



# Features of a Safe Prepaid Card

## Pew Policy Recommendations

### Overview

In February 2014, The Pew Charitable Trusts released three reports on general purpose reloadable, or GPR, prepaid cards.<sup>1</sup> Based on this research, Pew urges the Consumer Financial Protection Bureau to ensure that GPR cards have the following features to be a safe and viable alternative to checking accounts.

#### No overdraft or linked lines of credit.

Pew's survey research shows that consumers are using GPR prepaid cards to control their spending, ensure that they will not overdraw their accounts, and avoid high fees.<sup>2</sup>

- 67 percent use the cards to avoid credit card debt.
- 66 percent use the cards to avoid spending more money than they have.
- 63 percent use the cards to avoid overdraft fees.
- 71 percent do not want overdraft service on their prepaid card.
- 69 percent do not want a linked payday loan.
- 63 percent do not want a linked line of credit.

More than two-thirds (68 percent) of regular GPR prepaid card users would rather have transactions declined at the point of sale than have the transactions go through and pay overdraft fees.<sup>3</sup>

Pew's research has documented the pitfalls of checking account overdraft programs, and these problems should not be replicated for prepaid cards. For example, checking account overdraft fees cost consumers thousands of dollars per year and push them out of the banking system.<sup>4</sup> The opt-in rules, which require a checking account holder to affirmatively choose an overdraft service option, are a source of consumer confusion: More than half of checking account holders who incurred overdrafts using their debit card do not believe they had opted in.<sup>5</sup>

The industry standard is that the vast majority of cards do not allow overdrafts or other credit options.<sup>6</sup> As such, if the Consumer Financial Protection Bureau were to act now to prohibit the attachment of any automatic or linked credit product to a GPR prepaid card, most prepaid card companies would not lose overdraft fee revenue.

## Access to transaction history and limitations on liability.

GPR prepaid cardholders should be protected against liability for unauthorized transactions that occur when a card is lost or stolen or a charge is incorrectly applied, just as users of debit cards linked to a checking account (a requirement known as Regulation E) are. Yet, only 38 percent of cards provide all of these protections for unauthorized transactions. Of note, 7 of the 66 cards reviewed by Pew do not provide limited liability for certain types of unauthorized transactions, including transaction errors such as double billing, purchases made on lost cards or those made with a fraudulent PIN, and 4 do not require that the consumer be notified of account transaction information within the allowable dispute period.<sup>7</sup>

Consumers also must be granted convenient and workable access to their transaction histories and balances, through paper statements or other means, to keep track of their accounts. Of note, half of all cards do not charge a fee for live customer service, which allows customers to learn about their balances. Eight of the 66 cards, however, charge a fee for automated customer service calls.<sup>8</sup>

## Uniform, concise, and easy-to-read information about terms, conditions, and fees.

Consumers seeking to purchase GPR prepaid cards should have access to all the important information necessary to make an educated choice before purchasing a card, whether in a store or online. A concise and uniform disclosure document that summarizes fees and other important terms would allow consumers to comparison shop and make an informed purchase rather than the “trial and error” process of finding out about a fee or term after using a card.

All of the largest providers of GPR prepaid cards offer their products online and allow customers to fill out an application on their website. These sites generally contain detailed information about the product, though it is often dispersed on several different pages or buried in dense explanations of terms and conditions. Pew has developed a disclosure box that contains clear information about all the important fees and terms that should be provided before consumers decide to purchase.<sup>9</sup>

## Federal insurance against all losses up to \$250,000.

GPR prepaid cards function exactly like checking accounts in most respects and are used similarly by many customers. Federal deposit insurance rules allow card issuers to use pass-through insurance that fully protects consumers by ensuring that deposits to their cards can be reimbursed if the company becomes insolvent.

Most card companies have taken full advantage of this and disclose that they have deposited consumer funds in FDIC-insured accounts.<sup>10</sup> All GPR prepaid card programs should be required to hold their funds in a federally insured account that protects consumers against all losses up to \$250,000 and to keep accurate records of the owners of the funds, as is required by law to be eligible for FDIC insurance.

## No predispute binding arbitration clauses.

Predispute binding arbitration clauses prevent cardholders from challenging unfair and deceptive practices or other legal violations in court, impairing individual rights and potentially allowing abuses to spread without legal

or public scrutiny. Such requirements are increasingly common in financial agreements. Of the 66 cards studied, 51 (77 percent) have contractual clauses that require cardholders to submit to mandatory binding arbitration. Fifty of the 66 cards (76 percent) also disclose that cardholders are not permitted to participate in class action litigation involving that card.<sup>11</sup>

## Endnotes

- 1 The Pew Charitable Trusts, *Consumers Continue to Load Up on Prepaid Cards*, [http://www.pewstates.org/uploadedFiles/PCS\\_Assets/2014/Prepaid-Cards-Still-Loaded-Report.pdf](http://www.pewstates.org/uploadedFiles/PCS_Assets/2014/Prepaid-Cards-Still-Loaded-Report.pdf); *Why Americans Use Prepaid Cards*, [http://www.pewstates.org/uploadedFiles/PCS\\_Assets/2014/Prepaid-Cards-Survey-Report.pdf](http://www.pewstates.org/uploadedFiles/PCS_Assets/2014/Prepaid-Cards-Survey-Report.pdf); and “The Need for Improved Disclosures for General Purpose Reloadable Prepaid Cards,” [http://www.pewstates.org/uploadedFiles/PCS\\_Assets/2014/Prepaid-Cards-Disclosure-Issue-Brief-v2.pdf](http://www.pewstates.org/uploadedFiles/PCS_Assets/2014/Prepaid-Cards-Disclosure-Issue-Brief-v2.pdf).
- 2 *Why Americans Use Prepaid Cards*, 14.
- 3 *Supra*, note 1, *Why Americans Use Prepaid Cards*, p. 19.
- 4 The Pew Charitable Trusts, *Slipping Behind: Low-Income Los Angeles Households Drift Further from the Financial Mainstream* (2011), 7, [http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Safe\\_Banking\\_Opportunities\\_Project/Slipping%20Behind.pdf](http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Safe_Banking_Opportunities_Project/Slipping%20Behind.pdf).
- 5 The Pew Charitable Trusts, *Overdrawn: Persistent Confusion and Concern About Bank Overdraft Practices*. (Forthcoming)
- 6 See Pew’s *Consumers Continue to Load Up on Prepaid Cards*, 10, which shows that 61 out of 66 cards studied do not offer overdraft or linked lines of credit.
- 7 *Consumers Continue to Load Up on Prepaid Cards*, 20.
- 8 *Consumers Continue to Load Up on Prepaid Cards*, 16.
- 9 “The Need for Improved Disclosures for General Purpose Reloadable Prepaid Cards,” 8.
- 10 *Consumers Continue to Load Up on Prepaid Cards*, 19.
- 11 *Consumers Continue to Load Up on Prepaid Cards*, 21.

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## For further information, please visit:

[pewtrusts.org/prepaid](http://pewtrusts.org/prepaid)

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