

Thank you members of the committee for the opportunity this afternoon to discuss the issue of prepaid cards. My name is Tom Feltner, vice president of Woodstock Institute a leading nonprofit research and policy organization in the areas of fair lending, wealth creation, and financial systems reform. I would like to address two specific concerns with GPR cards: upfront fees and credit products such as overdraft protection or payday loan-like deposit advances.

Background

Prepaid debit cards, commonly referred to as general purpose reloadable, or GPR cards, carry with them wide range of functionalities and fee structures.

At the high end of the market, prepaid cards offer a consumer transaction experience that is very similar to a basic banking checking account. They offer low-cost access to payment networks, the ability to pay bills, build savings, and develop a persistent financial identify that facilitates access to the wider banking system. At the low of the market, prepaid cards offer consumers little more than a temporary and fee-laden cash substitute that gleans fee revenue.

That is why conversations like this are critical to ensuring that GPR cards work to improve financial outcomes for consumers.

Upfront fees

GPR cards play two important roles. First they serve as short-term cash substitutes with small cash deposits and a relatively short lifespan. Consumers discard these cards after a few transactions and buy a new card when the wish to make a new deposit. For other consumers, these products take the place of a checking account and are used to receive payroll direct deposit. These consumers are far more likely to receive multiple deposits, conduct numerous transactions and hold on to their card for a considerably longer period of time.

Preliminary findings by researchers at the Payment Cards Center at the Federal Reserve Bank of Philadelphia suggest that the majority of cards fall into the first category – single deposits and relatively few transactions.

A recent survey conducted by the Consumers Union found that the median upfront activation fee was \$10 with some cards charging as much as \$40. When considering consumer protections for GPR cards, I urge the committee to strongly consider the very real concern that high upfront charges frontload fees for the majority of consumers who use these products on a short-term basis.

Credit products

I would also like to address the issue of credit on GPR cards. As a transaction product designed primarily to increase access to payment networks, GPR cards can offer real-time budgeting, a transparent fee

structure and additional functionality such as savings options and account notices. Tying credit products, such as overdraft and payday loan-like deposit advance products undermines this value proposition.

As recently as last year, federal banking regulators cracked down on the iAdvance product, a loan product that carried with it payday loan like rates, offered by Metabank through NetSpend. The Office of the Comptroller of the Currency is currently considering a rule change that would expressly permit payday loan-like products offered directly through checking accounts or GPR cards.

Recommendations

We would like to offer a number of recommendations for future discussion:

We strongly urge the committee to consider low upfront and maintenance fees, the transparent disclosure of monthly fees, card replacement and ATM fees, and reload fees as well as a prohibition on overdraft and credit products. In addition, I urge the ongoing consideration of the important role played by basic checking and savings accounts from depository institutions in addition to the role of products such as GPR cards.