

PREPAID CARDS

Prepaid cards are one of the fastest growing payment instruments in the United States, particularly among the underbanked. Prepaid cards replace cash in traditional retail transactions, providing a means to make payments online and by telephone, and allowing transactions such as car rentals or hotel bookings that would usually require a credit or debit card. Prepaid cards give users a level of convenience and safety that cash does not offer, with network branded cards accepted at millions of outlets worldwide and carrying strong protections against liability if they are lost or stolen.

Many see prepaid cards as a tool which drives financial inclusion and empowerment, giving the 66 million underbanked in the U.S. a secure electronic payments account which can be funded by any source of income, from social security to state benefits to payroll deposits. Prepaid cards also deliver cost savings and efficiencies for government agencies and private businesses by eliminating paper checks and the systems that go along with them.

There are a number of types of prepaid cards including: **Open Loop Cards** which are issued by banks or financial institutions and can be used to make payments wherever the card network is accepted, in the same way as debit or credit cards; **General Purpose Reloadable (GPR) Cards** which are used by consumers for everyday expenses and often serve as an alternative to a checking account; **Payroll Cards** which are used by companies, corporations and government departments to replace paper checks for employees; **Teen and Student Cards** are intended for use by teens and students under parental supervision as an alternative to credit or debit cards; **Travel Cards** that allow consumers to control spending while traveling, fulfilling much the same role as traditional travelers' checks; **Healthcare Cards** which are used to access pre-tax medical spending accounts; **Transit Cards** which are used to pre-pay for public transportation like trains and buses, etc.; **Gift Cards** are used in-store or online in specific stores (also called closed-loop gift cards); **Government Assistance Cards** which replace paper checks for benefits (e.g., veterans, unemployment, food assistance) or other government payments (e.g., tax refunds); and **Emergency Assistance Cards** which are used to rapidly put emergency funds in the hands of individuals and families after a natural disaster, or other emergency.

Because of this variety of formats, prepaid cards can be subject to a number of federal and state laws including the Federal Reserve Board's Electronic Funds Transfer Final Rule, the CARD Act of 2009, Regulation E (currently applying only to payroll cards) and the FinCEN Prepaid Access Final Rule.

The Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act excludes all reloadable cards that do not impose overdraft fees and allow ATM access from its interchange controls. In addition, oversight from the Consumer Financial Protection Bureau (CFPB) is focused on General Purpose Reloadable (GPR) cards.

AFSA'S POSITION

AFSA believes that prepaid cards have an important role to play in promoting financial inclusion and empowering users and bring significant practical benefits to individuals, families, businesses and government entities. As such, AFSA supports sensible consumer protections for prepaid card users, so far as these protections do not compromise the usefulness of prepaid cards for individual consumers or inadvertently deter the innovation of new and beneficial prepaid products. Innovation is the result of competition to win consumer business. It is in the consumer's interest that innovation is not stifled.

AFSA believes that transparency is the best consumer protection and supports clear and accurate disclosure of terms, conditions and fees related to card usage to allow consumers to make informed decisions about which product is best for them. Disclosures allow consumers not only to compare different prepaid products, but also compare prepaid to alternatives such as a checking account or check-cashing. ‘