THE PEW CHARITABLE TRUSTS

Loaded with Uncertainty:

Are Prepaid Cards a Smart Alternative to Checking Accounts?

SEPTEMBER 2012

The Pew Charitable Trusts is driven by the power of knowledge to solve today's most challenging problems. Pew applies a rigorous, analytical approach to improve public policy, inform the public, and stimulate civic life.

Pew works to ensure that the financial products many consumers use every day, including checking accounts, credit cards, and small-dollar loans, are safe, fair, and transparent for consumers.

PEW CHARITABLE TRUSTS

Susan K. Urahn, managing director

Research and Writing	Publications and Web
Cora Hume	Jennifer Peltak
Thaddeus King	Evan Potler
Leah Libresco	Adam Rotmil
Susan Weinstock	Carla Uriona

ACKNOWLEDGMENTS

We would like to thank Steven Abbott, Nick Bourke, Jennifer V. Doctors, Laura Fahey, Shelley Hearne, Alex Horowitz, Samantha Lasky, Barclay Mitchell, Liz Voyles, and Andreas Westgaard for providing valuable input and feedback on the report.

The report benefited from the insights and expertise of external reviewers Sarah Jane Hughes, university scholar and fellow in commercial law, Maurer School of Law, Indiana University; and Ben Jackson, Mercator Advisory Group. Additionally, Julie Beer reviewed the data and charts for accuracy. Although they have reviewed the report, neither they nor their organizations necessarily endorse its findings or conclusions.

For additional information, visit www.pewtrusts.org/prepaid

---

901 E Street NW, 10th Floor
Washington, DC 20004

2005 Market Street, Suite 1700
Philadelphia, PA 19103

Contents

Executive Summary

General purpose reloadable (GPR) prepaid cards are often thought of as an alternative to a checking account. They are a burgeoning product; in 2009, consumers loaded $28.6 billion onto these cards and by 2013, that figure is expected to reach $201.9 billion.[1] Used much like a debit card, these cards allow the customer to load funds on the card through a variety of means, and can be used to make purchases, withdraw money from an ATM, and pay bills. Many cards have other features like savings accounts and online bill pay attributes that make them more closely resemble checking accounts. In this study, Pew focused on the GPR prepaid market by examining 52 cards that cover at least 75 percent of the market—based on the volume loaded onto these cards during 2011.[2]

Both checking accounts and GPR prepaid cards are used by consumers to receive deposits, make point-of-sale purchases, pay bills, and withdraw cash from ATMs. However, despite these shared purposes, significant differences exist between the two financial products. Most notably, the checking account has a fairly uniform fee structure, is federally regulated through mandated consumer protection laws, and carries up to $250,000 in federal insurance against bank failures. In contrast, the GPR prepaid card market is evolving, with an array of fee structures and services offered, with median costs of the common fees Pew tracked ranging from $0.50 to $9.95. While these cards currently lack meaningful federal consumer protection regulations, this, too is evolving, as the Consumer Financial Protection Bureau (CFPB) issued an Advance Notice of Proposed Rulemaking governing these cards in May 2012.[3]

Based on this review of 52 GPR prepaid cards, Pew found the following:

The varying fee structures and disclosures for GPR prepaid cards make comparison shopping very difficult. These cards charge fees for discrete services, with most including between seven and 15 individual fees. Whether certain services are free or cost a particular fee is disclosed differently by each card provider. For instance, nine cards Pew studied charge a fee when a point-of-sale transaction is declined, while 43 do not; 24 cards charge a fee to obtain a card, 20 disclose it as free, and eight others do not disclose if there is a cost; and, 30 cards disclose a fee to speak to a live customer service representative, 11 disclose it as free, and 11 cards do not disclose any live customer service fee information. Clear and uniform disclosures are necessary to ensure that potential and existing customers fully understand the services and fees offered by a GPR prepaid card.

The cost of GPR prepaid cards can be less than checking accounts, but these cards come with significant risks. Many prepaid cards provide services to cardholders at a lower price than checking accounts and, for the most part, do not allow overdrafts or their accompanying fees. However, there are many dangers in the market that extend beyond a simple comparison of the fees charged. Notably, these cards are not covered by laws such as the Truth in Savings Act and the Electronic Fund Transfer Act that require disclosures of fees and terms and limit the liability of the consumers for unauthorized electronic fund transfers. Likewise, there is no federal supervision of prepaid cards, allowing the practices of GPR prepaid card companies generally to go unmonitored. Proactive supervision by the CFPB is essential to prevent unfair, deceptive, or abusive acts or practices.

Overdraft products are antithetical to the purpose of GPR prepaid cards and should not be offered. Adding credit options to a prepaid card makes that product more like a credit card and no longer "pre-paid." Numerous studies have shown that consumers use prepaid cards to live within their means.[4] While only five of the 52 cards studied disclosed the availability of overdraft plans and fees, nothing prevents additional cards from offering overdraft service in the future. Unlike checking account holders who use their debit cards for purchases and to withdraw funds at an ATM, GPR prepaid cardholders, due to lack of regulation, can be automatically enrolled without their knowledge into overdraft coverage. In order for these cards to remain a useful tool for consumers trying to spend only within their means, they should not include overdraft plans.

FDIC insurance does not necessarily apply to funds loaded onto GPR prepaid cards. These providers generally are non-banks, such as Green Dot and NetSpend. These companies are not FDIC insured and do not hold deposits themselves. Instead, they hold their customers' funds in a single "pooled" account at a third-party bank. These pooled funds are eligible for what is known as "FDIC pass-through insurance," which provides up to $250,000 in coverage to each individual cardholder. In order to qualify for pass-through insurance, the funds must be held in an FDIC-insured account and the balances and identifications of the actual owners of each GPR prepaid card must be tracked by either the company or the bank.[5] Failure to do so would cause only the larger account itself to be insured, but not the individual prepaid cardholder. While they are not required to carry FDIC insurance, more than 90 percent of cards disclosed that their cardholders' funds were FDIC-insured. These disclosures, however, do not guarantee that the pass through insurance is being executed correctly, particularly because prepaid card companies are not supervised by any federal regulators. Consequently, GPR prepaid cardholders are at greater risk than checking accountholders of losing some or all of their funds if the bank holding the pooled account fails.

Introduction

Prepaid cards, much like debit cards linked to checking accounts, enable consumers to deposit funds using a range of methods, make point-of-sale purchases, and withdraw money from an ATM. Some cards have additional features such as online bill pay and savings accounts.

In this study, Pew focused on the prepaid market by examining the account agreements, fee schedules, and other Web pages for the 52 prepaid cards available for purchase online at the Web sites for American Express, MasterCard, and Visa.[6] This sample, which represents at least 75 percent of the market, typifies the kinds of prepaid cards a consumer can choose.[7] This research reflects the information available at prepaid card Web sites. Pew did not make any assumptions about information that was not disclosed.

Prepaid cards are attractive to consumers because the cards are nationally accessible. Unlike most traditional financial institutions, which rely on proprietary branches and ATMs to attract account holders, these cards allow customers to rely on third-party retailers, such as convenience stores or pharmacies, to load cash onto their cards. In addition, cardholders can use any ATM to access funds, and the fees are often lower than similar charges for checking accounts. Accordingly, prepaid cards add convenience for many consumers and offer enhanced financial services to those with limited access to banks and credit unions.

Landscape of Prepaid Cards

Prepaid cards are marketed, sold, and maintained by companies known as "program managers." The two largest program managers are Green Dot and NetSpend. The cards are usually branded with a payment network logo such as American Express, Discover, MasterCard, or Visa.[8] These logos allow prepaid cards to be used at any location where debit or credit cards with the same network logo are accepted. Prepaid cards are often mistakenly confused with gift cards. However, gift cards are restricted for use at a single merchant or a group of affiliated merchants, while prepaid cards can be used at almost any retailer or ATM.[9]

Most program managers are not banks, but rather keep the funds in pooled accounts in banks. If a program manager follows the rules outlined by the FDIC for insuring funds in a pooled account, prepaid cards can be insured for up to $250,000.[10]

Prepaid cards can be obtained either online or at retail locations. Cards that are acquired online can be registered immediately, with the customer providing personal information to the company. Cards bought in retail locations are often called "temporary cards" and are limited prior to registration.

Funds can be loaded and reloaded onto prepaid cards through cash loads, direct deposit, and bank transfers. As disclosed by the program managers for the 52 cards studied, 98 percent allow for cash loads, 92 percent permit direct deposits, and 58 percent provide at least one way to add money from a bank account. When the card balance is depleted, the card may be reloaded with additional funds.

Services and Fees

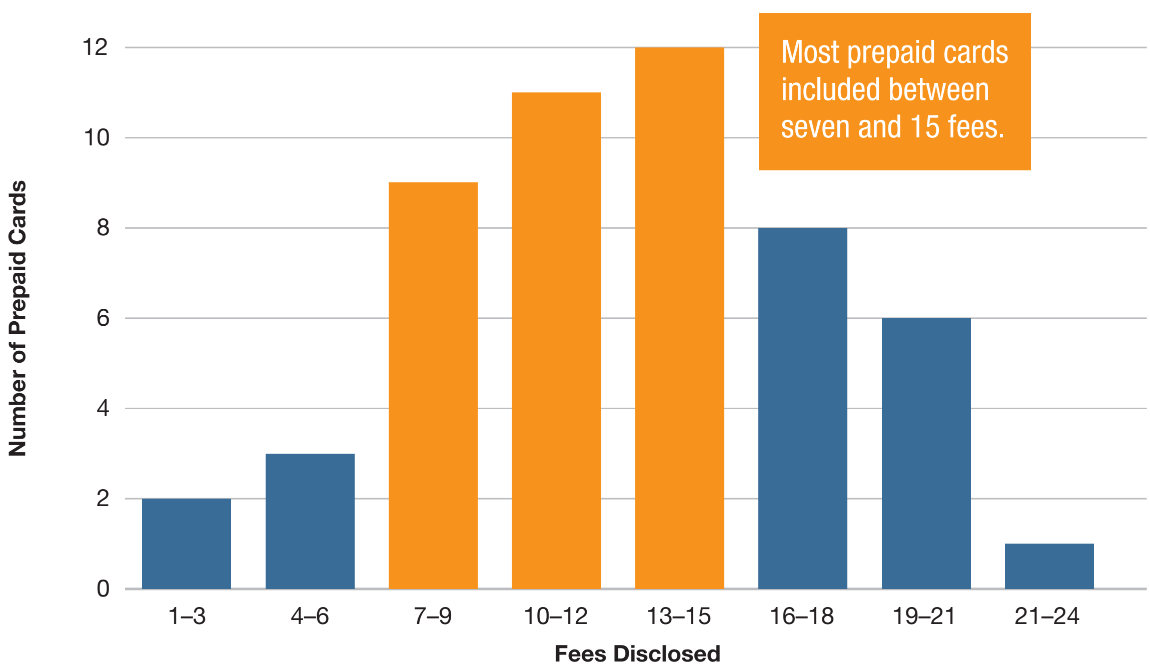
The business model used by prepaid cards is much different from that of mainstream financial institutions. In general, banks and credit unions earn revenue from checking accounts through fees and investments on deposits.[11] The most common fees charged by banks and credit unions include out-of-network ATM usage, overdraft services, monthly fees for customers who do not deposit or maintain a certain level of funds, and interchange fees that are charged to merchants for debit card purchases.[12]

While many prepaid cards also charge a monthly fee, Pew found that a majority have chosen to build revenue by charging fees for individual services.[13] A full comparison of prepaid cards and checking accounts can be found in the following section of this report.

As reported in *Key Focus Group Findings on Prepaid Debit Cards*, Pew found that consumers are attracted to prepaid cards because they facilitate the compartmentalization of funds and allow users to limit their spending to the amount on their cards, avoiding unwanted debt.[14] Consumers likewise explained that they purchased prepaid cards because they were unhappy with bank overdraft penalty fees. They preferred the up-front $2 to $3 fees from prepaid cards over a possible $35 overdraft penalty fee from their checking account. In addition, the focus groups revealed that consumers liked the perceived anonymity of these cards. Some believed they offered better protection from identity theft, fraud, and privacy intrusion than do credit and bank debit cards. Others used prepaid cards to pay particular bills (such as utilities) for which they did not want to give the company information about their checking accounts.

EXHIBIT 1:

HOW MANY FEES DO PREPAID CARDS DISCLOSE?



SOURCE: The Pew Charitable Trusts, 2012.

Pew's examination found a wide range in the number of fees disclosed. Common fees for prepaid cards include, but are not limited to, charges for card acquisition, monthly maintenance, point-of-sale signature and PIN transactions, withdrawals from ATMs, and customer service calls.

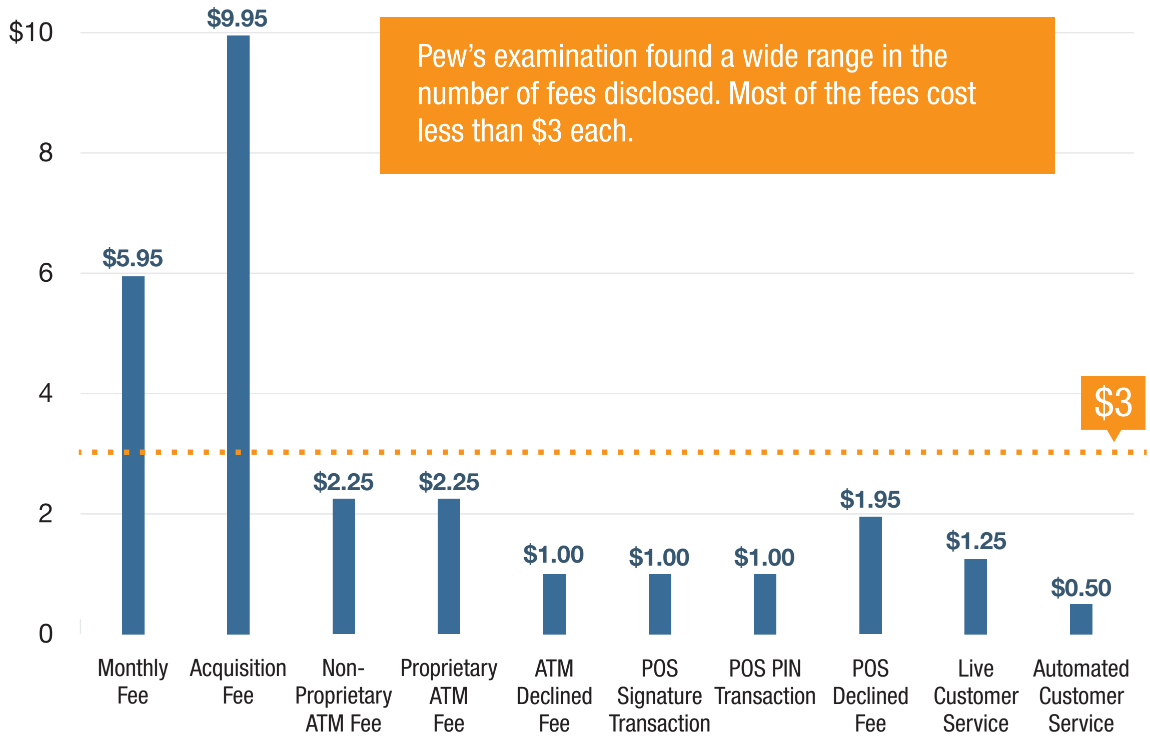
The median cost for most service charges on the 52 prepaid cards Pew studied was less than $3.

Prepaid cards also offer some services for free. However, it is unclear between cards which services are offered for free and which have fees but the fees are not disclosed. For example, 21 percent of the cards Pew studied disclosed that live customer service calls were free, while an equal percentage did not disclose any information about this fee. This makes it very difficult for consumers to comparison shop (see Exhibit 3).

Despite the assortment of fees associated with prepaid cards, consumers can avoid many charges by taking certain actions. For example, half of the cards studied allowed one or more ways to avoid the monthly maintenance fee. Fifteen cards either did not have a monthly fee or charged it only if customers do not use

EXHIBIT 2:

MEDIAN SERVICE FEES FOR PREPAID CARDS



*Point-of-Sale (POS)

SOURCE: The Pew Charitable Trusts, 2012.

their cards for a number of days, ranging from 60 to 395. In addition, 11 cards waived their monthly fees for customers who load a minimum amount onto their cards each month. For these cards, the median minimum load requirement to waive the monthly fee was $1,000, and the range was $100 to $2,500.

Moreover, cardholders can use direct deposit to avoid loading fees for 51 of the 52 cards Pew studied. To avoid ATM fees, consumers can opt for "cash back" when making a point-of-sale PIN purchase. Likewise, consumers can steer clear of extra fees by viewing accounts online. Of the cards Pew studied, 98 percent disclosed that consumers may view their account balances and at least some form of transaction history online at no cost, while obtaining a paper statement from all but four cards would incur a fee.

Federal Deposit Insurance

FDIC insurance provides a backstop to financial loss for checking account holders. When a bank fails, the FDIC reimburses covered account holders for losses up to $250,000.[15] For many prepaid cardholders, there may not be such a safety net. These cards, unlike traditional checking accounts, cannot be directly covered by FDIC insurance but can be more tenuously secured by pass-through insurance.[16] Pass-through insurance allows program managers to hold customers' funds in a single pooled account and facilitate up to $250,000 in federal insurance to each cardholder.[17] Because there is no federal supervision of prepaid cards, there are no safeguards in place to ensure that the program managers' assertions of FDIC insurance are accurate.

There are many ways in which the funds on a prepaid card could be uninsured. FDIC insurance is not required for these cards, so a program manager could choose not to provide it. In addition, prepaid cards must be registered with the program manager before FDIC pass-through insurance will apply.[18] This means that "temporary cards," which are commonly distributed to consumers when they purchase a prepaid card at a retail store, are not FDIC-insured.

FDIC insurance applies only to funds currently held in an insured bank account.[19] However, the loading process for prepaid cards creates situations in which funds are not under the control of a financial institution and are therefore uninsured. For example, when a customer uses a Green Dot MoneyPak to load funds, the funds are not insured. A MoneyPak is a credit that can be purchased at a retailer with cash that then can be used to load or reload funds onto any participating prepaid card. Until the MoneyPak is used and Green Dot transfers the funds to the program manager, which then deposits the funds in an insured account, the money is not protected by the FDIC.[20]

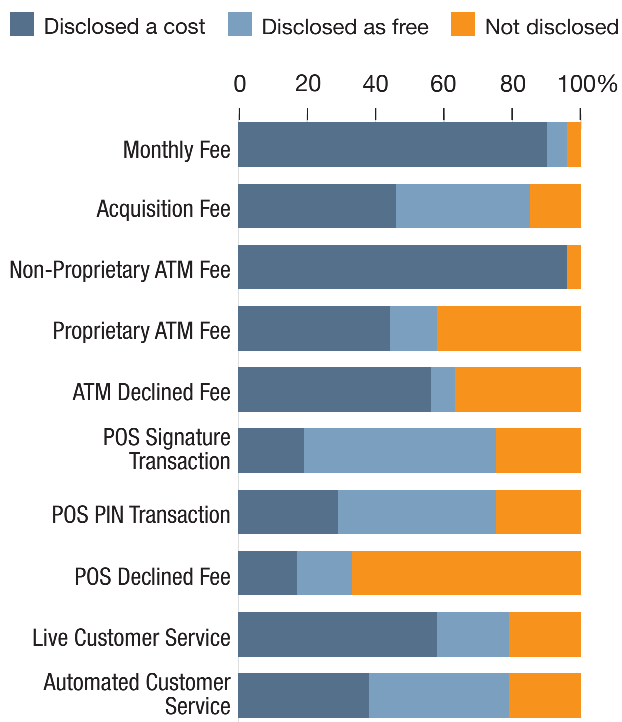
In addition, there are no supervisory safeguards to ensure that program managers that claim to hold customers' funds in an FDIC-insured account are in fact holding all of those funds in such an account. For example, a dishonest company might use customers' funds for high-risk investments. If a program manager goes out of business, any funds that are not actually being held in an insured account could be lost.

Of the 52 cards Pew studied, only three indicated that they lacked FDIC insurance. Of the remaining 49 cards, 23 disclosed that the funds held on the card were FDIC-insured. For the other 26 cards, the disclosures were unclear as to whether each individual would be insured up to $250,000. However, for cards managed by non-banks, the fact remains that FDIC insurance may not be in place to fully cover their cardholders. Claims of FDIC insurance in cases where portions of consumers' funds may in fact be uninsured create a false sense of security for unsuspecting consumers.

Disclosures

Recently, prepaid card providers have tried to make their fees and terms clearer to consumers.[21] Many of the cards Pew studied included a summary box of fees and terms in their disclosures. However, the ability to compare terms across cards is hindered by the lack of uniformity among the disclosure boxes currently in use. For example, the summary boxes included in cardholder agreements for Green Dot and NetSpend are laid out very differently, which makes it more difficult to compare the two products. This is problematic when the fees associated with individual prepaid cards and the services offered vary widely.

EXHIBIT 3:
WHAT PREPAID CARD FEES ARE DISCLOSED?



*Point-of-Sale (POS)
SOURCE: The Pew Charitable Trusts, 2012.

The following disclosure boxes for Green Dot and NetSpend demonstrate the inconsistency in disclosures.

EXHIBIT 4:

GREEN DOT DISCLOSURE SUMMARY BOX

Fee Type	Fee
Initial Purchase	Free
Monthly Charge	Waived in any monthly billing cycle when you load at least $1,000 to your Card or have 30 posted purchase transactions (excludes all ATM declined withdrawals, ATM balance inquiries and teller cash advances). Otherwise, $5.95.
ATM Withdrawal & Teller Cash Advance	Free at in-network* ATMs All other ATM withdrawals: $2.50** Teller cash advance: $2.50
Balance Inquiry at Non-Network ATM	$0.50
Lost/Stolen Card Replacement	$4.95
Reload at Retail Location	Varies by retailer, up to $4.95
Second Card	$4.95
Foreign Transactions (see paragraph titled "Foreign Transactions")	3% of total transaction amount

When looking at the disclosure boxes for **Green Dot** and **NetSpend**, it is difficult to understand the differences in what is provided by each company and what the total cost will be to cardholders.

Without any standardization in the summary boxes offered by prepaid cards, consumers will continue to have difficulty comparing products and choosing the option best suited to them.

EXHIBIT 5:

NETSPEND DISCLOSURE SUMMARY BOX

Three Simple Plans:	**Pay-As-You-Go℠ Plan**	**FeeAdvantage™ Plan**	**NetSpend Premier® Plan**
Cost to open account	None	None	None
Monthly Fee	N/A	$9.95	$5.00
Signature Purchase Transaction Fee	$1.00 each	Included in Plan	Included in Plan
PIN Purchase Transaction Fee	$2.00 each	Included in Plan	Included in Plan
Bill Payment Fee	In addition to the one or more no-cost bill payment methods made available through third-party service providers, you can see a full range of options and applicable fees in your online Account Center.		
Stop Payment Fee for Preauthorized Payment	$10.00 each		
Domestic ATM Cash Withdrawal	$2.50 per withdrawal, plus ATM owner fees, if any		
International ATM Cash Withdrawal	$4.95 per withdrawal, plus ATM owner fees, if any		
ATM Transaction Decline Fee	$1.00 each		

Tip: To avoid the ATM fees, you can get cash back when making purchases using your PIN at many retailers, such as grocery stores.

Add Money To Your Account:	
Direct Deposit	Free
Add cash or checks at a NetSpend Reload Network location	Convenience fee determined by location
Instant Bank Transfer	$3.95 per transfer of $99.00 or less (deducted from the transferor's debit card account)
Bank Transfer	Free; transfer fees from the originating bank may apply
Account-to-Account Transfer -online -via text message -via toll-free number (Customer Service Agent)	-No fee -No fee; carrier message and data rates may apply -$4.95 each

Manage Your Account:	
Online Account Center	Free
Mobile Phone Anytime Alerts™	Free; standard text message rates may apply
Balance Inquiry Fee -via toll-free number (automated service) -via toll-free number (Customer Service Agent) -at ATM -online -via Anytime Alerts	- No fee for NetSpend Premier® cardholders, $0.50 per call for all other cardholders - $0.50 per call for all cardholders - $0.50 each for all cardholders - No fee for all cardholders - No fee for all cardholders; carrier message and data rates may apply.
Check or Additional Statement Mailing Fee	$5.95 each
Additional Card Fee	$9.95 each
Lost or Stolen Card Replacement Fee	$9.95 each
Account Maintenance Fee	$5.95 per month (fee applies if Card Account has had no activity, *i.e.*, no purchases; no cash withdrawals; no load transactions; or no balance inquiry fee for 90 days).

NOTE: For a more in-depth discussion of the differences between Green Dot and NetSpend, see Appendix B.

Federal Regulation and Supervision

The prepaid card market is, for the most part, unregulated. As explained above, these cards are not afforded most of the federal protections that apply to checking accounts. (Appendix C outlines the limited federal consumer protections that do apply to prepaid cards.) In addition, the program managers that are not banks are presently not directly supervised by the CFPB or any other federal regulator.[22] While there are some state law provisions, the prepaid card market is currently operating without federal supervision and without basic protections for consumers against loss of funds or unfair, deceptive, or abusive acts or practices (UDAAP). This lack of oversight could turn a potentially beneficial emerging product into a haven for predatory lenders and other unscrupulous actors.

The treatment of checking account holders is monitored by federal agencies such as the CFPB, the FDIC, the Federal Reserve, the Office of the Comptroller of the Currency (OCC), and the National Credit Union Administration (NCUA).[23] Several laws, such as the Truth in Savings Act (TISA) and the Electronic Fund Transfer Act (EFTA), require mandatory disclosures and protections to consumers.[24] While prepaid cards can fill the functions of checking accounts, they are not afforded these protections.[25] However, the CFPB issued an Advance Notice of Proposed Rulemaking concerning the consumer protections afforded prepaid cardholders on May 24, 2012.[26]

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) gave the CFPB the ability to supervise larger participants of a market for consumer financial products or services.[27] This means that the CFPB has the authority not only to write rules pertaining to the prepaid card market, but also to actively supervise the larger participants.[28]

Comparing Checking Accounts and Prepaid Cards

Checking accounts and prepaid cards serve similar purposes in many ways but offer services through different business models and fee structures.[29] Unlike the standardized checking account market, prepaid cards vary greatly in terms of services and fees. In addition, federal laws and regulations concerning supervision and consumer protections do not uniformly cover checking accounts and prepaid cards.

Checking accounts are established products that have a standardized business model. They are well known to most consumers, as 90 percent of adult Americans have one.[30] Checking accounts generally offer overdraft plans with penalty fees, which can make them very expensive for customers who are unable to maintain a positive balance. Prepaid cards, on the other hand, are unregulated and unsupervised at the federal level and can be used as an alternative to checking accounts. Prepaid card users are often charged fees for many services, but the cards generally do not have overdraft plans and their accompanying fees. In addition, prepaid cards usually do not require a credit or background check. Accordingly, consumers who are in ChexSystems or who have had other problems with a checking account are able to purchase a prepaid card.[31] Some of the main differences between the two products are discussed in more detail below.

Fees

Pew found that prepaid cards frequently charged fees for common services. These fees included charges for point-of-sale transactions, in-network ATM withdrawals, and customer service calls. Most bank accounts did not charge these fees. However, there were a few areas where prepaid cards were equal to or better than checking accounts:

- Fees for out-of-network ATMs were similar for both product types.
- The median monthly fee for prepaid cards was about half of what it was for checking accounts.
- Overdraft fees, which were ubiquitous with checking accounts, were uncommon with prepaid cards.

In order to quantify the effect of these fees on consumers, Pew developed three consumer models, representing those who are savvy, basic, or inexperienced. These models were applied to 237 checking accounts offered by the 12 largest banks and 52 prepaid cards available online on the Web sites of Visa, MasterCard, and American Express.[32] The application of these models illustrates the differences in the monthly costs incurred by various types of consumers. Exhibit 6 explains the key differences between the models.

These models were developed by Pew and are illustrative of the variation in monthly costs based on different behavioral patterns. They approximate the monthly costs of prepaid cards and checking accounts for various types of consumers. However, it is important to note that the data do not reflect the fact that there are other important distinctions between checking accounts and prepaid cards, including consumer protections and convenience of use.

EXHIBIT 6:

THREE CONSUMER MODELS

Savvy ★★★	• Avoids fees whenever possible • Uses direct deposit
Basic ★★☆	• Not as proficient at avoiding fees • Incurs one overdraft or point-of-sale (POS) decline fee per month
Inexperienced ★☆☆	• Makes heavy use of services and does not avoid fees • Incurs two overdraft penalty fees or decline fees per month

NOTE: The full explanation of the consumer models, including a list of fees incurred and waivers tracked, is available in Appendix D.

SOURCE: The Pew Charitable Trusts, 2012.

All of the customer models make 17 point-of-sale purchases per month, which is the average number of monthly transactions among active debit card users.[33] All customers use bill pay services if available. All customers are assumed to load or deposit at least $1,500 onto their cards or into their checking accounts per month, and are eligible for some monthly fee waivers. Whenever a customer makes a withdrawal at an out-of-network ATM, the model charges a $2 fee imposed by the owner of the ATM, in addition to any fee charged by the bank or prepaid card. When the prepaid card users reload cards without using direct deposit, the model adds a $4.95 charge for using a third party, in addition to any fee charged by the program manager.

For a more in-depth perspective on the variation in costs based on consumer behavior, it is helpful to look at prepaid cards and checking accounts separately (see Exhibit 11).[34]

CONSUMER MODEL SNAPSHOT

EXHIBIT 7:

RANGE OF MONTHLY COSTS FOR CONSUMER MODELS

NOTES: This chart shows the ranges in monthly costs for the three consumer models for the 237 checking accounts and 52 prepaid cards Pew studied.

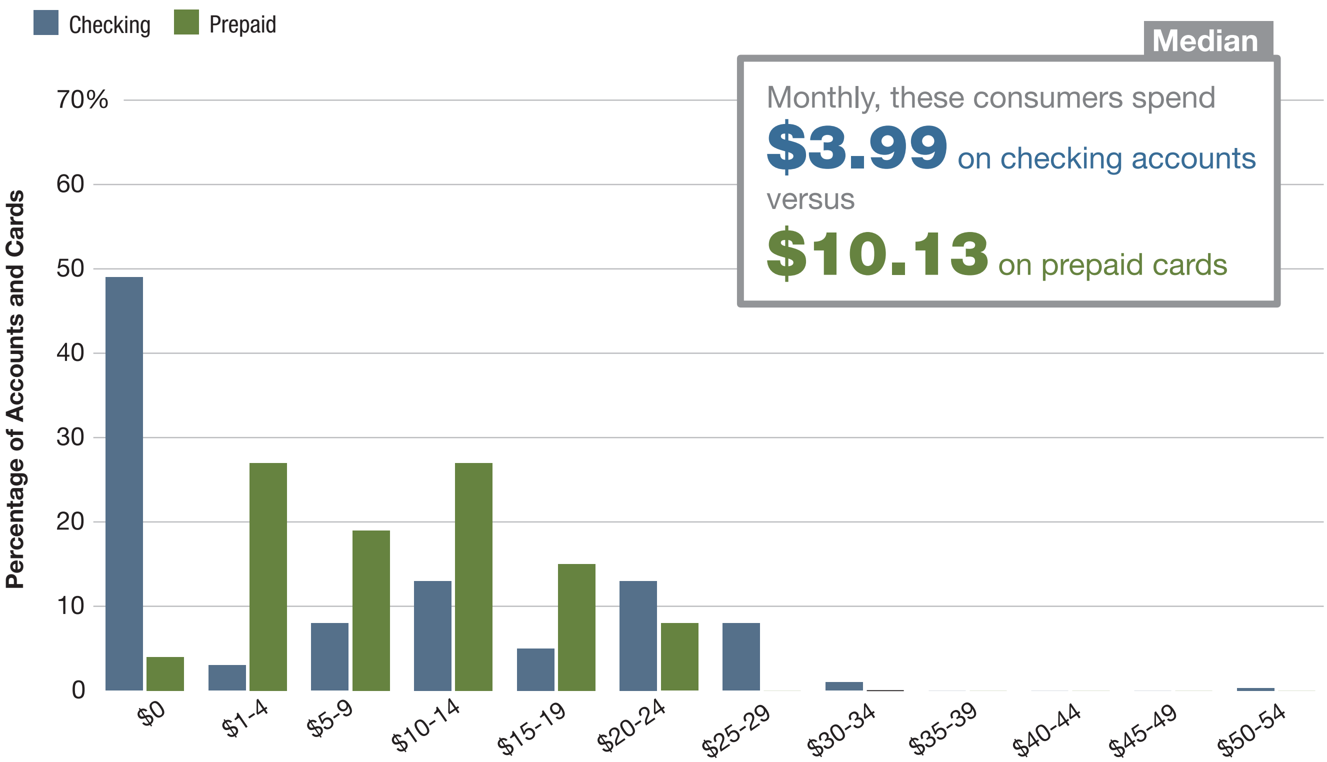
SOURCE: The Pew Charitable Trusts, 2012.

CONSUMER MODEL SNAPSHOT

Savvy consumers usually would benefit from a checking account rather than a prepaid card because they would not incur any monthly costs for 49 percent of accounts, based on Pew's models.

EXHIBIT 8:

MONTHLY COSTS INCURRED BY SAVVY CONSUMER



NOTES: This graph shows the monthly costs of Pew's model Savvy consumer for the 237 checking accounts and 52 prepaid cards Pew studied.

SOURCE: The Pew Charitable Trusts, 2012.

CONSUMER MODEL SNAPSHOT

Basic consumers do not gain a clear advantage from either a checking account or prepaid card.

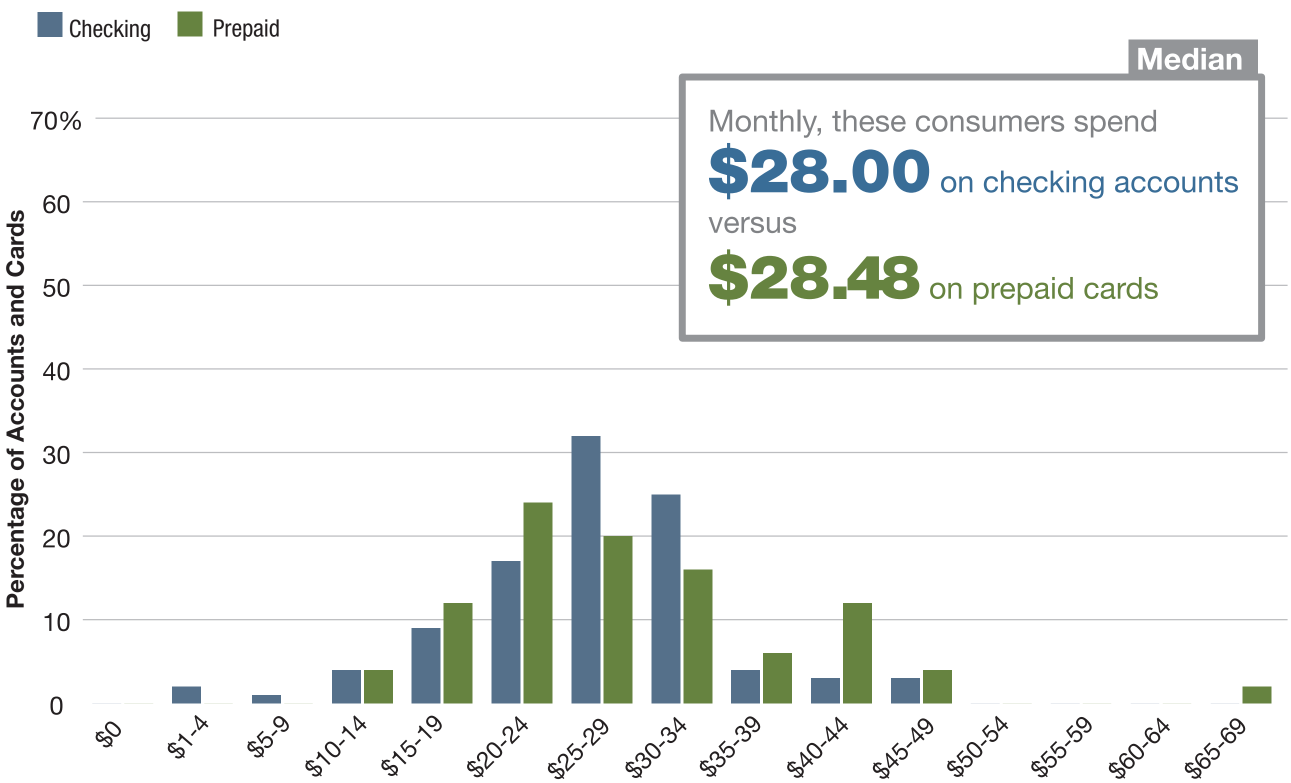
Basic

★★☆

- Not as proficient at avoiding fees
- Incurs one overdraft or point-of-sale (POS) decline fee per month

EXHIBIT 9:

MONTHLY COSTS INCURRED BY BASIC CONSUMER



NOTES: This graph shows the monthly costs of Pew's model Basic consumer for the 237 checking accounts and 52 prepaid cards Pew studied.

SOURCE: The Pew Charitable Trusts, 2012.

CONSUMER MODEL SNAPSHOT

Inexperienced consumers would pay much less per month with a prepaid card, mostly as a result of avoiding costly overdraft fees.

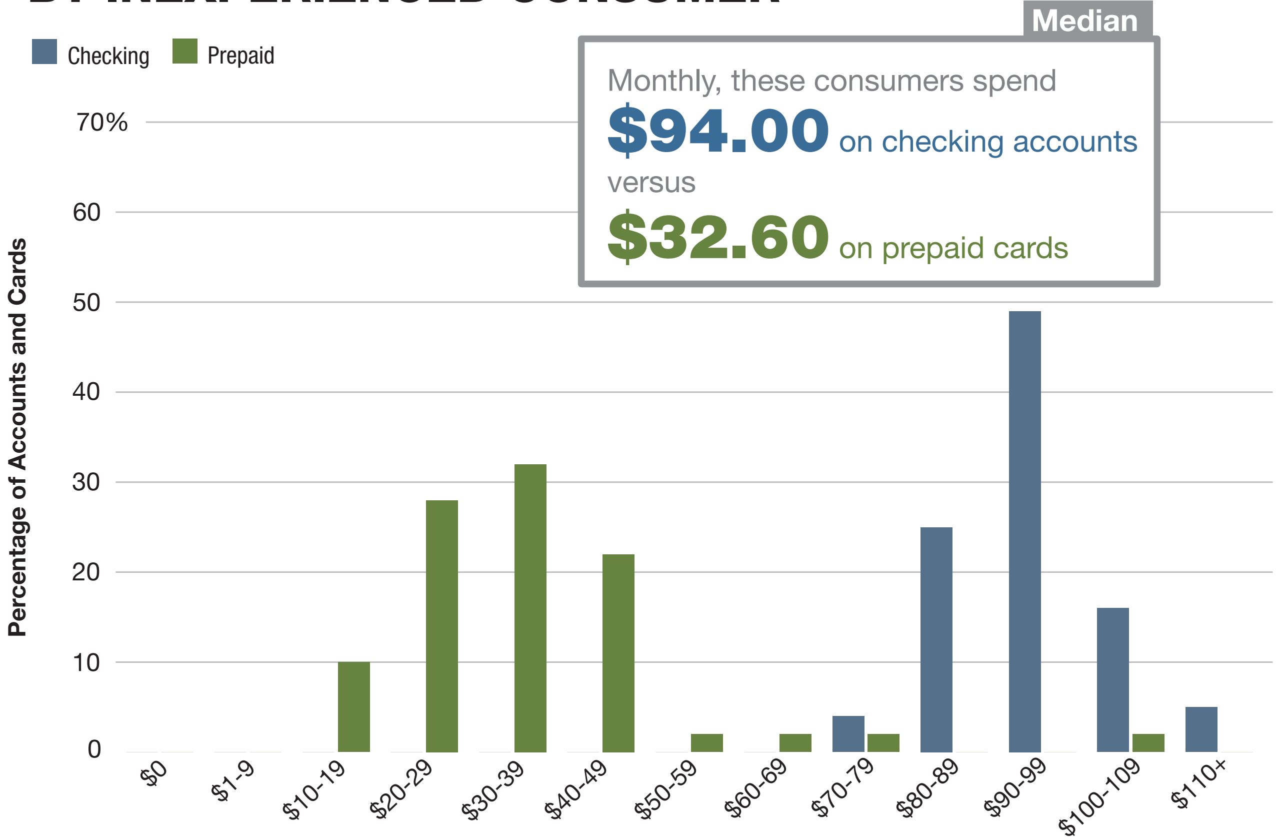
Inexperienced

★☆☆

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

EXHIBIT 10:

MONTHLY COSTS INCURRED BY INEXPERIENCED CONSUMER



NOTES: This graph shows the monthly costs of Pew's model Inexperienced consumer for the 237 checking accounts and 52 prepaid cards Pew studied.

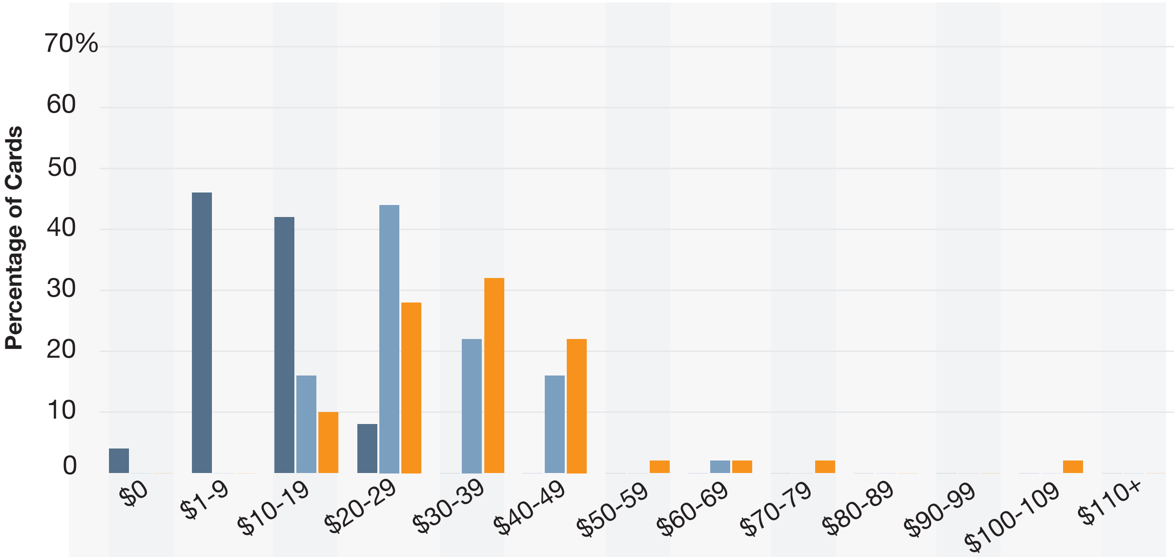
SOURCE: The Pew Charitable Trusts, 2012.

EXHIBIT 11:

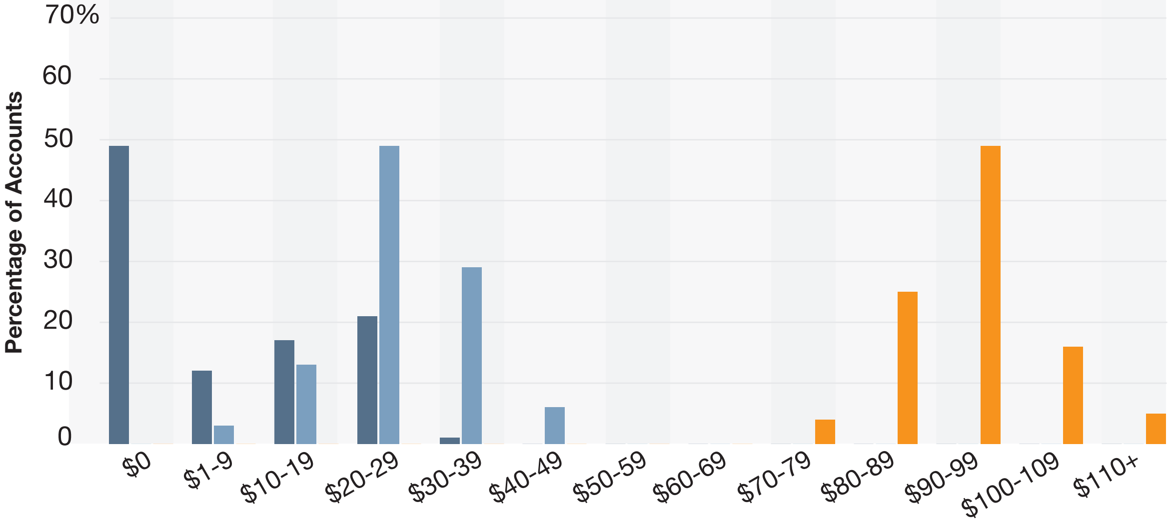
MONTHLY COSTS VARY DEPENDING ON USAGE

Savvy Basic Inexperienced

PREPAID CARDS



CHECKING ACCOUNTS



NOTES: These two graphs show the monthly costs of Pew's three consumer models for the 237 checking accounts and 52 prepaid cards studied. Overdraft penalty fees have a dramatic effect on the cost of a checking account. As illustrated in this chart, the Inexperienced consumer pays more in fees with prepaid cards than the Savvy consumer does. However, this increased cost was minor compared with the additional fees the Inexperienced consumer pays with checking accounts.

SOURCE: The Pew Charitable Trusts, 2012.

Unauthorized Transactions

When a charge is placed on a checking account that was not authorized by the cardholder, EFTA provides certain mandatory protections, including requiring the financial institution to investigate the claim, limiting the liability of consumers, and requiring provisional credit to the account while the case is pending.[35] Banks also are required under EFTA to provide customers with periodic paper statements so account holders can determine if any transactions were unauthorized.[36] In contrast, prepaid cards do not have any regulatory protections against unauthorized use.[37] Rather, those protections are provided on a discretionary basis by the program manager in the account agreement. Moreover, prepaid cards are not required by EFTA to provide customers with any periodic statements or any other access to information about past transactions.[38]

All of the prepaid cards Pew studied included some form of contractual protection from liability for unauthorized transfers in their account agreements. However, the extent of the protection given to cardholders was generally not as favorable as the protections that are guaranteed to checking account holders by EFTA. Additionally, because the protections are offered by the program manager at its discretion, they could be revoked at any time. All of the cards studied by Pew reserved the right to amend the cardholder agreement and therefore could remove the liability protection from the contract. Most disclosed that they would notify consumers of any changes.

Many prepaid cards do not provide customers with adequate information to determine if an unauthorized transaction has taken place. While 98 percent of these cards offered free online access to account balances and past transactions, only 48 percent provided at least a 60-day history of each customer's account. The other cardholder agreements either stated that they provided information only about the last five charges on their Web sites or they were silent on the matter. Accordingly, prepaid cardholders have a harder time detecting errors with their accounts and thus are more exposed to the effects of fraud.

Overdraft and Other Credit Products

Prior Pew research has shown that all 12 of the largest banks and 10 of the 12 largest credit unions charge overdraft penalty fees when a consumer's account falls to a negative balance.[39] Pew's most recent report on checking accounts, *Still Risky: An Update on the Safety and Transparency of Checking Accounts*, found that the median fee for overdrafts was $35 for banks and $25 for credit unions. In addition, 64 percent of bank accounts charged "extended overdraft fees" when consumers' accounts remained overdrawn for a number of days. The median extended overdraft fee was $33.

In May 2012, Pew published *Overdraft America: Confusion and Concerns about Bank Practices,* which explores the understanding and attitudes of consumers who have overdrafted with their debit card on a point-of-sale or ATM transaction in the past year (see Exhibit 12). The survey shows that these consumers have struggled with bank overdraft policies and have strong concerns about these practices. Consumer difficulties with bank overdraft products are yet another reason to limit their availability on prepaid cards, particularly since overdraft products undermine the very nature of the card itself.

From 2009 to 2010, Pew conducted a longitudinal survey of 1,000 banked and 1,000 unbanked households in eight low-income neighborhoods in Greater Los Angeles, designed to identify their financial behaviors.[40] Though the results of this research cannot be extrapolated to the entire United States, the findings showed that this population was affected very much by bank fees. In fact, even though Pew collected the data during difficult economic times, more people left their financial institutions because of hidden or unexpected fees than for any other reason. Moebs Services calculated that overdraft fees cost American consumers an estimated $29.5 billion in 2011.[41]

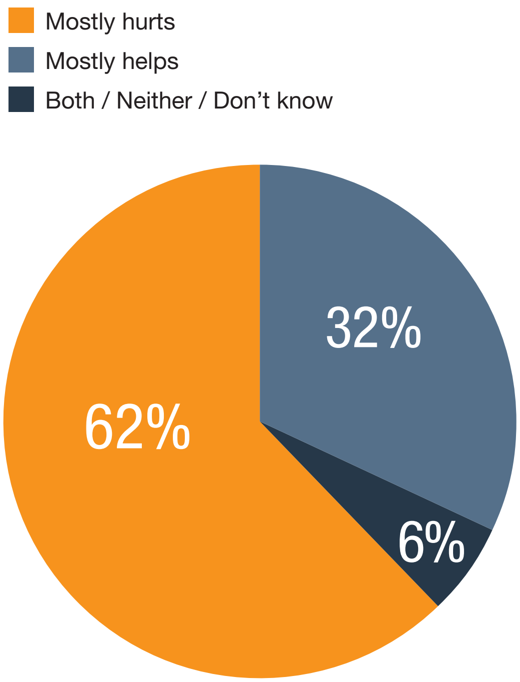
With regard to prepaid cards, 65 percent disclosed that overdrawing an account was not allowed and a fee would not be charged. Only 10 percent explicitly stated that there was a fee for overdrawing, and the median fee was $15. None of the cards included extended overdraft fees.

Most prepaid cards did not allow overdraft fees, which can keep costs for consumers low. However, unlike checking account holders, prepaid cardholders are not protected from automatic enrollment in overdraft penalty plans. In 2010, new regulations required financial institutions to obtain affirmative consent from checking account holders before they could be enrolled in overdraft penalty plans for debit point-of-sale and ATM transactions.[42] Like other federal regulations implementing EFTA, this requirement to "opt in" does not apply to prepaid cards. Accordingly, should a prepaid card provider decide to offer overdraft services, unsuspecting consumers could be automatically enrolled in a costly plan.

EXHIBIT 12:

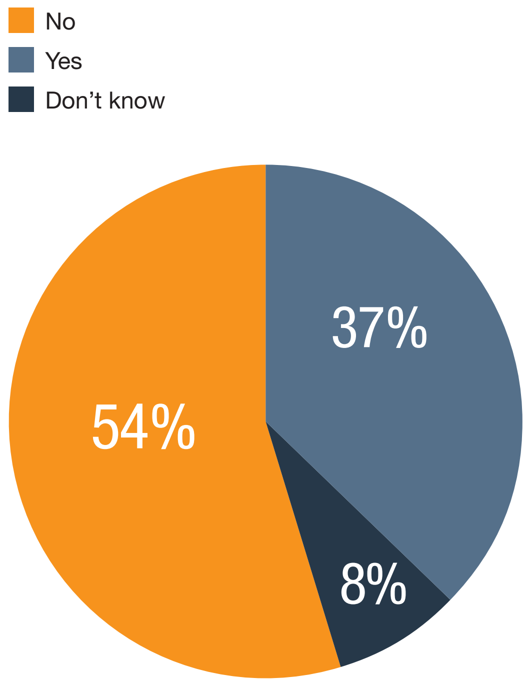
CONSUMERS' VIEWS ON OVERDRAFT COVERAGE

MORE THAN HALF OF THOSE WHO OVERDRAFTED BELIEVE THAT THIS SERVICE MOSTLY HURTS CONSUMERS.



"Overall do you think that overdraft coverage for a fee mostly helps consumers like you or mostly hurts consumers like you?"

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?"

SOURCE: The Pew Charitable Trusts, 2012. "Overdraft America."

Prepaid cards have been tied to potentially costly credit products such as small-dollar loans. For instance—several cards, none of which were available on any payment network Web site and therefore were not part of Pew's study—tie high-cost, short-term credit to their prepaid card offerings.[43] In addition, NetSpend has touted its fee-based overdraft product in congressional testimony, though no mention of it was included in any disclosure documents Pew collected.[44] Likewise, prepaid cardholders can be targeted by outside third parties that offer expensive debt products that function like overdraft fees.

SHORT-TERM LOAN SCENARIO

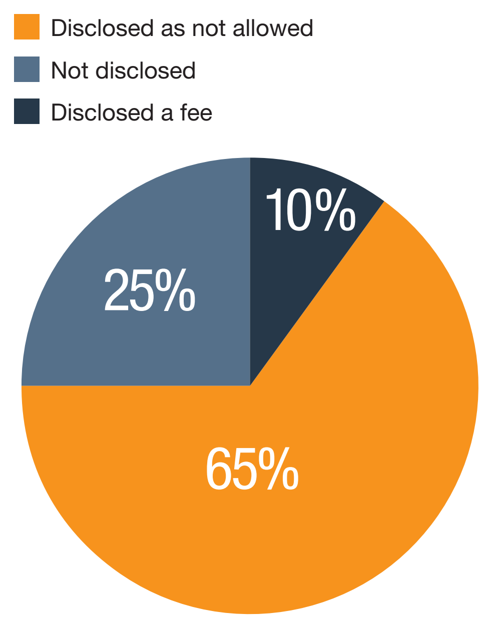
Imagine a prepaid cardholder with an automatic short-term loan product that provides credit with a fee of $1.60 per $10. Three days prior to being paid, our fictitious consumer completes a transaction that creates a balance of -$100. The purchase is covered by a short-term loan, but three days later it must be repaid, along with $16 in fees. Because our consumer begins the next pay period already down $116, this scenario might repeat itself, only this time the loan might be $116, which would come with $19.20 in fees. Over the course of a few months, a price that looked manageable—$1.60 for every $10 borrowed—might end up costing the cardholder hundreds of dollars in fees.

One example is a third-party product that extends credit to cardholders whose transactions would otherwise be declined because of insufficient funds.[45] In turn, the cardholder is required to repay the loan at the next deposit and is charged $1.60 for every $10 borrowed.[46] This would lead to a costly and potentially harmful scenario for many consumers (see sidebar above).

Such high-interest loans with short repayment periods would appear to mimic the experience of payday loans.[47]

Pew's findings strongly suggest that replicating lump-sum repayment loan models on prepaid cards will lead to similar outcomes, with borrower experiences differing significantly from

EXHIBIT 13:
OVERDRAFT PENALTY FEES FOR PREPAID CARDS



SOURCE: The Pew Charitable Trusts, 2012.

what they might expect based on how the loans are packaged and promoted. These products put prepaid cards at risk of losing their status as an alternative to checking accounts that enable consumers to spend within their means.

While third-party products that provide advances to prepaid cardholders are on the market, none of the 52 agreements and other disclosures Pew studied included any mention of short-term credit products. Even the cards that included information about overdraft plans and penalty fees did not clearly indicate that they would allow customers to spend more money than was on their cards.

Pew recently published a report—*Payday Lending in America: Who Borrows, Where They Borrow, and Why*—that studied the use of small-dollar loans that require borrowers to repay in full on their next payday. The findings include:

Payday loans are marketed as short-term credit products intended for emergency use, and they usually are depicted as a fix for an unexpected expense. However, Pew's first-of-its-kind survey reveals that seven in 10 borrowers use payday loans to deal with recurring expenses, while only one in six uses the loans for unexpected emergencies. Pew's analysis shows that the vast majority of borrowers use the loans on a long-term basis, not a temporary one. Thus it seems that the payday loan industry is selling a product that few people use as designed and that imposes debt that is consistently more costly and longer lasting than advertised.[48]

Conclusion

Prepaid cards are a growing product that could provide a valuable and needed substitute for consumers who are unable or unwilling to maintain traditional checking accounts. While the fees for everyday services are generally higher for prepaid cards than for checking accounts, the trade-off for a product that does not allow overspending may be beneficial to many consumers. Currently, the unsupervised and unregulated status of the prepaid card market creates many concerns about the terms, conditions, and fees that commonly accompany these cards.

Policy makers have recognized the importance of safety in consumer financial products, especially those that involve the holding of deposits for everyday use—most commonly the checking account. For all accounts held at financial institutions, federal regulators can ensure that account holders are not being taken advantage of through their supervisory and UDAAP authority. Congress has given the CFPB the authority to supervise the larger participants in any financial services market, including prepaid cards. Congress also has given the CFPB broad authority to regulate electronic fund transfers; this authority could be used to ensure that prepaid cards are viable and safe options for consumers who want to avoid overspending and costly credit products that are commonly associated with checking accounts. Without better consumer protections, prepaid cards will continue to put customers at risk.

Appendix A: Methodology

Data Collection

The Pew Charitable Trusts is engaged in research studying checking accounts, small-dollar loans, and related products. Our goal is to support the development of sound policy, regulation, and business decisions for financial products through data-driven analysis.

Data in this report are based on an analysis of prepaid card account holder agreements and other documents available through the Web sites of Visa, MasterCard, and American Express. These sites all include a list of prepaid cards that may be obtained online. Data collection for this report occurred in December 2011 and January 2012.

Pew's study was limited to the available terms and conditions offered on prepaid card Web sites. This included cardholder agreements, pages listing frequently asked questions, and home pages. Because prepaid cards' terms and conditions are not standardized, information about certain fees and services was frequently not available online. If Pew did not find information through this method, we did not draw any conclusions as to whether a term or condition did or did not apply to specific cards. In the study, a statement such as "X percent of cards studied charged a fee for Y" means that X percent disclosed the fee online. It is possible that some cards charged fees that were simply not disclosed.

Prepaid Card Selection

Prepaid cards are run by program managers that frequently offer multiple cards. The funds that are loaded onto such cards are held in an affiliated bank account (for non-bank program managers). Program managers sometimes use multiple partner banks. The cards Pew studied represent at least 75 percent of the market, as determined by Mercator Advisory Group's study of program managers.[49]

Pew looked at every card plan that was offered individually. If two otherwise similar cards were branded with different network logos (Visa and MasterCard), they were classified as different. If a card had a "pay as you go" option as well as a monthly fee option,

The 52 Prepaid Cards Studied by Pew

AccountNow Prepaid Visa Card Pay As You Go	excella Prepaid Visa Debit Card
NetSpend Visa FeeAdvantage	South Carolina Federal Prepaid Card
AccountNow Gold Visa Prepaid Card	Facecard Prepaid Teen MasterCard
NetSpend Visa Premier	TRANSCASH Prepaid Visa Card
AccountNow Prepaid MasterCard	Green Dot MC
REACH Visa Prepaid Card	Prepaid Travel Card MasterCard (Travelex)
Ace Elite Pay As You Go	Green Dot Visa
ReadyCARD Prepaid MasterCard	Visa TravelMoney Card (Travelex)
Ace Elite Fee Advantage	H&R Block Emerald Prepaid MasterCard
ReadyCARD Prepaid Visa	Univision MasterCard Prepaid Card
Akimbo Visa Prepaid Debit Card	I.C.E. Prepaid Visa Reloadable Card
READYdebit Visa Prepaid Card Platinum	UPside Clear Visa Prepaid Card
American Express or bluebird	Jump Card Visa Prepaid Card
READYdebit Visa Prepaid Card Select	UPside Visa Prepaid Card
Pass from American Express	Mango Card
READYdebit Visa Prepaid Card Control	Vision Premier Visa Prepaid Card Prestige Plan
Bank Freedom Prepaid MasterCard	MoneyGram AccountNow Prepaid Visa Card
READYdebit Visa Prepaid Card Platinum	Vision Premier Visa Prepaid Card Gold Plan
Bank Freedom Platinum Visa Prepaid Card	NetSpend MC Pay As You Go
READYdebit Visa Prepaid Card Select	Walmart MoneyCard
BB&T MoneyAccount	NetSpendMC FeeAdvantage
READYdebit Visa Prepaid Card Control	Western Union Gold Card Prepaid MasterCard
Capital One Prepaid Card	NetSpendMC Premier
Rush Visa Card Pay Monthly	Western Union MoneyWise Prepaid MasterCard
CashZone Prepaid Visa Card	NetSpendVisa Pay As You Go
Rush Visa Card Pay As You Go	Wired Plastic Prepaid Visa Card

it was considered to be two cards.[50] In contrast, if a card had different terms depending on whether a customer used a particular service, but this information was contained within one cardholder agreement, it was considered to be one card.

Using this method of classification, Pew identified 52 unique cards. These cards included the primary offerings from nine of the 10 largest program managers as determined by Mercator Advisory Group (one of the 10 largest program managers, nFinanSe, does not offer prepaid cards online). For the 52 prepaid cards studied, there were 14 different financial institutions issuing the cards.[51]

Data Determinations

In most cases, the fees that were disclosed were clear and unambiguous. However, in a few instances the information available online was conflicting. In this situation, Pew assumed that if one document said that there was a fee or that the fee for a service was higher, it was the correct disclosure and the contradictory information was incorrect. For example, one card disclosed that the "overdraft fee" was free but that a "shortage fee" was $15. In this case, we assumed the $15 figure was correct. This was not a common occurrence and had little or no effect on the medians or ranges for fee amounts. For services that were not disclosed, no assumptions were made as to whether a fee applied.

Appendix B: Sketch of Two Program Managers

The program managers that market and sell prepaid cards range from established banks with billions of dollars in assets and millions of customers to start-ups with much less experience and name recognition in the financial services industry. Despite the array of options, a small number of non-banks dominate the market. The five largest providers make up approximately 71 percent of the load volume for all prepaid cards.[52]

The top two program managers, Green Dot and NetSpend, together comprise almost half of the market, with more than 50,000 retail partners around the country.[53] In 2011, more than $27 billion was loaded onto cards controlled by these two companies.[54] The chart below reflects the disclosed services and fees that these two program managers provide.

As reflected in the chart, there are notable differences in the two cards in terms of fees charged and services offered. Green Dot has fewer fees, including free in-network ATM withdrawals, while NetSpend offers more ancillary services such as online bill pay and a savings account.

	TOP PREPAID CARD PROGRAM	
Disclosure	**Green Dot**	**NetSpend**
Bill Pay Features Available	None disclosed	Yes
Direct Deposit Available	Yes	Yes
Number of Fees Disclosed	8	15
Monthly Fee	$5.95	$9.95
ATM Fee	$2.50 (free in network)	$2.50 (no in-network ATMs)
Loading Fee	Varies, up to $4.95	Varies
FDIC Insurance	Yes	Yes
Savings Account Available	None disclosed	Yes
Liability for Unauthorized Use	Generally $0 to $500	Generally $50 to $500
Overdraft Penalty Fees	No	No
Load Limitations	$2,500 at any given time	None disclosed
Mandatory Binding Arbitration	Yes	Yes

Appendix C: Impact of the Dodd-Frank Act's Limitation on Interchange Fees

The Dodd-Frank Act provides some protection against certain prepaid card fees. Specifically, it allows issuers of these cards with more than $10 billion in assets to avoid the recently enacted cap on debit interchange fees that financial institutions can charge merchants when a cardholder makes an electronic debit transaction.[55] To avoid this cap, program managers cannot charge overdraft fees and must provide at least one fee-free ATM withdrawal each month.[56] By adhering to these provisions, institutions with assets of more than $10 billion can avoid this restriction for their prepaid cards.

Program managers whose issuers are financial institutions with assets of less than $10 billion (including affiliates) are exempt from the interchange cap.[57] The only prepaid cards in Pew's study that are associated with banks having more than $10 billion in assets, and thus subject to the interchange cap if they charge overdraft fees or do not allow at least one free monthly ATM withdrawal, were Capital One, BB&T, Green Dot, and Walmart.

Appendix D: Consumer Models

Consumer Models for Comparison Between Prepaid Cards and Checking Accounts

The tables on the following page summarize the models for each of Pew's three types of consumers. The numbers in each row correspond to the number of times a customer incurs a particular fee for a service if it was applicable to the account or card. In most cases, the bank and prepaid models are identical for each model consumer, unless the services available at banks and prepaid companies do not match.

Thus, the Basic consumer's overdraft transfer at a bank may become a declined point-of-sale transaction on a prepaid card. The Savvy consumer has only one ATM transaction when using a prepaid card, because he or she makes sure two of the point-of-sale transactions are validated by a PIN, in order to get cash back. Bank bill pay plans charge a flat fee for monthly use, so all of our consumer models incur this fee once per month when using a checking account. Prepaid cards charge per use of bill pay, so here the Inexperienced consumer incurs an additional charge because he or she uses the service twice per month. Not all prepaid cards charge overdraft penalty fees, so, where applicable, the Inexperienced consumer incurs a point-of-sale decline fee and an ATM decline fee instead of two overdraft charges (both are reflected in the following chart, and the relevant fees are charged on a card-by-card basis).

The Savvy consumer does not visit out-of-network ATMs, uses direct deposit to waive fees if possible, and keeps track of his or her balance online so that he or she does not need to call customer service or make a balance inquiry at an ATM. He or she does not incur any overdraft penalty fees or declined transaction fees during the month.

The Basic consumer is not as proficient when it comes to avoiding fees. He or she does not use direct deposit, and one of the three ATM visits per month is at an out-of-network ATM. He or she makes one balance inquiry a month and conducts one transaction per month with insufficient funds, which is an overdraft transfer with a checking account and either an overdraft or a point-of-sale decline fee with a prepaid card, if applicable.

BANKS	Customers: Savvy	Customers: Basic	Customers: Inexperienced
Monthly Fee	1	1	1
Withdrawal at Proprietary ATMs	3	2	1
Withdrawal at Non-Proprietary ATMs	0	1	2
Debit Card Transaction Fee	17	17	17
Bill Pay	1	1	1
Balance Inquiry	0	1	2
Customer Service	0	0	1
Point-of-Sale Decline Fee	0	0	0
ATM Decline Fee	0	0	0
Overdraft Penalty Fee	0	0	2
Overdraft Transfer Fee	0	1	0

PREPAID	Customers: Savvy	Customers: Basic	Customers: Inexperienced
Monthly Fee	1	1	1
Withdrawal at Proprietary ATMs	3	2	1
Withdrawal at Non-Proprietary ATMs	0	1	2
Point-of-Sale Transaction (Signature)	15	17	10
Point-of-Sale Transaction (PIN)	2	0	7
Bill Pay	1	1	2
Automated Customer Service/Balance Inquiry	0	1	2
Live Customer Service	0	0	1
Point-of-Sale Decline Fee	0	1	1
ATM Decline Fee	0	0	1
Overdraft Penalty Fee	0	1	2
Proprietary Loading Fee	0	2	2
Third-Party Load Fee	0	2	2

The Inexperienced consumer makes the heaviest use of services offered by his or her checking account or prepaid card. Two of his or her three withdrawals are at out-of-network ATMs. He or she makes two balance inquiries and one customer service call per month. He or she conducts two transactions per month that exceed his or her balance, which result in overdraft fees or declined transaction fees, depending on the terms of the contract.

Some of these fees are possible to waive. It was assumed that the consumer models loaded at least $1,500 per month and have their monthly fees waived if applicable. All three consumers also had any inactivity fees waived, since all actively use their cards during the month. The Savvy consumer uses direct deposit, so his or her bank and prepaid monthly fees are waived where appropriate. Waivers for balance inquiries and live phone calls were tracked and applied where relevant. Some prepaid cards capped the amount of money a customer would pay per month in transaction charges, and our models include these limitations.

Pew did not make any assumptions about the balance that these customers carried during the month, so they were not eligible for bank monthly fee waivers that are premised on maintaining an average daily balance. In the sample, the median balance required to waive a monthly fee was $2,000, and 88 percent of checking accounts offered a waiver on this basis.

Not all prepaid cards disclosed an in-network ATM fee. When no reference was made to a proprietary ATM network, Pew assumed none existed, and all in-network ATM transactions for that card were treated as out-of-network charges with attendant surcharges. In addition, the models did not factor in the possibility of waived ATM fees. A few prepaid cards disclosed a limited number of ATM fees that could be waived under certain circumstances. However, because this data was not collected for checking accounts, it was not included in order to maintain evenhandedness between the two financial products. The inclusion of this data would have only a minor effect on the models.

Endnotes

1 Mercator Advisory Group, Prepaid Market Forecasts, 2011-2014, November 2011.

2 Based on data from Mercator Advisory Group. A more detailed explanation can be found in Appendix A.

3 Advance Notice of Proposed Rulemaking, Electronic Fund Transfers, 77 Federal Register 30923, May 24, 2012. Pew did not study the efforts of states to regulate prepaid cards.

4 Sarah Gordon et al., "A Tool for Getting by or Getting Ahead?: Consumers' Views on Prepaid Cards," Center for Financial Services Innovation, April 2009, available at http://cfsinnovation.com/system/files/imported/managed_documents/voc-prepaidfinal.pdf; National Council of La Raza, "Perspectives on Prepaid Cards from Low-Income Hispanic Tax Filers," 2011, available at http://www.nclr.org/images/uploads/publications/perspectives_on_prepaid_cards_(3).pdf.

5 General Counsel's Opinion No. 8, Insurability of Funds Underlying Stored Value and Other Nontraditional Access Mechanisms, 73 Federal Register 67155, Nov. 13, 2008.

6 Discover does not offer any cards on its Web site and therefore is not included in this report.

7 Based on load volume data from Mercator Advisory Group.

8 Discover does not offer any cards on its Web site and therefore is not included in this report.

9 Regulation E, 12 C.F.R. § 205.20(a)(2)-(3), 2012.

10 Notice of New General Counsel's Opinion No. 8, 73 Federal Register 67,155, Nov. 13, 2008.

11 Robert DeYoung and Tara Rice, "How Do Banks Make Money? The Fallacies of Fee Income," Federal Reserve Bank of Chicago, Economic Perspectives, 4th Quarter, 2004.

12 Pew Charitable Trusts, "Still Risky: An Update on the Safety and Transparency of Checking Accounts," June 2012, available at http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Safe_Checking_in_the_Electronic_Age/Pew_Safe_Checking_Still_Risky.pdf; Robin Sidel, "Interchange Fees Step Into the Spotlight," *Wall Street Journal*, Oct. 20, 2009.

13 The monthly fee charged by prepaid cards is generally lower than checking account monthly fees. In addition, half of all prepaid cards studied either did not charge a monthly fee or allowed it to be waived.

14 Pew Charitable Trusts, "Key Focus Group Findings on Prepaid Debit Cards," April 2012, available at http://www.pewstates.org/uploadedFiles/PCS_Assets/2012/FSP_12014%20Pew%20DebitCards_R10A-4-5-12.pdf.

15 FDIC, "Deposit Insurance Summary," Federal Deposit Insurance Corporation, available at http://fdic.gov/deposit/deposits/dis/index.html.

16 General Counsel's Opinion No. 8, Insurability of Funds Underlying Stored Value and Other Nontraditional Access Mechanisms, 73 Federal Register 67155, Nov. 13, 2008.

17 FDIC Deposit Insurance Coverage Rule, 12 C.F.R. § 330.14(a), 2012.

18 Id. (The owner of the funds must be identified for pass-through insurance to apply.)

19 Federal Deposit Insurance Act, 12 U.S.C. § 1813(m)(1), 2012.

20 Terms and Conditions, MoneyPak, available at https://www.moneypak.com/TermsOfServices.aspx.

21 E.g., David Newville, "Thinking Inside the Box: Improving Consumer Outcomes Through Better Fee Disclosure for Prepaid Cards," Center for Financial Services Innovation (March 2012); "Prepaid Cards: Loaded with Fees, Weak on Protections," *Consumer Reports*, March 2012.

22 There are federal laws that require the submission of reports to the Financial Crimes Enforcement Network and allow examinations by the Internal Revenue Service of money service businesses that deal with prepaid cards. These laws are for anti-money laundering and are not concerned with consumer financial protection issues, and therefore further discussion is not included in this report. See Final Rule, Definitions and Other Regulations Relating to Money Service Businesses, 76 Federal Register 43585, July 21, 2011; Definition of "Monetary Instrument," 76 Federal Register 64049, Oct. 17, 2011.

23 E.g., Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, 12 U.S.C. § 5515, 2012.

24 *See* Truth in Savings Act, 12 U.S.C. § 4301 et seq., 2012; Electronic Fund Transfer Act, 15 U.S.C. § 1693 et seq., 2012.

25 *See* Regulation E, 12 C.F.R. § 205, 2012; Regulation DD, 12 C.F.R. § 230, 2012. *But see*, Advance Notice of Proposed Rulemaking, Electronic Fund Transfers, 77 Federal Register 30923, May 24, 2012. In prior reports, Pew has criticized the level of consumer protection currently provided to checking account holders as insufficient.

26 Advance Notice of Proposed Rulemaking, Electronic Fund Transfers, 77 Fed. Reg. 30923, May 24, 2012.

27 12 U.S.C. § 5514.

28 Id.

29 Pew conducted extensive research on checking accounts in 2010 and 2011. Pew Charitable Trusts, "Hidden Risks: A Case for Safe and Transparent Checking Accounts," April 2011, available at http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Safe_Checking_in_the_Electronic_Age/Pew_Report_HiddenRisks.pdf; Pew Charitable Trusts, "Still Risky: An Update on the Safety and Transparency of Checking Accounts," June 2012, available at http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Safe_Checking_in_the_Electronic_Age/Pew_Safe_Checking_Still_Risky.pdf.

30 Brian K. Bucks, Arthur B. Kennickell, Traci L. Mach, and Kevin B. Moore, "Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances," Federal Reserve Board – Division of Research and Statistics, February 2009, available at http://www.federalreserve.gov/pubs/bulletin/2009/pdf/scf09.pdf.

31 ChexSystems is a private database of consumers who have had deposit accounts closed while holding a negative balance. E.g., *Consumer Reports*, "Big Brother Is Watching," September 2009, available at http://www.consumerreports.org/cro/money/consumer-protection/big-brother-is-watching/overview/index.htm.

32 Two prepaid cards require that customers use direct deposit, so these cards were included for the "savvy" consumer but excluded for "basic" and "inexperienced" consumers.

33 Pulse, "Debit Card Use Remains Robust in Midst of Economic Downturn," June 14, 2010, available at https://www.pulsenetwork.com/pulse/public/about/pulse-news/press-releases/2010/debit-use.html.

34 These graphs are based on the percentage of checking accounts or prepaid cards that have a total monthly cost within the listed ranges.

35 Regulation E, 12 C.F.R. § 205.11, 2012.

36 Id. § 205.9(b).

37 Id. §§ 205.2(b)(1), .3(b)(1).

38 Id.

39 Pew Charitable Trusts, "Still Risky: An Update on the Safety and Transparency of Checking Accounts," June 2012, available at http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Safe_Checking_in_the_Electronic_Age/Pew_Safe_Checking_Still_Risky.pdf.

40 Pew Charitable Trusts, "Slipping Behind: Low-Income Los Angeles Households Drift Further from the Financial Mainstream," October 2011, available at http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Safe_Banking_Opportunities_Project/Slipping%20Behind.pdf.

41 Victoria Finkle, "Banks Lost $3.6 Billion in Overdraft Revenue in 2011 – Moebs," American Banker, Jan. 25, 2012, available at http://www.americanbanker.com/issues/177_17/overdraft-regulation-e-checking-account-fees-1046060-1.html?zkPrintable=true.

42 12 C.F.R. § 205.17(b).

43 Press release, USA Cash Services, Feb. 9, 2012, available at http://www.24-7pressrelease.com/press-release-rss/usa-cash-services-now-offers-debit-cards-to-complement-nevada-payday-loans-262208.php.; Web page of TandemMoney, available at https://tandemmoney.com/.

44 Testimony of Daniel R. Henry, NetSpend Holdings, Inc., Before the Senate Committee on Banking, Housing, and Urban Affairs Subcommittee on Financial Institutions and Consumer Protection, 112th Congress, March 14, 2012, available at http://banking.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=03551b3d-2acb-4ba5-8b12-a1ee6e77d811.

45 Web page of SureCashXtra, available at https://www.mysurecash.com/LearnMore.html#one.

46 Web page of SureCashXtra, available at https://www.mysurecash.com/#four.

47 E.g., Uriah King and Leslie Parrish, "Payday Loans, Inc.: Short on Credit, Long on Debt," Center for Responsible Lending, March 2011, available at http://www.responsiblelending.org/payday-lending/research-analysis/payday-loan-inc.pdf.

48 Pew Charitable Trusts, "Payday Lending in America: Who Borrows, Where They Borrow, and Why," July, 2012, p.29, available at http://www.pewstates.org/uploadedFiles/PCS_Assets/2012/Pew_Payday_Lending_Report.pdf.

49 Our study includes the cards offered online by program managers that make up at least 75 percent of the market. It is believed that the terms and conditions of cards offered by these companies exclusively at physical locations do not materially differ from the online offerings.

50 In some cases, one card was advertised as having a choice between a monthly plan and a pay-as-you-go plan. In other cases, these options were advertised as two card choices.

51 American Express Prepaid Cards Management Corporation; American Express Travel Related Services Company; Bancorp Bank; BB&T Financial, FSB; Capital One, NA; First California Bank; Metropolitan National Bank; GE Capital Retail Bank; H&R Block Bank; Inter National Bank; MetaBank; South Carolina FCU; Synovus; and West Suburban Bank.

52 Load data is from Mercator Advisory Group.

53 Web page of NetSpend, available at https://www.netspend.com/about_netspend/; "Green Dot Corporation Investor Presentation," May 2012, available at http://ir.greendot.com/phoenix.zhtml?c=235286&p=irol-irhome.

54 Id.

55 Electronic Fund Transfer Act, 15 U.S.C. § 1693o-2(a)(2), 2012.

56 Id. § 1693o-2(a)(7)(B).

57 Id. § 1693o-2(a)(6), (c)(1).

THE PEW CHARITABLE TRUSTS

STAY CONNECTED ▸ pewstates.org

twitter.com/pewstates youtube.com/pew facebook.com/pewtrusts

pewstates.org/newsletter