

Evolution to Prepaid Cards

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Target Audience

Educators of senior adults, under-banked, or consumers with poor credit histories.

Objectives/Purpose

Participants of this practitioner's forum will:

- Learn how to access resources for consumers to compare and choose prepaid cards.
- Become familiar with resources provided by the Federal Reserve for financial education.
- Be introduced to the prepaid card contracted by the Federal Government to provide benefits for those who do not make another direct deposit choice.

Overview

The U.S. Department of the Treasury is requiring everyone who gets federal benefit payments by paper checks to switch to an electronic payment method. People who did not choose an electronic payment option by March 1, 2013 are scheduled to receive their payments via Direct Express (a MasterCard Debit Card offered by Comerica Bank). Consumer educators have been working with financial institutions in their local areas to provide information to consumers and assist them in choosing an electronic payment method.

Prepaid cards, like Direct Express, Green Dot, and the many others offered by online and by local financial institutions, are commonly used as an alternative to bank accounts by the unbanked or under-banked, as well as those who have had difficulty managing bank accounts. Consumers who use traditional accounts at local financial institutions may also use prepaid cards as an alternative to credit cards.

Terms and costs of prepaid cards vary widely. Consumers should learn to shop around and compare prepaid cards, and consider how costs and safety compare to debit, checking, or savings accounts at local banks and credit unions.

For example, prepaid cards may charge fees for reloading money, ATM withdrawals, balance inquiries, or making a purchase without enough money on the card, in addition to a small regular monthly fee. Prepaid cards are not covered by the CARD Act which regulates credit cards either, although some cards do offer their own forms of protection against loss.

Information about the Direct Express Card offered by default to consumers who do not choose an electronic deposit account on their own may be found online at: www.godirect.gov Videos, brochures, and other facts for consumers and those who may assist them at home or at local banks may also be found online.

Several organizations offer consumer education programs and resources to inform consumers, including the Federal Reserve Bank of St. Louis. Online information is also available at websites of the Consumer Financial Protection Bureau, FCIC, and Consumer Action.

Impact

Since 2005, when a nationwide campaign began to encourage recipients of public benefits to make the switch to direct deposit, millions of consumers have learned to replace paper checks and cash with electronic payments. By 2008, more than 10 million consumers were still

receiving paper checks. In 2009, half a million Americans had signed up for the **Direct Express**[®] Debit MasterCard[®]. Early in 2013, at least 5 million checks continued to be mailed as the March 1, deadline approached. Although some checks are still being mailed now that the deadline has passed, the challenge remains for consumer educators to move economically vulnerable consumers into the electronic payments age.