



Prepaid Cards

CFA Member Briefing

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October 24, 2013

What is a “Prepaid Card”?



a debit card w/o an individual bank acc't

- usually offered outside of banks
- funds held in a pooled account
- doesn't come with checks
- usually can't be overspent



But..

the prepaid/bank account line is blurring

- Banks are offering prepaid cards
- Prepaid cards may offer checks, billpay; bank accounts may not
- Prepaid cards may have savings features
- Prepaid card fees are migrating to bank accounts
- Some prepaid cards can incur overdraft fees



Common Uses of Prepaid Cards

gov't agencies

to replace benefits checks



employers



to replace paychecks (“payroll cards”)



colleges to pay financial aid



Also..

=> individuals **shut out of bank accounts**
or burned by overdraft fees

=> **individuals** to budget

=> **children/teens**



**Central to every use: a safe,
controlled way to make and receive
payments**



Advantages of Prepaid Cards

Enable direct deposit, **receive funds faster** and avoid check cashing fees

Avoid carrying cash for safety

No credit check needed

Most **do not have overdraft fees**

Some **have innovative features**, robust **text alerts**



Disadvantages of (Some) Prepaid Cards

No checks; limited or no bill payment

Can't deposit checks, cash without fees

No statements

Payday loan features,

evade state law

Uneven legal protections



Check the Fees!

- Monthly fee
- ATM fees, ATM balance inquiries
- Load fee
- Teller withdrawals
- Denied POS, ATM or ACH transactions; “research” fees
- Overdraft fees
- Customer service calls, even to automated menu
- Inactivity



A Pathway or Dead End?

- Bank accounts don't build credit either
- Build experience with electronic payments
- Do cards offer access to checking, savings, auto loans, mortgages, credit cards?
- Prepaid cards are evolving



Issues with Payroll Cards

- Must have **choice** of payment method, not just a payroll card.
- Must have **free and clear access to wages.**
- **Little regulation of fees.** MN has strongest payroll card law. NCLC/CU have model law.
- **\$25 overdraft “protection”**
on NetSpend Skylight cards



NCLC Recommendations to CFPB

***Ban overdraft fees and credit features

*Require free balance inquiries, customer service; statements for \$1/month

*Require deposit insurance

*Tighten rules to ensure choice by employees, students



And...

- *Protect card in case of theft/errors/disputes
- *Improve fee disclosures, single average price tag
- *Permit savings, bill pay on large bank cards



Advice to Consumers

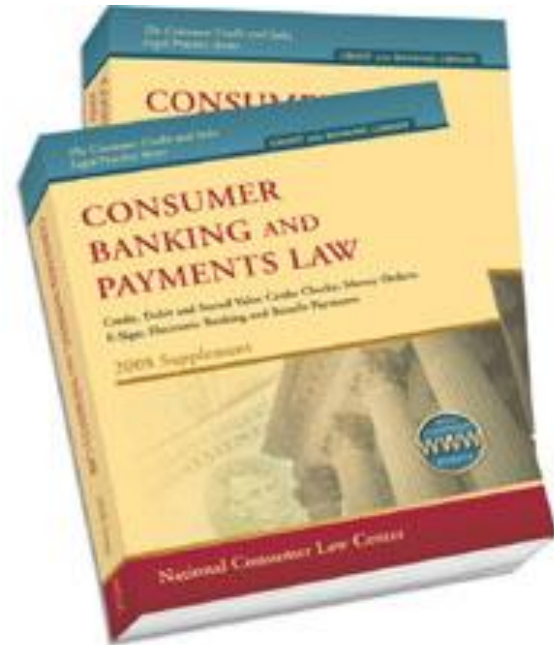
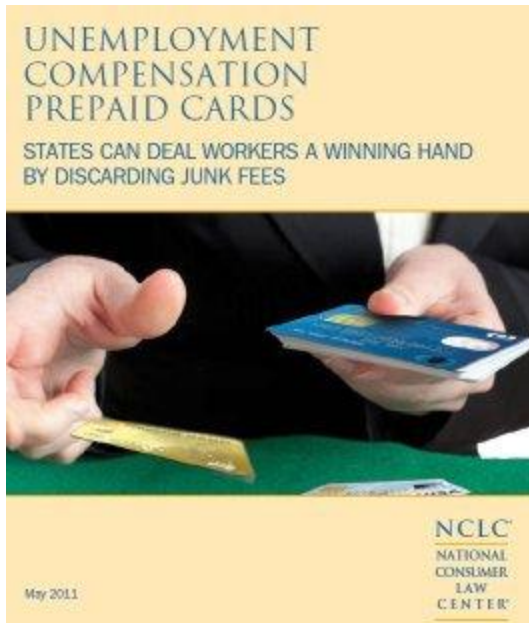
- √ Sign up for **direct deposit**
- √ Be aware of the **fees**
- √ Sign up for **alerts**
- √ Avoid check casher/payday lender prepaid cards
- √ Locate **network ATMs** beyond the issuing bank
- √ Ask for **cash back** from a purchase
- √ **Monitor** account online or request statements



For more information

NCLC website (Issues/Banking&Payment Systems/Prepaid Debit Cards)

NCLC Consumer Banking & Payments Manual





Since 1969, the nonprofit **National Consumer Law Center® (NCLC®)** has worked for consumer justice and economic security for low-income and other disadvantaged people, including older adults, in the U.S. through its expertise in policy analysis and advocacy, publications, litigation, expert witness services, and training. **www.nclc.org**

Prepaid Card Review 2013

Christina Tetreault, Staff Attorney
Consumers Union

October 24, 2013
Consumer Federation of America

2003 – 2012 Consumers Union Research

□ Published reports:

1. 2009/2010: Prepaid Cards Second-Tier Bank Account Substitutes (Michelle Jun/CFA/NCLC)
2. 2011: Adding It All Up: How Prepaid Card Fees Compare to Checking Account Fees (Suzanne Martindale and Michael McCauley)
3. 2012: Prepaid Cards: Loaded with Fees, Weak on Protections (Michelle Jun)

□ Findings:

- Fees: high, multiple and confusing
- Prepaid often more expensive than a checking account
- Poor disclosures
- Predatory features
- Lack of mandatory consumer protections

2013: Consumer Reports Rates Prepaid Cards

- 26 prepaid cards with 28 fee structures reviewed and rated

Ratings Factors

- Value
- Convenience
- Fee Accessibility & Clarity
- Safety

Ratings: 8 Scored Below 50

Bottom 3:

- Joyner Reach Card (34)
- Redpack Mi Promesa (33)
- AmEx for Target (17)

Prepaid Card	Rate	Commission	Other Fees	Overall Score
BankDirect with direct deposit (American Express)	●	●	●	47
BankDirect Low-cost Prepaid MasterCard	●	●	●	47
Green Bell Card (Green Bell Bank)	●	●	●	47
Approved Prepaid MasterCard (First OneBank) with direct deposit	●	●	●	47
Approved Prepaid MasterCard (First OneBank) without direct deposit	●	●	●	47
Prepaid Visa RealCard pay-as-you-go plan	●	●	●	47
BankDirect without direct deposit (American Express)	●	●	●	47
BBK Prepaid Debit Card	●	●	●	47
Walmart MoneyCard	●	●	●	47
Chase Liquid	●	●	●	47
Western Union MoneyWise Prepaid MasterCard	●	●	●	47
Halogen Reloadable Prepaid Card (Bank of America)	●	●	●	47
Prepaid Visa RealCard with embedded plan	●	●	●	47
Wash Prepaid MasterCard (Wash. Jobserv)	●	●	●	47
Regions Iron Card	●	●	●	47
Acco 360 Reloadable Prepaid Card (Fifth Third Bank)	●	●	●	47
PMC SmartAccess Prepaid Visa Card	●	●	●	47
Prepaid Visa RealCard monthly plan	●	●	●	47
NetSpend Prepaid Visa Pay As You Go plan	●	●	●	47
Unishion MasterCard Prepaid Card	●	●	●	47
Money Prepaid MasterCard	●	●	●	47
NetSpend Prepaid Visa RealAdvantage	●	●	●	47
UPdate Visa Prepaid Card (Classic plan) (MetLife)	●	●	●	47
U.S. Bank Convenient Cash Card	●	●	●	47
AccountNow Gold Visa Prepaid Card (MetLife)	●	●	●	47
Reach Visa Prepaid Card (Don Jensen)	●	●	●	47
Redpack Mi Promesa Prepaid MasterCard	●	●	●	33
American Express for Target	●	●	●	17

17 - PREPAID CARDS: How They Rate - JULY 2013 - WWW.004NUMBERREPORTS.ORG

Findings: Value

- ❑ Fees are lower and easier to avoid
- ❑ Few carry POS fees
- ❑ Banks' prepaid cards generally have lower, but often non-waivable, monthly fees

But...

- ❑ “Surprise” fees, such as inactivity fees*, remain fairly common
- ❑ Direct deposit - usually required for fee waivers or discounts - makes prepaid cards more sticky

*inactivity fees were not part of the CR “Value” ratings

Findings: Convenience

- ❑ In network ATMs more widely available than in the past
- ❑ Bill pay widely available - including by paper check but not with big bank prepaid cards (Durbin)

Findings: Convenience*

- ❑ SMS, online and mobile account management tools
- ❑ Mobile remote deposit capture
- ❑ “Deposit friendly” ATMs
- ❑ Bluebird’s no-overdraft paper checks

* These specific features were not part of the CR “Convenience” ratings

But...

- ❑ Features vary widely from prepaid card to prepaid card
- ❑ Hard to compare prepaid card features across prepaid card offerings
- ❑ Poor or inadequate descriptions of features and disclosures sometimes hidden or not available until after signing up

Findings: Fee Accessibility & Clarity

- ❑ Simplified fee structures
- ❑ Improved web layout: tabs with “Fees” or “How Much Does It Cost” common
- ❑ Tools to help consumers choose among fee plans

But...

- ❑ Lack of uniformity in fee disclosures and definitions of terms
- ❑ Fee information in some cases remains hard to find and difficult to understand

Findings: Safety

- 25 of 26 have FDIC Insurance

But...

- ❑ Prepaid cards still lack mandatory consumer protections – though most provide them voluntarily
- ❑ Consumers are still vulnerable to loss with voluntary protections

The Complete Report

- http://defendyourdollars.org/wordpress/wp-content/uploads/2013/07/Prepaid_Report_July_2013.pdf

ConsumerReports[®]

Prepaid Cards: How They Rate on Value, Convenience, Safety and Fee Accessibility and Clarity

July 2013

Thank You!

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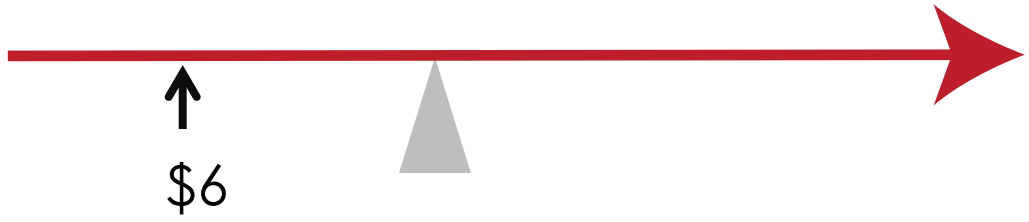
cardSTAR

XYZ CARD BRAND

Everyday User

| CFPB.gov

lowest price
card
\$2



Highest price
card
\$32

The estimated total monthly cost to use **this card** is \$19.

Fee to Buy Card
\$X.00

Reload Network
\$X.XX

Monthly Fee
\$X.00

Partner Surcharge-Free ATMs
Brands XYZ and ABC



cardSTAR

XYZ CARD BRAND

Infrequent User

| CFPB.gov

lowest price
card
\$1



Highest price
card
\$9

The estimated total cost to use **this card** is \$7.

Fee to Buy Card
\$X.00

Reload Network
\$X.XX

Monthly Fee
\$X.00

Partner Surcharge-Free ATMs
Brand XYZ and ABC



Adam Rust
Reinvestment Partners
Notes on CardStar

Challenges:

- Finite space on retail packaging
- Shape constraints
- More fees than with other transactional accounts
- Different price schedules for iterations of products offered under the same brand
- Rapid change in pricing and functionality
- Consumers may be less financially literate than other populations. As well, they may be more likely to speak in a different language.
- If-then pricing

Opportunities

- High rates of smart phone ownership in under-banked populations
- Increasing competition in retail settings
- New technology, higher bandwidth, more Wi-Fi

Why Estimates Versus a Simple List of Fees?

- Estimates make the difference between disclosing information or knowledge.
- Estimates are already an established model in other disclosure systems.
- Prepaid cards use a complicated "if-then" pricing scheme. Traditional checking accounts do to an extent; for example, they charge a monthly fee based upon balance amount, but most of the fees are not contingent.
- Many people will not have a firm ability to estimate their usage patterns. Do you know the amount of point-of-sale swipe transactions you made last month? Do you know the typical share of those transactions made up by signature versus PIN transactions?

Why a Scale of Costs?

- Unlike checking, where only a few features vary in their pricing, prepaid pricing differs dramatically. The logic of checking is "upfront if-then" with only one dependent variable. The criterion is generally 'if you have a direct deposit or meet a balance criterion, then most services are free and otherwise there is a monthly fee.' Prepaid uses more dependent variables. Monthly fees can be waived, but loading method will also determine point-of-sale costs, too.
- Entire segments (pay-as-you-go versus bundle) base pricing on distinctly different assumptions about consumer need.
- Unlike checking, there can be as more than service categories.
- The EPA uses a bar in its Energy Star guideline because it is simple and works across different languages.

The Philadelphia Fed broke card usage into three different groups based upon how they were opened: GPR retail, GPR online, and payroll. In some cases, they also broke out GPR by means of adding cash. Usage was very different across all different fee categories¹.

Card Type	Retail GPR	Web GPR	Payroll
Median Fees per Month	\$2 to \$12	\$10 to \$12	\$4 to \$7

How do we know the usage patterns of consumers?

- The CFPB should be able to glean those habits from the data they collect from financial institutions.
- This system requires the CFPB to perform a simple cluster analysis. Most likely there are going to be four to eight clusters of users. I can imagine these groups: full-time with and without direct deposit (2), short-term single-purpose user (1), teen/youth (1), college student (1) government benefits recipient (1), pocket spend accounts (1). I am sure that others are possible.

Why a QR Code? We should be using technology whenever possible. One problem with retail prepaid disclosures is the finite amount of space on the back of a card's packaging. The QR code is a means to overcome that challenge. Furthermore, the QR Code probably makes it possible to have additional disclosure information provided in other languages.

Is the online setting different than retail?

- It certainly could be. In an online setting, there is room for additional efforts. I believe that some kind of model video could be offered to go over basic tools for holding costs down.
- But the main problem in retail is the lack of space on packaging. Short of high-cost alternative financial service products, prepaid is one of the few financial products sold in independent stores. Disclosures are important not just for clarity or for the likelihood that they will serve an audience with less sophistication. In fact, the need is all the greater because most salespeople will be ill-prepared to adequately explain the various products.

Looking ahead: The ways in which regulators think about disclosures are changing. Increasingly, they see a disclosure as two fold. As has been the case with disclosures in the past, most believe that any standard should put pricing in a uniform matrix. But beyond that, there is interest in using disclosure as an opportunity to coach behavior. Given the complicated means for determining price in most prepaid products, coaching is very valuable.

Other examples: Rush has an interactive device on its web site to help people pick the card that best suits their financial pattern.²

¹ <http://www.philadelphiafed.org/consumer-credit-and-payments/payment-cards-center/publications/discussion-papers/2012/D-2012-August-Prepaid.pdf>

² <https://ww3.rushcard.com/card-plan-options#PlanCalculator>

Examples of Usage Predictions

	CU ³	Mercator ⁴	My Estimate*	CFPB
ATM Withdrawals	3	2	2	?
ATM Withdrawal Decline	n/a	1	1	
ATM Balance Inquiry	4	1	1 to 4	
Point-of-Sale Purchases	8	8	12	
Online Bill Payment	3	1	2	
Direct Deposits/Loads	2	2	2	
Call Center Inquiries – LIVE	n/a	3	3	
Call Center Inquiries - IVR			3	
Paper Statements	n/a	n/a	0	
Text Messages			0 to 8	

³ http://consumersunion.org/wp-content/uploads/2013/07/Prepaid_Report_July_2013.pdf

⁴ <http://www.mynafsa.org/wp-content/uploads/2013/04/Bretton%20Woods%20Analysis%20of%20Reloadable%20Prepaid%20Cards%20March%202011.pdf>

[The KAIKU Card](#)

- [The Card](#)
- [How it Works](#)
- [Add Money](#)
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- [Features + Benefits](#)
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Apply for a Card

Fees

[New CFSI Fee Box](#)

General Fees

Card Fee	FREE
Activation Fee	FREE
Monthly Charge	\$1.95

In-Network Allpoint ATM Fees (Domestic and International)

ATM Withdrawal Fee	FREE
ATM Balance Inquiry Fee	FREE
ATM Decline Fee (Domestic)	\$0.95
ATM Decline Fee (International)	\$1.45

Out-of-Network Domestic ATM Fees

ATM Withdrawal Fee (ATM operator may charge an additional fee)	\$1.45
ATM Balance Inquiry Fee	\$0.95
ATM Decline Fee	\$0.95

Out-of-Network International Transaction Fees

ATM Withdrawal Fee (ATM operator may charge an additional fee)	\$2.45
ATM Balance Inquiry Fee	\$0.95
ATM Decline Fee	\$1.45

Additional Fees

International Transaction Fee (Charged for each International transaction)	3.5%
Additional Card Fee	\$2.00
Replacement Card Fee	\$7.95
Card Reissue Fee	\$3.95
Over-the-Counter Cash Withdrawal Fee	\$4.95
ACH Transfer from KAIKU Visa Prepaid Card to Bank Account Fee	\$0.95
Monthly Paper Statement Fee	\$2.95

Additional Loading Fees

Third Party Retailer Cash Loading Fee*	\$2.95 - 4.95
KAIKU Credit Card Loading Fee**	3%