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Testimony of David Rothstein

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Senate Committee on Banking, Housing, Urban Affairs;
Subcommittee on Financial Institutions and Consumer Protection
- Examining Issues in the Prepaid Card Market
March 14, 2012

Chairman Brown, Ranking Member Corker, and Members of the Subcommittee, thank you for giving me the opportunity to testify on behalf of Policy Matters Ohio and the New America Foundation. Policy Matters is a nonprofit, nonpartisan research institute that focuses on issues impacting low- and moderate-income working families. The mission of New America's asset building program is to significantly broaden access to economic resources through increased savings and asset ownership, thereby providing families with enhanced economic security, a direct stake in the commonwealth, and the means to pursue their aspirations.

My research is primarily focused on the financial status and socioeconomic challenges experienced by the millions of low- and moderate income families and tax filers in the United States. My testimony today is based upon the following three premises:

- 1) low- and moderate-income families need and deserve full transparency and disclosure of fees associated with prepaid debit cards;
- 2) prepaid debit cards, particularly cards with public benefits and tax returns loaded on to them, should not have features that add high fees such as overdraft charges and balance inquiry;
- 3) the prepaid debit card market should not be a replacement but rather a complement to other financial products that build and manage assets for working families.

Let me start by commending this Committee for holding this informational hearing on a relatively new but already large market. Millions of low- and moderate-income families use prepaid debit cards for their day-to-day purchases but also receive them for public benefits such as unemployment compensation, food assistance, and state tax refunds. The FDIC reports that at least 9 million households were unbanked and 17 million were under-banked in 2009. These families are financially vulnerable, so protecting and growing their assets is especially important. Government or public sector cards, paid for with public dollars, are used to provide unemployment compensation, food assistance, and other public benefits. Ensuring those dollars are not siphoned off by unnecessary fees should be a top priority.

While I represent a viewpoint of consumers nationwide, I also can provide an on-the-ground perspective about prepaid debit cards used for unemployment compensation in Ohio. In 2011, more than half a million Ohioans received UC bringing \$3.3 billion to Ohio families.¹

Ohioans have two choices for receiving their unemployment compensation. One is through direct deposit to a bank account from the Ohio Department of Job and Family Services (ODJFS). ODJFS deposits the unemployment compensation into the client's bank account every week. This is an excellent option for clients who have bank accounts, avoiding paper checks, which can get lost or stolen, and ensuring quick deposit of funds.

The second method is through an electronically-loaded debit card called the ReliaCard – a prepaid Visa card provided by US Bank.² Ohio is one of 41 states that provide a prepaid debit card as an option for unemployment compensation. Upon successfully completing the application for UC, this debit card is loaded with a client's compensation and the recipient can use the card like a regular prepaid debit card. The ReliaCard, which is used in other states as well, also has several advantages over paper checks, which are no longer an option in Ohio.³ First, the ReliaCard allows recipients without bank accounts to receive compensation and not pay to cash a check. Second, the ReliaCard allows recipients to make electronic purchases and bill payments, unlike cash or check options. Third, the card, which requires a code, is harder to steal than cash or a check. Finally, recipients get their benefits several days sooner. We began research last year on this card because our colleagues in housing, tax preparation assistance, and employment training alerted us that individuals receiving unemployment compensation were overdrafting on their benefits.

ODJFS officials estimate that 30 to 40 percent of those receiving UC now choose the ReliaCard.⁴ Based on the number of Ohio unemployment compensation recipients, an estimated 200,000 clients used the ReliaCard in 2011.⁵ The ReliaCard is convenient for many users. However, it also can carry fees on cash withdrawal and overall use (see Table 1, attached). US Bank charges \$1.50 for withdrawing money at non-US Bank locations or ATMs that are not part of the Visa PLUS ATM network, and the other bank may also charge for that transaction. There are fees for balance inquiries at non-US Bank locations. The ReliaCard also has overdraft fees of \$17.00 for purchases that exceed the value on the card if they opt in for coverage.⁶ However, this fee is likely to be dropped this July due to the Durbin Amendment on interchange fee rules. It is important to note that ATM and overdraft fees can add up – incurring multiple charges in a day or week.

¹ Randy Tucker. "Ohio Unemployment Fraud More than Doubles in 5 Years." (March 8 2012) *Dayton Daily News*: <http://www.daytondailynews.com/news/dayton-news/ohio-unemployment-fraud-more-than-doubles-in-5-years-1340906.html>

² http://jfs.ohio.gov/ouc/ReliaCard_FactSheet.pdf

³ The National Consumer Law Center released a report on May 10, 2011 that details how states are using debit cards for public benefits. The report by Lauren Saunders, "Unemployment Compensation Prepaid Cards," suggests removing "junk fees" from prepaid debit cards loaded with public benefits. The ReliaCard by US Bank is one card used by multiple states but the terms of the agreement differ slightly per state. <http://www.nclc.org/issues/unemployment-compensation-prepaid-cards.html>

⁴ Interview and e-mail correspondence with Ms. Laura Abu-Absi, ODJFS on October 6, 2010.

⁵ This is a lower-bound estimate using 30 percent of the 674,000 clients receiving unemployment compensation. ODJF reported higher numbers to the Cleveland Plain Dealer in 2011: http://www.cleveland.com/consumeraffairs/index.ssf/2011/05/report_gives_ohios_unemployment.html

⁶ The ReliaCard program states that a client can have one overdraft fee reversed.

The ReliaCard has some positive components to its fee structure. There are no fees for point-of-sale transactions, so the card can be used anywhere that accepts Visa. Card users can purchase above the price of the transaction and receive cash back for no additional charge from most merchants. There is no bank transfer fee or penalty for moving funds from the ReliaCard to a bank account.⁷ Balance inquiries are also free at US Bank and Visa PLUS ATM locations, which allow clients to better manage their finances and avoid overdrafts. Several other features are free including customer service inquiries, paper statements, and replacement of lost or stolen cards. Other public sector debit cards charge for these items.

In addition to concerns about fees, there are reasons to be concerned about access to US Bank and free network locations. ReliaCard users can get fee-free access to their benefits at US Bank locations and at ATM locations through the Visa PLUS ATM program. There are approximately 750 such ATMs in the Ohio network, however not all of Ohio's 88 counties have one of these locations.⁸ In fact, 33 counties have no US Bank locations and 16 counties have no Visa/PLUS ATM locations. Many of the non-urban counties have few locations, often one free location every 20 miles. We have attached maps of the unemployment rates and ReliaCard coverage to this testimony. Some of the areas with the highest unemployment rates have the fewest locations. Given the importance of cash and realities of traveling long distances for unemployed workers, accessibility to no-cost ATMs is paramount. Requiring unemployed workers to pay \$3 or more for each ATM transaction is egregious and also a waste of taxpayer dollars.

Also of concern is that it was extremely difficult for Policy Matters to find information on ATM locations, how to use the card and the fee structure. ODJFS and US Bank branches had trouble reporting to us and were inconsistent in answers to these questions. In fact, it took months to get a full list of the non-US Bank locations participating in the Visa PLUS network.

This research on Ohio's ReliaCard led me to the three premises I mentioned at the outset.

First, it is essential that families understand the fees associated with the prepaid card. Many families receiving public benefits or tax returns on a prepaid card will think it functions like a gift card, which is not accurate. The fees should be disclosed and transparent, which also means readable language that includes examples. Clients should read phrases that say "If you use this card at a non-covered bank, you will be charged a \$1.50 fee from the card and another fee from that ATM." Some potential policy changes that would benefit consumers would be a standardized box on contracts and statements that displays fees and costs of the card. On credit card statements, this is often known as the "Schumer Box," in reference to Senator Schumer of this committee and his efforts for disclosure on credit cards. Additionally, comparing different prepaid debit cards is challenging. We have a formula, the annual percentage rate (APR), for comparing the cost of credit. We should develop a similar tool that allows for ranking different prepaid card products. In the end, this will allow for the best prepaid card products to flourish in the market.

On the second premise, it is crucial that prepaid debit cards loaded with public benefits and tax refunds are not fee-ridden. Similar to Ohio's ReliaCard, several states have a prepaid debit card for

⁷ The client's bank may charge a fee for this process.

⁸ Visa/PLUS ATMs were found on 3/11/2011 from http://visa.via.infonow.net/usa_atm/. A public records request with ODJFS yielded a list in June 2011 with the same information.

state tax refunds with a comparable fee schedule.⁹ However, not all prepaid cards have the same fee schedules. With the exception of overdraft and out-of-network ATM charges, Ohio's ReliaCard has few fees. Other government-issued prepaid debit cards carry additional fees that should be reduced if not eliminated. I highlight some of these fees below.

Again, for government-issued cards that are loaded with public benefits and tax refunds, overdraft fees should not be an option. If the balance is \$0, the card should not produce a transaction. Also, prepaid debit cards should not have a credit function to them. Credit cards are a very different product than prepaid cards and this can get confusing when the card has a Visa or MasterCard logo for network transactions. Additionally, clients should not be charged fees for checking balances at any ATM, even out-of-network. A balance inquiry is important for managing benefits as with a regular bank account. Also, customer service calls should not have a charge – there should also not be a charge to talk to a live person. Finally, we recommend that clients in rural or low-ATM areas be given one free out-of-network ATM transaction from the prepaid card for every deposit from the state agency. At bare minimum, they could move the money to a more convenient banking product or account to avoid ATM fees.

On the third premise, I want to stress that prepaid debit cards are a useful tool in managing the assets of the working families. At the same time, it is imperative that prepaid debit cards are not a substitute for savings accounts and mainstream financial products. There is a growing concern in the consumer community that prepaid debit cards will replace innovative products and services to low- and middle-class families looking to grow their assets. There are huge policy implications if prepaid cards become the new norm for these clients, a “second tier” banking product of sorts. If so, prepaid cards are more of a tool for financial exclusion than inclusion – which would damage communities. Asset building is an important part of economic mobility, whether it is creating an emergency fund or saving for college. Families should always have the option of direct deposit for a government benefit rather than the card.

Few prepaid debit cards have a savings bucket and no government-issued cards allow other funds to be loaded onto the cards. Additionally, many prepaid cards do not allow customers to pay bills or write electronic checks – an obvious difference from a checking account.

In sum, I believe that prepaid debit cards are helpful and present a needed alternative to other financial products. It is essential that they are transparent, not fee ridden, and part of a larger financial inclusion plan. I appreciate the opportunity to testify before you. I am happy to answer any questions at this time.

Respectfully submitted,

David Rothstein

⁹ Karen Harris. “Tax Refunds Issued on Prepaid Cards Take a Toll on Consumer.” The Shriver Center <http://www.theshriverbrief.org/2012/02/articles/asset-opportunity/tax-refunds-issued-on-prepaid-cards-take-a-toll-on-consumers/>

Appendix 1: Tables

Table 1: Ohio ReliaCard Fees ¹⁰	
Non US Bank ATM fee (charge by US Bank) per transaction	\$1.50
Non US Bank ATM fee (charge by other bank) per transaction	\$1.50 to \$2.50
Non US Bank balance inquiries per transaction	\$1.00 to \$3.00
Rush delivery of a replacement card	\$10
Account overdraft per transaction	\$17

¹⁰ http://ifs.ohio.gov/ouc/ReliaCard_FactSheet.pdf

Appendix 2: Figures

Figure 1: US Bank Locations and Ohio Unemployment Rates

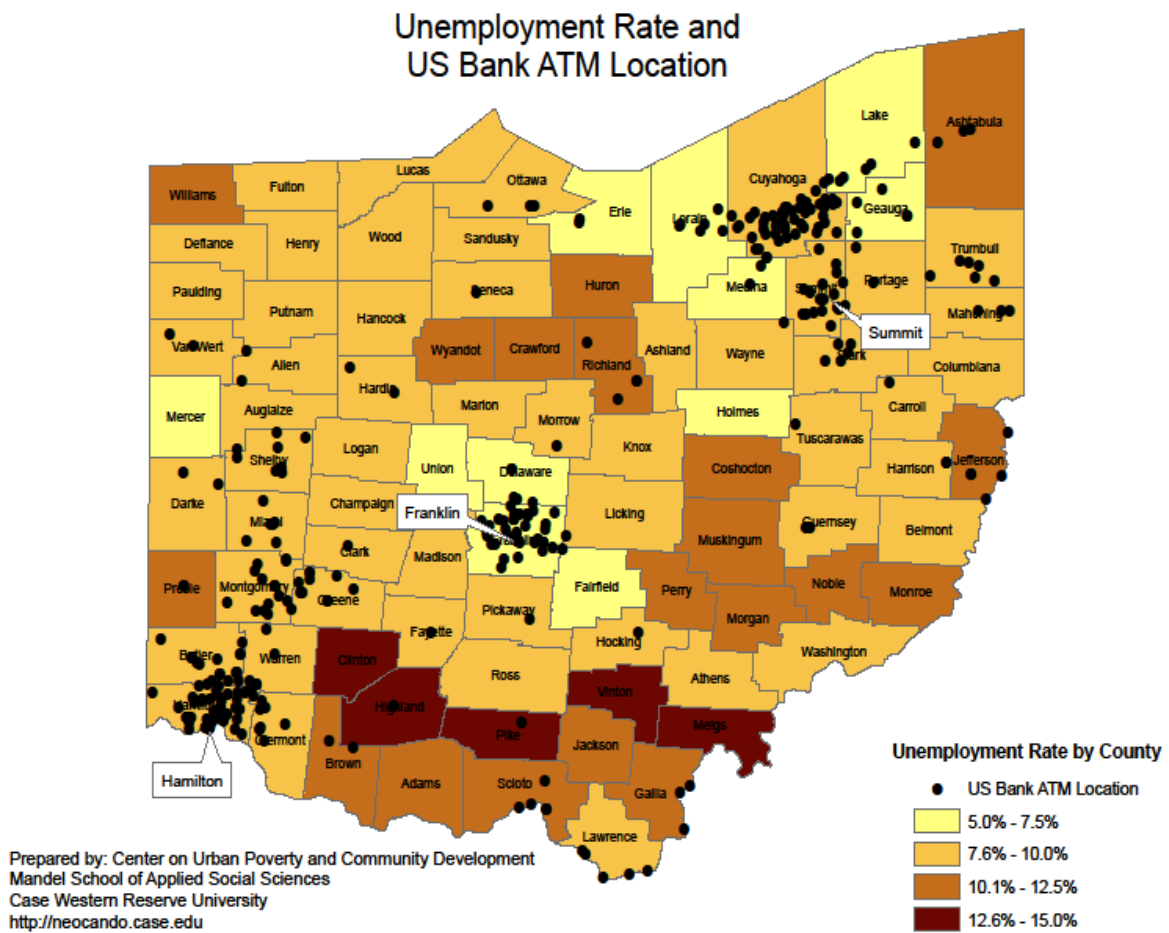


Figure 2: Visa Plus Network ATMs and Ohio Unemployment Rates

