A teal-tinted photograph of the Federal Reserve Building in Washington, D.C. The building's classical architecture, including its columns and portico, is visible. An American flag flies on a tall pole in front of the building. The sky is blue with some clouds.

Report to the Congress on Government-Administered, General-Use Prepaid Cards

October 2020

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM



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Background

Federal, state, and local government offices use prepaid cards to disburse funds at a lower cost than checks (or other paper-based payment instruments such as vouchers or coupons) and to provide an alternative to direct deposit for payment recipients, especially those recipients who do not have bank accounts. As a result, government offices contract with financial institutions to issue prepaid cards, disburse program funds, and provide customer service.¹

Section 1075 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which added section 920 to the Electronic Fund Transfer Act (EFTA), requires the Federal Reserve Board (Board) to report annually to the Congress on the prevalence of use of general-use prepaid cards in federal, state, and local government-administered payment programs and on the interchange fees and cardholder fees charged with respect to the use of such cards.^{2, 3}

¹ Occasionally, third-party program managers are involved in government prepaid card programs. Issuers often contract with program managers to provide services traditionally carried out by the issuer. In certain cases, a program manager contracts directly with the government office and provides almost all functions that are traditionally carried out by an issuer.

² See “Government-Administered, General-Use Prepaid Cards” on the Board’s website at <https://www.federalreserve.gov/publications/government-prepaid-executive.htm>. A program is considered government-administered regardless of whether a federal, state, or local government office operates the program or outsources some or all functions to third parties, so long as the program is operated on behalf of a government office. In addition, a program may be government-administered even if a federal, state, or local government office is not the source of funds for the program it administers. For example, child support programs are government-administered programs even though individuals fund them.

³ Subsections 1075(b)-(d) of the Dodd-Frank Act amend benefits statutes such that EBT cards issued in connection with the relevant program are not subject to the interchange fee standards and exclusivity and routing restrictions in section 920 of the EFTA. The amended benefits statutes are the Food and Nutrition Act of 2008, the Farm Security and Rural Investment Act of 2002, and the Child Nutrition Act of 1966. Although EBT cards issued in connection with relevant programs are not subject to section 920 of the EFTA, the Board believes that it is appropriate to include in this report information about such EBT cards because they represent a significant portion of prepaid cards issued pursuant to government-administered programs.

The Board distributed a survey to 15 issuers to collect prevalence-of-use and fee data on federal, state, and local government-administered payment programs that used prepaid cards as a method to disburse funds in calendar year 2019.⁴ All issuers responded, reporting data for roughly 2,100 programs.⁵ The Board also collected a limited amount of prevalence-of-use data from the U.S. Treasury, the U.S. Department of Agriculture, and three nonbank financial institutions that process electronic benefit transfer (EBT) transactions.⁶ The data collected represent programs from all 50 states and the District of Columbia.

Across reported programs, government offices disbursed \$136 billion through prepaid cards in 2019, a roughly 0.2 percent decrease from 2018. Declines in prepaid card disbursements in federal, state, and local programs during this period drove the total decrease.

⁴ “Government-Administered, General-Use Prepaid Card Survey—Issuer Survey,” FR 3063a, OMB No. 7100-0343, Federal Reserve Board website, https://www.federalreserve.gov/paymentsystems/files/FR3063a_government_issuer_survey_2019.pdf. The FR 3063a survey is conducted annually to collect information for this report. The Board identified issuers to survey by consulting with relevant payment card networks (PCNs). The Board reviewed the data submitted by survey respondents for completeness, consistency, and anomalous response. Where possible, the Board resolved identified issues by following up with respondents and by replacing problematic data elements with imputed values. In computing a given summary statistic for this report, the Board excluded responses with unresolved issues that affected the calculation’s inputs. Although the Board makes a comprehensive effort to identify and resolve issues in the reported data, some issues may not have been identified by the time this report was published.

⁵ The pool of reported programs changes over time because issuers may transfer programs to other issuers and government agencies may add or eliminate programs and may alter disbursement methods for existing programs. Issuers self-reported the number of programs included in their responses. Some issuers were unable to distinguish between multiple government-administered payment programs that disburse funds on the same card. The number of programs, therefore, represents a lower-bound approximation. Issuers occasionally partner with third-party program managers that contract directly with government agencies. In these cases, issuers may not have access to some data requested in the survey.

⁶ Program counts were not available from these organizations.

Analysis of 2019 Data

Prevalence of Use: Prepaid Card Disbursements

For calendar year 2019, government agencies disbursed \$136 billion through prepaid cards across reported programs.⁷ Total funds disbursed through prepaid cards varied widely by program type, as shown in [figure 1](#). Consistent with years prior, the Supplemental Nutritional Assistance Program (SNAP) disbursed the largest share of total funds through prepaid cards across all reported programs in 2019. In total, these prepaid disbursements represent approximately 2 percent of total government expenditures in 2019.⁸

Data highlights for 2019 government-administered, general-use prepaid card disbursements

- Disbursements to prepaid cards decreased roughly 0.2 percent between 2018 and 2019, from \$137 billion to \$136 billion.
- The 0.2 percent decrease in total disbursement of funds reflects a 0.1 percent decrease, from \$98.8 billion to \$98.7 billion, in state and local disbursements, and a nearly 0.4 percent decrease, from \$37.8 billion to \$37.7 billion, in federal disbursements.

Fees Collected and Paid by Issuers

Issuers largely receive revenue by collecting interchange fees and cardholder fees.⁹ Transactions made

using government prepaid cards are generally exempt from the interchange fee standards of Regulation II.¹⁰ For cardholder fees, government offices negotiate rates for each program with issuers. Government offices also often restrict the number and type of cardholder fees an issuer can charge. In 2019, issuers reported collecting \$333 million in interchange fees and \$157 million in cardholder fees.¹¹ In addition to collecting fees, issuers must also pay fees to third parties for various services, such as cardholder cash withdrawals from an out-of-network automated teller machine (ATM) or bank.¹²

Data highlights for 2019 government-administered general-use prepaid card fees

- The number of transactions increased about 2 percent between 2018 and 2019, from 993 million to 1.014 billion. During the same period, interchange fee revenue decreased by about 2 percent from \$340 million to \$333 million.

Card Survey—Issuer Survey,” FR 3063a, OMB No. 7100-0343, Board, https://www.federalreserve.gov/paymentsystems/files/FR3063a_government_issuer_survey_2019.pdf.

¹⁰ Regulation II limits the amount of interchange fees an issuer can collect with respect to electronic debit transactions. 12 CFR 235.3.

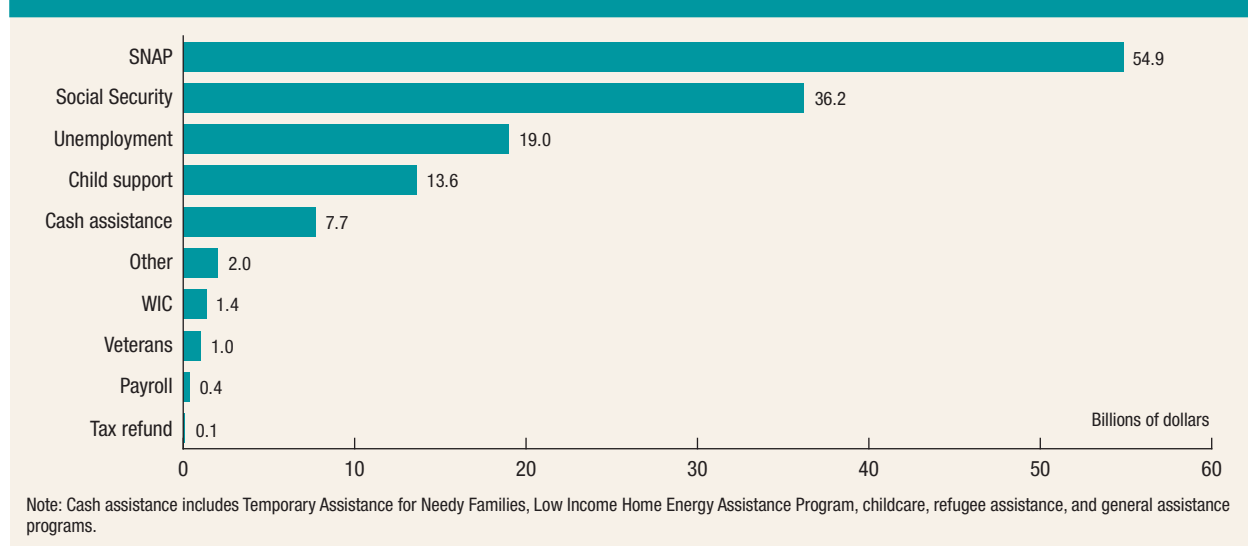
¹¹ Consistent with previous reports, the Board calculated all revenue figures here using data collected through the issuer survey on the population of network-branded government-administered, general-use prepaid cards (excluding EBT cards). For EBT card programs, states generally pay an issuer or processor based on the number of beneficiaries enrolled in a program per month, in part because there are no interchange fees associated with these card programs. Certain cardholder fees, such as a fee for card replacement, may also apply to EBT programs.

¹² Issuers pay fees to ATM operators for each ATM cash withdrawal to compensate the operator for the costs of deploying and maintaining the ATMs and of providing cash services to the issuers’ cardholders. Issuers pay fees to banks for each OTC cash withdrawal to compensate the bank for the costs of staffing the teller window and providing cash services to the issuers’ cardholders. In addition to ATM and OTC fees, issuers pay fees to PCNs (such as switch, license, and connectivity fees); however, the Board does not collect data for these fees in relation to government-administered prepaid cards.

⁷ Funds disbursed onto prepaid cards but ultimately returned to government agencies are excluded from this figure. The value of funds returned to government agencies is de minimis.

⁸ “Table 3.1. Government Current Receipts and Expenditures,” U.S. Department of Commerce, Bureau of Economic Analysis, last modified July 30, 2020, <https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=3&isuri=1&1921=survey&1903=86>. Total government expenditures include expenditures of federal, state, and local governments in calendar year 2019.

⁹ For definitions of the various cardholder fees mentioned in this report, see “Government-Administered, General-Use Prepaid

Figure 1. Funds disbursed through prepaid cards in 2019, by program type

- The average value of purchase transaction increased \$0.64 between 2018 and 2019, from \$30.47 to \$31.11. During the same period, the average interchange fee per purchase transaction decreased by about \$0.01 to \$0.33.¹³
- The average interchange fee as a percentage of purchase transaction value remained relatively constant at 1 percent for federal programs, but decreased by about 0.1 percent to 1.1 percent for state and local programs between 2018 and 2019.¹⁴
- Total cardholder fee revenue increased 22 percent between 2018 and 2019, from \$129 million to \$157 million.¹⁵ In 2019, total cardholder fee revenue represented 0.2 percent of program funds disbursed onto prepaid cards.
- Cardholder ATM fees and cardholder account servicing fees represented the two largest sources of cardholder fee revenue for issuers in 2019, representing \$97.4 million and \$33.3 million, respectively. These fees represent 83 percent of total cardholder fee revenue. See [figure 2](#) for total revenue issuers collected and the average charge per occurrence by cardholder fee type in 2019.¹⁶
- Issuers reported paying approximately \$60 million in fees to third parties for ATM withdrawals and \$19 million in fees to third parties for over-the-counter (OTC) cash withdrawals.¹⁷

¹³ The Board calculated average value of purchase transaction as the quotient of the value of settled purchase transactions divided by the number of settled purchase transactions. The Board calculated average interchange fee as a percentage of purchase transaction value as the quotient of total interchange fees divided by the value of settled purchase transactions.

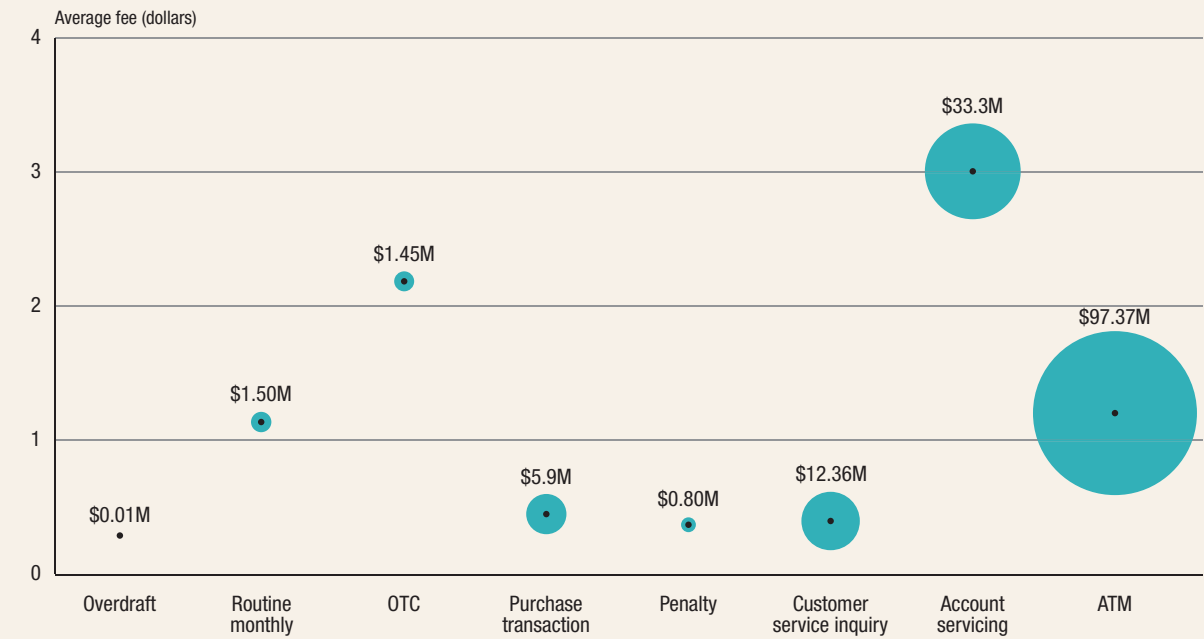
¹⁴ The Board calculated average interchange fee per purchase transaction as the quotient of total interchange fees divided by the number of settled purchase transactions.

¹⁵ Total ATM fees increased from \$75.80 million in 2018 to \$97.37 million in 2019. Total customer service inquiry fees increased from \$6.14 million in 2018 to \$12.36 million in 2019.

¹⁶ The Board excluded transactions for which no fee was assessed from the average fee calculations.

¹⁷ On average, issuers paid approximately \$1.20 per ATM cash withdrawal and \$2.19 per OTC cash withdrawal in 2019. Because of limited data, the Board approximated the number of ATM and OTC withdrawals resulting in a fee. Therefore, the calculations of average ATM and OTC fees paid by issuers are estimates.

Figure 2. Cardholder fees: revenue and average fee charged in 2019, by type of fee



Note: Size of bubble represents total revenue from fee.
 Position of black dot on vertical-axis represents average fee when charged.

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