instead of being a tool that helps families become financially secure, prepaid cards are often a costly trap that strips wealth from communities.

A Bank On Chicago prepaid card product should be created with these needs and pitfalls in mind. Chicago, especially as a leader in the Cities for Financial Empowerment Coalition, can and should be a model for other Bank On initiatives across the country. The following are recommendations of the Bank On Community Partners for creating a GPR prepaid card product that will appeal to and work for this specific population.

Create an Affordable, Transparent & Safe Product

- 1. Free ATM Withdrawals:** Community partners cite ATM withdrawal fees as the most burdensome prepaid card fee. Furthermore, more than half of those surveyed by community partners use an ATM to withdraw cash from their prepaid card once or more per month. If the goal of prepaid cards is to provide people with an easy way to house and access their cash, then an ATM Withdrawal fee presents a huge barrier to that goal, limiting a person's access to their money. Considering this goal, and how often people use ATMs to access the money on their prepaid cards, we recommend that ATM withdrawals should be free of charge.
- 2. No Overdraft or Credit Features:** The fear of endless fees and the fear of overspending are two of the major reasons why people avoid credit and debit products and opt for a prepaid card instead. Allowing overdraft fees on prepaid cards makes void these reasons why so many people choose prepaid card products. Therefore, we recommend that overdrafting a prepaid card should not be possible. Overdraft fees should be prohibited, keeping prepaid cards completely separate from credit products. While CFPB's proposed rules for prepaid cards include some protections to separate credit and prepaid products, their rules do not go far enough, as they still allow credit features after a 30 day waiting period. We recommend that no overdraft or any credit product should be linked to prepaid cards.
- 3. No Point of Transaction Fees:** Point of transaction fees are applied to a person's account when they use the "debit" option to pay for a purchase with their prepaid card. When people purchase a prepaid card product, they may not be aware of these fees. Furthermore, since many people with a prepaid card use it to make everyday purchases, point of transaction fees can add up quickly, making them particularly pernicious. For individuals with a low income who are trying to live within their means, even small point of transaction fees can become a severe burden on their budget. For instance, one person surveyed stated that they no longer want a prepaid card because "it takes money every time you swipe the card." Therefore, we recommend that point of transaction fees be prohibited.
- 4. No Inactivity Fees:** Account inactivity can be common among lower-income individuals who may have seasonal or transient employment. Charging an account inactivity fee for a sparsely funded

account affirms many of the banking fears felt by this population, and works against the goal of creating a tool for low income households to gain control of their finances.

5. **No Monthly Maintenance Fees:** For people who are trying to gain control over their finances, even small monthly fees can affect a tight budget. One person surveyed about their experience with prepaid cards describes monthly fees, “They take a fee off every month even if you don’t use it....you don’t know they did that and [your balance] is less than what you thought.” Monthly fees are particularly problematic for seasonal, temporary, or part-time workers whose income fluctuates from month to month. For these reasons, we recommend that the Bank On Chicago prepaid card product have no monthly maintenance fees.

6. **Standard, Accessible Disclosure:** Fees associated with prepaid cards should be clear, transparent, and easy to understand. Many un/underbanked people who use prepaid cards do so in part because they are concerned that banking fees are too high and hidden. This is too often true in the case of prepaid cards, confirming fears and deterring future use of a bank account. Prepaid cards should provide a standard, accessible disclosure to individuals before they purchase the card. In our survey of community partners, one third reported that they did not receive a disclosure prior to purchasing a prepaid card. The [Consumer Finance Protection Bureau’s proposed rules for prepaid cards](#) include [two required disclosure forms](#) that are easy to understand and consumer-friendly. The Center for Financial Services Innovation has also created a [sample disclosure fee box](#) that could be used as a model for disclosures. We recommend that any Bank On Chicago prepaid card product provide these disclosure forms, or something similarly user-friendly, to individuals before they purchase the product.

7. **FDIC Insurance:** CFPB’s proposed rules for prepaid cards do not require that prepaid cards have FDIC or NCUA insurance. The only requirement is that prepaid card products provide a disclosure if they are not insured. We recommend that FDIC or NCUA insurance be required for prepaid cards, protecting an individual’s money in case the institution fails. For low income families, even a small loss can cause huge consequences, like a missed rent or utility payment, or the inability to buy groceries for the month.

8. **Protection from Fraud & Theft:** CFPB’s proposed rules extend fraud and theft protections to most GPR prepaid cards, limiting the individual’s responsibility for unauthorized transactions and creating a way for them to get their money back in a timely manner. We support these protections, and because the CFPB is still developing a final rule on prepaid cards and many prepaid card products do not currently offer these protections, we recommend that any Bank On Chicago prepaid card provides these protections.

Provide Convenient & Free Access to Account Information

9. **Free Customer Service:** Prepaid cards are often marketed toward the un/underbanked population, many of whom are immigrants, may not have easy Internet access, may be English

Language Learners, and may not be well versed in financial products. Live support calls are particularly important for these individuals, as they may rely on customer service, rather than the Internet, to answer any questions they may have about prepaid cards. These customer service calls should be provided free of charge. Furthermore, foreign language support should be provided for all customer service calls.

- 10. Free Access to Account Balances:** For any financial product, it is good practice to provide access to account information. Access to account information is critically important to individuals using prepaid cards who are trying to keep a close eye on how they spend their money. Thus, we recommend that balance inquiries be provided for free at ATMs, via phone calls and text messages, and online.
- 11. Free Paper Statements:** A 2014 CFPB study of prepaid card agreements found that nearly 12% of GPR cards do not provide paper statements. Among those that do provide paper statements, less than 28% provide them for free, with some paper statements costing as much as \$10. Since prepaid cards are marketed to people who are un/underbanked and to people who may not have easy Internet access, paper statements are crucial for them to have access to their account information. CFPB's proposed rules for prepaid cards requires prepaid cards to provide free paper statements upon request, and we recommend that any Bank On Chicago prepaid card provides such an option.
- 12. Free Online & Mobile Transactions:** While paper statements are critical for some individuals, others rely more on their phone and Internet for access to their account. Free access to online and mobile banking features including the ability to check balances, transfer money, and pay bills should be a required feature of all Bank On Chicago products. With the prevalence of smart phones across communities, mobile banking is becoming an important feature for underbanked communities where access to financial institutions is limited. In particular, we recommend that prepaid card providers offer optional text message alerts for low balances and deposits. Banking partners should expand access to these features for all participants.

Help People Become Financially Stable

- 13. Linked Savings Account:** We believe that savings are key to building financial stability. According to the Pew Charitable Trusts, 2 in 3 prepaid card users would welcome a savings feature. Emergency savings can help people weather financial emergencies like car repair, medical emergencies, or job loss. Many of the Bank On Chicago community partners are providing opportunities to learn how to save. A linked savings account will allow participants to put what they are learning into action.
- 14. Standardize Account Names:** We ask that you consider taking these recommendations and creating a standardized Bank On Chicago Prepaid Card across financial partners. The variety of products and product names across financial institutions make it almost impossible for a

participant to walk into a bank and ask for a Bank On Chicago product. This runs counter to the community partners' efforts to raise awareness of the initiative and the product. In addition to making outreach easier it will also lead to a better process for collecting data and measuring the impact of the overall initiative.

We are more than happy to provide clarification or additional information on these recommendations. Please contact Lucy Mullany, Senior Project Manager of Financial Empowerment Policy at Heartland Alliance and IABG Coordinator, at 312-498-8614 or via email at lmullany@heartlandalliance.org with any questions.

Thank you for your time and we look forward to further conversations.

Sincerely,

A handwritten signature in black ink, appearing to read 'Lucy Mullany', is centered on a light gray rectangular background.

Lucy Mullany
Senior Project Manager, Financial Empowerment Policy
Policy & Advocacy at Heartland Alliance
Coordinator, Illinois Asset Building Group (IABG)

The following Bank On Chicago Community Partners sign on in support of these recommendations:

Center for Economic Progress
Chinese American Service League
Economic Awareness Council
Heartland Alliance for Human Needs & Human Rights
Illinois Asset Building Group
The North Lawndale Employment Network
Partners in Community Building
The Renaissance Collaborative
The Resurrection Project
Safer Foundation
United Way of Metropolitan Chicago