



POLICY & ACTION FROM CONSUMER REPORTS

May 3, 2013

Denise Belser
Family Economic Success
Institute for Youth, Education and Families
National League of Cities
1301 Pennsylvania Avenue, NW
Suite 550
Washington, DC 20004

Re: Municipal Prepaid Cards

Dear Ms. Belser,

Consumers Union, the policy and advocacy arm of Consumer Reports, has been following with great interest the development and implementation of hybrid municipal identification prepaid cards and transit prepaid cards. We are concerned that some prepaid cards issued recently by cities do not provide consumers with the kind of fair deal consumers deserve. We would like this opportunity to better inform the National League of Cities of our interest regarding such products and services, having followed the development of prepaid cards.

First, we believe that given the position of a municipality as a trusted entity, cities have the added responsibility of providing the most consumer friendly financial products and services. We believe government and other public entities that choose to link a prepaid card option to any card or service provided by a municipality or municipal agency should provide its citizens with an opportunity to access a product or service that is fairly priced and provides the best value to the user.

We recognize that prepaid cards, or general purpose reloadable cards, can provide debit convenience to consumers who may not qualify for or may not desire bank accounts or credit cards. However, we must also point out that prepaid cards are not yet on par with debit cards tied to bank accounts because prepaid cards don't provide federally guaranteed protections against loss of funds resulting from mistake or fraud. We have warned consumers who use prepaid cards they may find themselves in a second-tier and much less desirable banking system until federal protections under the Electronic Funds Transfer Act and Regulation E are extended to prepaid cards and egregious fees are eliminated.

Consumers Union is particularly concerned when prepaid cards offer less than desirable terms, which include:

- High, multiple, and confusing fees;
- Inadequate protection against missing funds due to loss or fraud through mistake or theft using the cards or card account numbers; and

- Inadequate federal deposit account insurance as deposit insurance for prepaid cards may require compliance with specific instructions to ensure full coverage for individual cardholders.

Most recently, the Oakland City ID Prepaid card initially introduced a card which would assess a \$0.75 fee per swipe (a cap at \$12.50 per month was announced in early April). In addition, the first fee schedule included a \$2 fee to set up government benefit payment acceptance, and then a \$1 fee for every deposit from a federal or state agency. The Chicago Transit Authority' Ventra Card would have assessed a \$10 per hour account research fee to resolve billing disputes. Although these fees have since been eliminated, we want to provide examples of prepaid cards sponsored by municipalities or agencies that did not offer the most consumer friendly fees.

Below we include our Prepaid Card Principles, which we encourage your organization and member cities to adopt if and when any prepaid product or service is offered by the municipality or its agencies.

Consumers deserve the best and most consumer friendly prepaid cards which charge low or no fees for the essential uses of the card, and give consumers clear information so that they may have a better understanding of the fees and other terms of the card. Prepaid cards issued by cities should offer:

- Free Cash Withdrawal
Consumers should be able to withdraw funds from ATMs for free at all times at convenient locations in their communities, as well as enable the withdrawal of funds for no fee with bank tellers at all MasterCard or Visa member banks.
- Free Point of Sale Transactions
There should never be a fee to make a purchase, in store or online.
- Free Balance Inquiries
Consumers should be able to make balance inquiries for free. Balance information should be accessible at ATMs, by telephone, email or text for free.
- No Overdraft Fees and No Declined Transaction Fees
Consumers should not be assessed any overdraft or overdraft type fees. They should also not be assessed fees for any declined transactions.
- No Dormancy Fees
Consumers should not be assessed dormancy or inactivity fees.
- No Customer Service Fees
Consumers should not be charged fees for contacting customer service, either live or automated. Customer service should be provided in the consumer's primary language.
- Low Upfront Fees
A simplified fee structure would offer consumers a low monthly or other upfront usage fee for the total cost of the card. No additional fees other than those contracted should be permitted.

Issuers Must Provide Transparency of Terms, Including Fee Information

Consumers should be provided information about fees and other terms *before* signing up or applying for a prepaid card. We recommend that fee information be provided in a simple, straightforward manner. One example is to provide a clear chart, in large readable font, similar to the “Schumer Box” provided for credit cards. Second, fee information should be made easily accessible and provided where consumers would logically expect them. For instance, they should be provided on the homepage of a website for the prepaid card and easily readable on a mobile device. In addition, consumers should receive a wallet-sized card with fee information upon receipt of the card. Finally, the terms and fee information should also be provided in the consumer’s primary language.

Prepaid Cards Must Provide Full Consumer Protections

Furthermore, prepaid cards should also receive full protection under the federal Electronic Funds Transfer Act for error resolution and dispute rights and each account should be appropriately structured for each cardholder to be fully federally insured up to \$250,000, by the FDIC or NCUA.

Finally, we hope to work with the National League of Cities in developing best practices for prepaid cards similar to those endorsed by the Cities for Financial Empowerment (CFE). We also encourage municipalities who choose to offer prepaid cards to inform consumers of other resources that are available to them, including to provide information on better products and services by credit unions and banks, or other similar prepaid products that may be better suited for their needs.

Sincerely,

Michelle Jun

Enclosures:
Consumers Union Prepaid Card Principles
Cities for Financial Empowerment Prepaid Card Principles