



Neighborhood Economic Development Advocacy Project

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November 19, 2004

Jennifer L. Johnson, Secretary
Board of Governors
Federal Reserve System
20th and Constitution Ave., N.W.
Washington, DC 20551

By email and postal mail

Re: Docket No. R-1210

Dear Ms. Johnson:

Resources for Youth Seeking Economic Justice (RYSE) submits these comments regarding the Federal Reserve Board's proposed amendment to federal Regulation E with regard to payroll cards. RYSE generally supports the Federal Reserve's proposed amendment as an important and timely first step towards addressing needed consumer protections for stored value cards. The focus of our comments is on stored value card issues affecting young people in New York City, particularly low income youth.

The amendment would extend Electronic Fund Transfer Act (EFTA) protections to payroll cards that an employer uses, directly or indirectly, to provide wages, salary, or other employee compensation on a recurring basis. We also call on the Federal Reserve to extend EFTA protections beyond recurring payroll cards to other stored value cards, including: prepaid debit cards marketed or used as account substitutes; payroll cards that deliver non-recurring employee compensation; and cards used to provide child support payments, unemployment compensation, tax refund or refund anticipation loan proceeds, or public assistance benefits.

Further, our concerns regarding both payroll cards and prepaid debit cards extend far beyond the issues of disclosure and limitations on loss liability that would be resolved by the expansion of the EFTA. We urge the Federal Reserve to examine the serious problems of high fees and limited access to one's wages disbursed via payroll cards, and to address these issues insofar as they fall within the Federal Reserve's jurisdiction.

Resources for Youth Seeking Economic Justice (RYSE) is a project at the Neighborhood Economic Development Advocacy Project (NEDAP), a resource center that offers legal, technical, and policy support to community groups that are organizing for economic justice in low income neighborhoods and communities of color in New York City. RYSE provides training and campaign support to youth groups working on issues of financial and economic justice. These comments focus on stored value card issues affecting young people in New York City. We share the concerns expressed in the extensive comments filed by Consumers Union, and incorporate them by reference into these comments.

I. RYSE strongly supports the amendment to include payroll card accounts under the EFTA.

Payroll cards are increasingly used to pay people working in the retail, food service, hospitality and other sectors. Many employees in these sectors are teenagers and young adults who are, by definition, new to the world of work and the financial services arena. Very few receive any financial education at school. The 2004 Personal Financial Survey of High School Seniors conducted by the Jump\$tart Coalition found that under 20% of the students surveyed received financial literacy education in school. Just over half of the students surveyed were able to pass a simple test on basic financial skills. Lack of experience with the financial system, combined with a lack of financial education, places young consumers among those most in need of consumer protections such as those provided by the EFTA.

Youth groups throughout New York City have contacted RYSE with concerns regarding payroll cards. In 2004, for example, the New York City Department of Youth and Community Development (DYCD) paid the 35,000 young people in its Summer Youth Employment Program (SYEP) via payroll card. Among the many problems that SYEP participants reported to RYSE, few understood that their payroll card was not attached to a bank account and did not afford them the same consumer protections granted to someone with a bank account. This confusion is likely not exclusive to the SYEP participants. Young people - indeed, all people - being paid via payroll card should be given the full range of disclosures and protections granted to others conducting electronic financial transactions, particularly regarding error resolution and liability for loss.

II. RYSE urges the Board to extend the amendment to cover prepaid debit cards marketed or used as account substitutes.

Prepaid debit cards are aggressively marketed to young people, employed and unemployed alike. Clearly, stored value card issuers recognize the large and growing spending power of even the youngest consumers. The spending power of children four to twelve years old is estimated to be between \$24 and \$30 billion per year, while college students control an estimated \$122 billion in spending power annually. Tom Miezejeski of the research firm the Pelorus Group said in a 2004 press release that "over 25 million teenagers in the U.S. have money to spend but can't qualify for a credit card," and noted that they are "a prime target for stored value alternatives."

Many debit card issuers have developed products specifically targeting this audience. The R&B singer Usher has introduced a prepaid MasterCard. Hip-hop impresario Russell Simmons sells the Rush Card, a pre-paid Visa card that comes in two styles, the black Rush Card for men, and the pink Baby Phat brand card for women. Visa, in partnership with many banks nationwide, issues the Visa Buxx card, targeted to teenagers. A Hello Kitty pre-paid MasterCard was recently introduced. Bruce Giuliano, senior vice president of licensing for Sanrio Inc., which owns the Hello Kitty brand, told the Washington Post "We think our target age group will be from 10 to 14, although it could certainly go younger." While one must be 18 to sign up for the card, the images and language of the card's promotional materials suggest that the card issuers are reaching out to teenagers and pre-teens (*see attached*).

Prepaid debit cards are a rapidly growing and highly profitable segment of the financial services market. According to a recent USA Today article, CardWeb.com reports that Visa, Mastercard,

Discover and American Express “generated about 2.6 billion in prepaid card sales” in 2003, up 73% since 2002. A 2004 study by the Pelorus Group estimates that the number of prepaid debit cards will grow from 22 million cards issued in 2004, to 50 million in 2009. The Pelorus Group anticipates that the dollar value of the cards will grow from \$38 billion in 2002 to \$80 billion in 2007.

As more and more people turn to prepaid debit cards to meet their financial services needs, it is imperative that they be covered by the consumer protections afforded to mainstream banking customers and credit card holders. The “zero liability” features offered by Visa and MasterCard on stored value cards are in fact limited, and are not a substitute for the protections offered by the EFTA. Prepaid debit cards often look like a traditional credit card. Inexperienced young consumers should not be exposed to loss of their earnings because the card they have chosen is not protected by the EFTA. They cannot be expected to understand that one card with a MasterCard or Visa logo is protected, while another is not. Nor should they have to appreciate the distinction; prepaid debit cards and traditional debit cards should be treated the same under the law.

III. Consumer protections of the EFTA should be implemented as soon as possible.

Like Consumers Union, we urge the Board to implement the substantive protections regarding error resolution and liability for lost or stolen cards, and unauthorized transactions immediately upon adoption of the proposed regulatory changes. We appreciate that financial institutions may need time to print and mail to customers the information regarding the changes to the law and their implications for consumers. However, consumers should be granted the protections as soon as possible, even if they are not made aware of them until a later date.

IV. Further consumer protections are needed

The proposed Regulation E amendment is an important first step in increasing consumer protections for stored value cards. However, our concerns regarding both payroll cards and prepaid debit cards extend far beyond the issues of disclosure and limitations on loss liability that would be resolved by the expansion of the EFTA. Many payroll and prepaid debit cards carry large fees, including high fees for checking one’s balance, per transaction fees, annual and monthly fees, and load fees for adding money to the card. For example, one prominent prepaid debit card, the Usher Debit MasterCard mentioned above, has a card activation fee of \$15.00, a \$3.95 load fee, a cash withdrawal fee of \$2.00 (in addition to any ATM fee charged by the ATM owner), a balance inquiry fee of \$1.50, a monthly maintenance fee of \$4.95, and a Live Agent fee of \$1.00 per minute to speak with a customer service representative. Other prepaid debit cards carry similarly exorbitant fees. These fees are egregiously expensive and must be reined in.

A problem experienced by many young people in the DYCD Summer Youth Employment Program described above was an inability to withdraw the entirety of their weekly earnings from their payroll card. ATM machines do not dispense one- or five- dollar bills, and few machines dispense ten dollar bills. The young people, who earned the minimum wage of \$5.15 per hour, were able to withdraw their earnings only in multiples of \$10 or \$20, and often had no choice but to leave several dollars on their card each pay period. The young people were told that they could withdraw these funds at a store checkout, or “Point of Sale,” but many participants have told RYSE that they were not able to access their earnings through POS transactions. This is

likely not a problem specific to the SYEP participants, but one experienced by many people receiving their wages via payroll cards. Many participants also reported paying high fees when using the card. Although the card was promoted as a way to avoid carrying large sums of cash, because cardholders were allotted only one non-surcharged transaction per pay period, withdrawing their entire paycheck (or as much of it as was accessible via ATM) was the only way to avoid fees of \$1.50 per transaction. Such fees make it difficult for young people to manage their earnings responsibly.

In addition, we urge the Federal Reserve to examine the serious problems of high fees and limited access to one's wages disbursed via payroll card, and to address these issues insofar as they fall within the Federal Reserve's jurisdiction.

V. Conclusion

Experts often express concern about young people's lack of financial literacy and their reliance on check cashers and other so-called fringe banking services. Payroll cards and stored value cards could serve as a stepping stone into the mainstream financial arena. But if young users of these increasingly common products are not granted the protections of the EFTA, they may be further alienated from the financial mainstream. This will disproportionately affect low and moderate income young people: those who work at a retail or food service job after school or to pay for higher education, young parents receiving child support via stored value card, or receiving public assistance via EBT card. Extending the EFTA to cover the products marketed to and used by these young people would be an important first step towards incorporating them into the realm of fair and affordable financial services.

Thank you for this opportunity to comment on the proposed regulatory changes. Please feel free to contact me should you have any questions.

Sincerely,

Kat Aaron
Director, RYSE
Neighborhood Economic Development Advocacy Project