



## Neighborhood Economic Development Advocacy Project

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### TESTIMONY OF DEYANIRA DEL RIO BEFORE THE NEW YORK CITY COUNCIL CONSUMER AFFAIRS COMMITTEE

#### Oversight Hearing on Prepaid Debit Cards, Predatory Fees and Financial Literacy

December 16, 2010

Thank you for the opportunity to testify today about prepaid debit cards. My name is Deyanira Del Rio and I am the Associate Director at NEDAP. NEDAP is a nonprofit resource and advocacy center that works with local groups to promote economic justice in New York City neighborhoods. NEDAP has been at the forefront of efforts to expand fair banking and credit access, and to eliminate discriminatory lending practices, in low income neighborhoods and communities of color in New York City since 1995.

Prepaid debit cards are a fast growing industry, and present major concerns to financial justice advocates. It is important to distinguish, however, among the different types of prepaid cards, which include: *general purpose reloadable cards* that can be purchased at check cashers and other stores or online; *government-issued cards* used to distribute, for example, food stamps and cash assistance (as with New York's EBT program), Social Security benefits, unemployment insurance and tax refunds; and *payroll cards*, used by companies to pay their employees' wages; among others. While there are major concerns relating to payroll and benefits cards, my testimony today focuses on the general purpose cards that have proliferated in lower income communities and are often misleadingly touted as sound alternatives to traditional bank accounts.

As the title of today's hearing suggests, prepaid cards too often contain predatory fees and terms that make them harmful or risky products, particularly for the financially strapped populations to which they are typically marketed. In their current form, prepaid cards represent the latest addition to the array of high-cost and inferior "second tier" financial products for which the poor pay more. Rather than help people enter the financial mainstream, prepaid cards reflect and reinforce inequities in our financial services system.

**NEDAP is deeply concerned about the steering of immigrants, young people and low wage workers to predatory prepaid cards.** Proponents of prepaid cards often claim that these are ideal products for "unbanked" immigrants, youth, and low income workers. In light of their vastly high costs, confusing fee structures and lack of uniform consumer protections, prepaid cards are perhaps the *last* product that should be offered to individuals who have the fewest resources or who may be new to the banking system.

Specific problems and concerns associated with prepaid cards include:

1. **Prepaid cards have high and hidden fees.** Prepaid cards typically come with a laundry list of fees, including: application and activation fees, monthly maintenance fees, cash withdrawal fees, point of sale fees, fees to add money to the card, balance inquiry fees, fees to speak to a customer service representative, account closing fees, bill pay fees, and inactivity fees. Consumers Union's 2010 report on prepaid cards found that monthly fees to use the Rush Card, for example, range from \$15 - \$43.

2. **Prepaid cards have weak consumer protections.** Federal laws and regulations protect credit and debit card users, for example, by limiting their liability and providing error resolution rights, in the event their cards are lost or stolen. These protections, among others, do not apply to prepaid debit cards, which are largely unregulated.
3. **Money deposited onto a prepaid card may not be fully FDIC-insured.** Depending on how prepaid card programs are set up, which varies, the \$250,000 federal deposit insurance may apply to an aggregate “pooled” amount of money deposited by multiple cardholders, rather than to each individual cardholder.
4. **Promises to help people establish positive credit histories are overstated.** Few prepaid card companies appear to provide meaningful credit building services, while those claiming to do so charge cardholders hefty additional fees for this feature.
5. **Payday loans are being made through some prepaid cards.** Consumer and fair lending advocates have identified very short-term, high-interest loans being offered on some prepaid cards. Payday lending is illegal in New York State, and the NYC Council should strenuously oppose any attempts to attach usurious payday-like loans to prepaid cards.

## Recommendations

Community and consumer groups are increasingly scrutinizing prepaid cards, as these products become more prevalent in the communities they serve. New York City should join groups in calling for strong federal consumer protections for prepaid cards. Electronic Funds Transfer Act and Regulation E protections against unauthorized transactions should apply to prepaid cards; and prepaid card issuers should be required to set up card programs in a way that guarantees FDIC insurance for each cardholder’s individual account.

In addition to weighing in at the federal level, NYC should continue its efforts to help New Yorkers gain access to safe, affordable and appropriate financial services. NYC is fortunate to have several full-service community development credit unions, which serve as not-for-profit alternatives to banks and have a special mission of reinvesting in their local communities. NYC’s Office of Financial Empowerment also engages local banks and credit unions in initiatives through which they offer free accounts, without hidden overdraft fees.

New York City should not require any of its employees to receive their wages on payroll cards, a type of prepaid card that employers increasingly use to replace paper checks. These cards save employers millions of dollars in payroll costs, which are shifted onto workers in the form of ATM, point of sale and other fees. Several years ago, NYC’s Department of Youth and Community Development began to pay its Summer Youth Employment Program participants on prepaid cards, with disastrous results. To the extent that NYC offers payroll cards, they must be optional, and the city must negotiate strong agreements with issuing banks to ensure, for example, that employees have an adequate number of free transactions and access points.

Finally, New York State currently contracts with JPMorgan Chase to issue prepaid cards – including for EBT benefits and unemployment insurance. As a result of these contracts, millions of public dollars intended for welfare recipients and unemployed workers are being siphoned out of low income New Yorkers’ pockets and communities, through ATM, point of sale and other fees to banks. The NYS Department of Tax and Finance is reportedly planning to cease issuing state tax refunds by paper checks, replacing them with prepaid cards also issued by Chase. These issues raise a number of public policy questions and concerns, which we would welcome the opportunity to discuss with you in greater depth.

Thank you again for the opportunity to testify at today’s hearing.