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

July 2014

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

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Preface: Implementing the Dodd-Frank Act

The Board of Governors of the Federal Reserve System (Board) is responsible for implementing numerous provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act). The Dodd-Frank Act requires, among other things, that the Board produce reports to the Congress on a number of topics.

The Board maintains a Regulatory Reform website, which provides an overview of regulatory reform efforts implementing the Dodd-Frank Act and a list of the implementation initiatives completed by the Board as well as the most significant initiatives the Board expects to address in the future.[1]

[1] Board of Governors of the Federal Reserve System, “About Regulatory Reform,” www.federalreserve.gov/newsevents/reform_about.htm; “Implementing the Dodd-Frank Act: The Federal Reserve Board’s Role,” www.federalreserve.gov/newsevents/reform_milestones.htm.

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Executive Summary

Section 1075 of the Dodd-Frank Act, which added section 920 to the Electronic Fund Transfer Act (EFTA), requires the Federal Reserve 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 prepaid cards.[2]

Federal, state, and local government offices commonly 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. Government offices contract with financial institutions or program managers to issue prepaid cards, disburse program funds, and provide customer service.

The Board collected 2013 data from government offices and bank issuers on programs using prepaid cards as a method to disburse funds. Government offices reported on 247 programs, and issuers reported on 563 programs.

Across reported programs that provided a prepaid card option, government offices disbursed almost $1.1 trillion in 2013, 14 percent of which was disbursed through prepaid cards. A comparison of 2012 and 2013 data from government agencies shows that there was a small increase in the proportion of funds disbursed through prepaid cards from 2012 to 2013.[3] This increase is consistent with an ongoing shift toward electronic payment methods within the government sector.

Issuers collected more than $502 million in fee revenue during 2013 across reported programs, with 65 percent from interchange fees and 35 percent from cardholder fees.[4] Issuers collected 1.2 percent of the value of purchase transactions in interchange fees for these programs in 2013, which is roughly equal to that collected by issuers for all exempt debit purchase transactions.[5] Although the prepaid cards provided under government-administered programs usually offer cardholders one or more free automated teller machine (ATM) cash withdrawals per month, ATM withdrawal fees constitute 58 percent of all card-

[2] Subsections 1075(b)–(d) of the Dodd-Frank Act amend benefits statutes such that electronic benefit transfer (EBT) cards issued in connection with the relevant program are not subject to the provisions of 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.

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 they are funded by individuals.

[3] The Board analyzed the subset of data provided by the 77 government offices that responded to the survey in both 2012 and 2013. The proportion of funds disbursed by prepaid cards across this subset of respondents increased 30 basis points, from 4.7 percent in 2012 to 5.0 percent in 2013. For further discussion, refer to the “Survey Data and Results” section of this report.

[4] An interchange fee is any fee established, charged, or received by a payment card network and paid by a merchant or a merchant acquirer for the purpose of compensating an issuer for its involvement in an electronic debit transaction (12 CFR 235.2(j)). Merchant acquirers typically pass these fees on to merchants. So interchange fees, in effect, become a cost to merchants and revenue to issuers.

[5] Regulation II (12 CFR 235) provides that an issuer subject to the interchange fee standards may not receive an interchange fee that exceeds 21 cents plus 5 basis points multiplied by the value of the transaction, plus a 1-cent fraud-prevention adjustment, if eligible. The interchange fee standards of Regulation II do not apply to the following types of debit cards: debit cards issued by an issuer that, together with its affiliates, has assets of less than $10 billion (“exempt issuers”); debit cards issued pursuant to a federal, state, or local government-administered payment program; and certain general-use, reloadable prepaid cards (12 CFR 235.5).

holder fee revenue that issuers collected in 2013. Customer service and account servicing fees constitute the next largest source of cardholder fee revenue, at 15 percent and 14 percent, respectively. Revenue from overdraft fees decreased by 83 percent in 2013, largely, it appears, because of an EFTA provision that took effect in July 2012. The provision stipulates that a government prepaid card loses its exemption from the interchange fee standards if the cardholder may incur overdraft fees.[6]

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6 15 U.S.C. §1693o-2(a)(7)(B).

Background

Prepaid cards are a ubiquitous disbursement mechanism in the government sector. Today, all states disburse Supplemental Nutrition Assistance Program (SNAP) benefits through prepaid cards.[7] In addition, nearly every state offers a prepaid card for child support, unemployment insurance, and Temporary Assistance for Needy Families (TANF) programs.[8] As of April 2013, 10 states offered prepaid cards as a tax refund payment option.[9] Although many government offices continue to offer check payments, a number of offices now mandate that recipients receive payments electronically, through either a prepaid card or direct deposit. For instance, as of March 2013, the U.S. Treasury requires all-electronic disbursement of funds under several major federal benefit programs, including Social Security and Veterans Affairs programs.[10] Virginia also eliminated paper checks as an option for individuals to receive tax refunds in 2013, offering only direct deposits and prepaid cards.[11] In addition, state agencies administering the Women, Infants, and Children (WIC) Supplemental Nutrition Program are required to replace paper vouchers with an all-electronic disbursement system by October 1, 2020.[12] As a result of this shift toward electronic payments, the share of government disbursements made through prepaid cards continues to increase.

Government offices generally contract with a bank issuer to implement a prepaid card payment program. Replacing paper checks with prepaid cards enables a government agency to outsource many administrative responsibilities associated with managing a payment program. Disbursing funds by check is resource intensive; government agencies must pay postage costs and hire personnel to physically handle checks and resolve transmission errors. In contrast, issuers typically assume the cost and responsibilities associated with operating a prepaid card program, including cardholder enrollment, card mailing, transaction processing, account servicing, and call center operations. A government office typically selects an issuer through a competitive bidding process. In its request for proposal (RFP), the government office stipulates required program services and limitations on cardholder fees. The government office then compares issuer proposals and selects the issuer that best fits the needs of the cardholders and government office.[13]

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7 State agencies administering SNAP have distributed funds exclusively by prepaid card since 2004. See Department of Agriculture, Food and Nutrition Service, "Electronic Benefits Transfer (EBT) Status Report by State," www.fns.usda.gov/sites/default/files/snap/electronic-benefits-transfer-ebt-status-report-state.pdf.

See also Board of Governors of the Federal Reserve System (2013), *Report to the Congress on Government-Administered, General-Use Prepaid Cards* (Washington: Board of Governors, July), www.federalreserve.gov/publications/other-reports/files/government-prepaid-report-201307.pdf, for further historical information on SNAP.

8 Association of Government Accountants (2013) "Government Prepaid Cards Lower Costs and Improve Access," *Corporate Partner Advisory Group Research Series*, Report No. 34 (June), www.agacgfm.org/AGA/ResearchPublications/documents/CPAG-Research-Report-34_VISA-Prepaid_final2.pdf.

9 See note 8.

10 The U.S. Treasury's rule provides for certain limited waivers from the all-electronic requirement. Waivers may be granted to recipients born prior to May 1, 1921, who received payments by check on March 1, 2013. Waivers may also be granted in instances where the requirement would be overly burdensome for the recipient, for example, in cases where the recipient suffers from a mental impairment or resides in a remote geographic location. U.S. Department of the Treasury, Fiscal Service, Financial Management Service (2010), "Management of Federal Agency Disbursements," final rule (RIN 1510–AB26), *Federal Register*, vol. 75 (December 22), pp. 80315–335.

11 Virginia Department of Taxation, "Virginia Tax Refund Debit Card," www.tax.virginia.gov/site.cfm?alias=refunddebitcards.

12 Healthy, Hunger-Free Kids Act of 2010, Pub. L. No. 111-296, § 352(d), 121 Stat. 3183, 3255 (2010).

13 Occasionally, third-party program managers are involved in government prepaid card programs. Program managers are often subcontracted by the issuer to provide services traditionally carried out by the issuer, for example, call center management and transaction processing. 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. In these instances, the issuer's role is limited to maintaining an FDIC-insured bank account for program funds and providing the program manager with a connection to the relevant payment card network. Nonbank institutions are ineligible to

Prepaid cards can be a convenient alternative to checks and other paper-based payment methods, such as vouchers and coupons, for payment recipients. Prepaid cards allow for faster disbursement of funds and allow recipients to receive benefits without depositing checks into bank accounts. For recipients who do not have bank accounts, prepaid cards eliminate the need to cash paper checks and carry cash.

Compared with paper-based payment methods, prepaid cards generally provide enhanced security. Funds disbursed by prepaid card are less susceptible to mail fraud than those disbursed by check. Most card issuers and payment card networks employ advanced analytics to identify potentially fraudulent activity. Further, prepaid cards generally offer enhanced liability protections to government agencies and cardholders for fraudulent activity.

join the Visa and MasterCard networks and require an intermediary bank to connect to these networks.

Survey Data and Results

The Board distributed a survey to 151 government offices to collect prevalence of use data and another survey to 14 issuers to collect fee data for programs that used prepaid cards as a method to disburse funds in calendar year 2013.[14] One hundred three government offices and all issuers responded. Government offices reported data for 247 programs, and issuers reported data for 563 programs.[15] These data represent programs from all 50 states and the District of Columbia.

Because of the change in composition of reported programs each year, some of the figures in this report are not comparable with corresponding figures in previous reports.[16] As the pool of reported programs stabilizes in future years, the Board intends to provide more information on general trends in these reports to the Congress regarding the government-administered prepaid card market.

The Board excluded programs that do not use prepaid cards from the universe of programs used to calculate prevalence of use and fee figures appearing in this report.[17] Further, the Board used different subsets of the reported program data for each calculation in this report because a few survey respondents did not provide complete data. Where possible and useful, this report notes the number and type of programs included in a calculation.

Prevalence of Use

Calendar Year 2013

For calendar year 2013, 98 government offices administering 205 programs reported disbursing $1.054 trillion to recipients, of which $142 billion, or 13.5 percent, was disbursed through prepaid cards.[18]

Total funds disbursed and the proportion of funds disbursed through prepaid cards varied widely by program type, as shown in **figure 1**. The Social Security Administration disbursed more than $810 billion under Social Security programs, but it disbursed only 3.2 percent through prepaid cards.[19] Similarly, government offices disbursed less than 1 percent of reported payroll program funds and less than 2 percent of veterans' programs funds through prepaid cards.[20] In contrast, state government offices distributed $75 billion under SNAP, all of which was distributed through prepaid cards. Other government offices also distributed benefits almost exclusively through prepaid cards under programs such as TANF and WIC.

14 See Board of Governors of the Federal Reserve System, "Payment Research," www.federalreserve.gov/paymentsystems/payres_papers.htm, for the two surveys, which are conducted annually to collect information for this report.

The Board identified issuers to survey by consulting with relevant payment card networks.

15 Survey respondents did not always list the programs covered in their responses. The Board only counted programs that it could clearly identify from each response. As a result, the program counts in this report represent lower-bound approximations.

16 See Board of Governors of the Federal Reserve System, "Payment Research," www.federalreserve.gov/paymentsystems/payres_papers.htm, for the Board's previous reports to the Congress on government-administered, general-use prepaid cards.

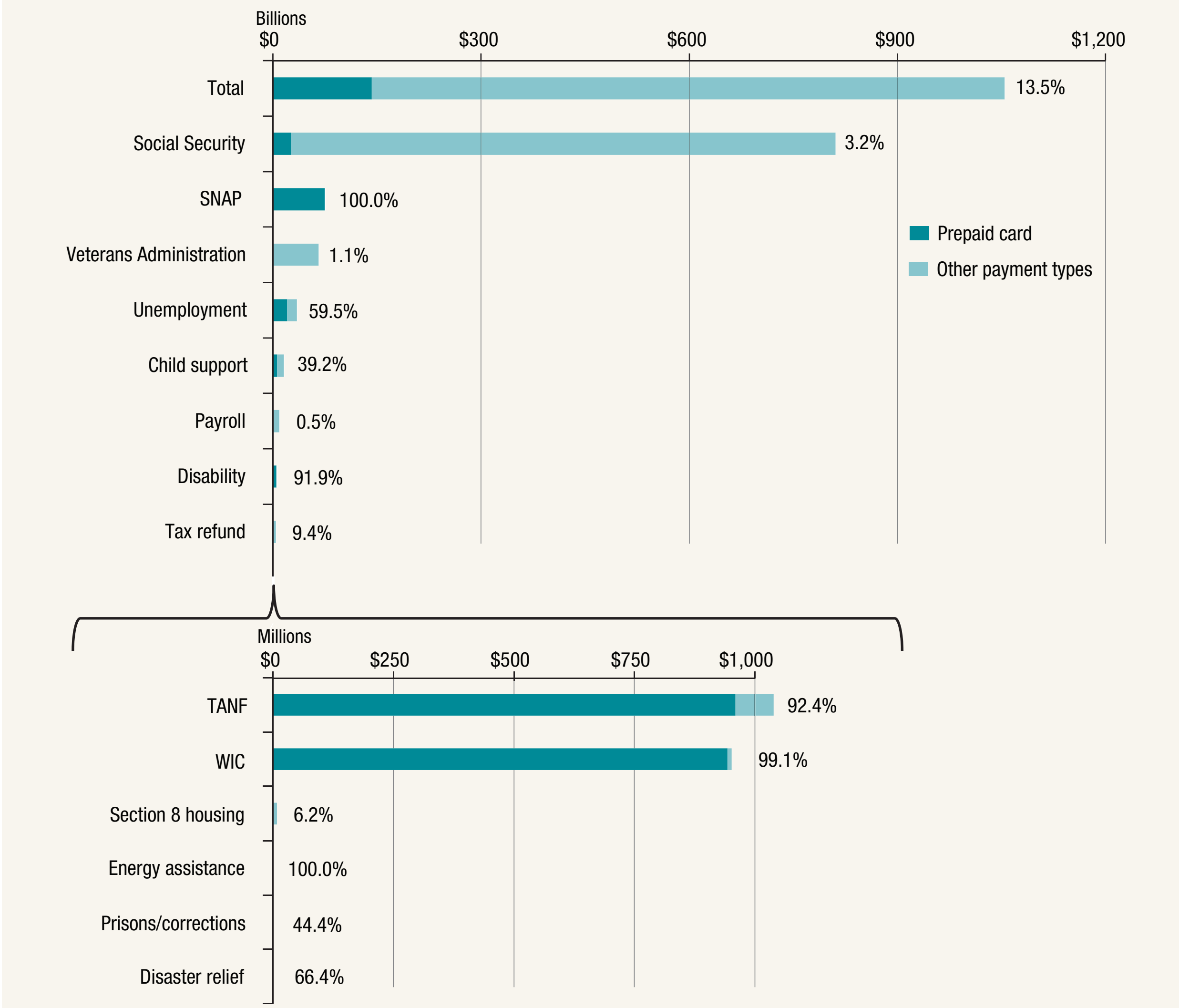
17 For example, unemployment insurance programs that disburse payments only by check or direct deposit are not included in the calculation used to generate the unemployment bar in figure 1 in this report.

18 Programs included in these calculations are those for which government offices reported both total funds disbursed by all payment methods and total funds disbursed through prepaid card.

19 For the purposes of this report, Social Security programs include Old-Age, Survivors, and Disability Insurance (OASDI) and Supplemental Security Income (SSI).

20 Some government offices reported aggregate data for multiple programs of different types, for example, unemployment insurance, TANF, and child support. Calculations by individual program type of total funds disbursed through all payment methods and the proportion of funds disbursed through prepaid cards exclude these responses because the data could not be disaggregated.

Figure 1. Proportion of government-administered payments made through prepaid cards in 2013



Year-over-Year Comparisons

To measure year-over-year trends in government prepaid card use, the Board compared 2012 and 2013 data provided by the 77 government offices that responded to the survey in both calendar years. As shown in **table 1**, the proportion of funds disbursed by prepaid cards across this subset of respondents increased 30 basis points, from 4.7 percent in 2012 to 5.0 percent in 2013.[21] This increase is consistent with the increased use by government offices of electronic payment methods to distribute program funds. The proportion of funds disbursed through prepaid cards increased in most program types, including child support, Section 8 housing, and TANF. The proportion was unchanged in WIC and payroll programs, and it decreased in unemployment insurance programs.

[21] The Board excluded SNAP data obtained from the Food and Nutrition Service (FNS) from the total year-over-year calculation in table 1 to highlight the increased use of prepaid cards across all other government offices that reported data in both 2012 and 2013. As discussed earlier in this report, state agencies administering SNAP have distributed funds exclusively through prepaid cards since 2004. In addition, SNAP distributions account for more than half of all funds disbursed through prepaid cards across all reported programs. Because of the program's large size relative to other reported programs, including SNAP in the total year-over-year calculation in table 1 diminishes the overall increase in the proportion of funds disbursed by prepaid cards to 2 basis points, from 11.98 percent in 2012 to 12.00 percent in 2013.

Table 1. Comparison from previous year: proportion of government-administered payments made through prepaid cards

Program type	Proportion 2012 (percent)	Proportion 2013 (percent)	Change
Social Security	2.4	3.2	↑
Veterans Administration	0.8	1.1	↑
Unemployment	44.2	38.3	↓
Child support	38.9	39.4	↑
Payroll	0.5	0.5	→
TANF	83.0	91.6	↑
WIC	96.6	96.6	→
Section 8 housing	6.3	6.8	↑
Total	**4.7**	**5.0**	↑

Factors that Influence Prepaid Card Use

Issuers indicated that several factors influence the proportion of funds disbursed through prepaid cards under a given program. For example, legal, regulatory, or policy mandates to disburse funds electronically influence the use of prepaid cards to disburse program funds. The U.S. Treasury's policy of disbursing program benefits electronically largely accounts for the increased use of prepaid cards to disburse Social Security payments (see table 1). Issuers also indicated that use of prepaid cards as a method of disbursement may be more prevalent in programs with a large number of unbanked payment recipients, such as TANF. Additionally, certain government offices, such as SNAP and WIC, traditionally issued paper vouchers or coupons to restrict the use of program funds to specific retailers or types of goods and services. These agencies have largely replaced vouchers and coupons with prepaid cards that offer functionality to restrict certain purchases.[22]

Fees Collected by Issuers

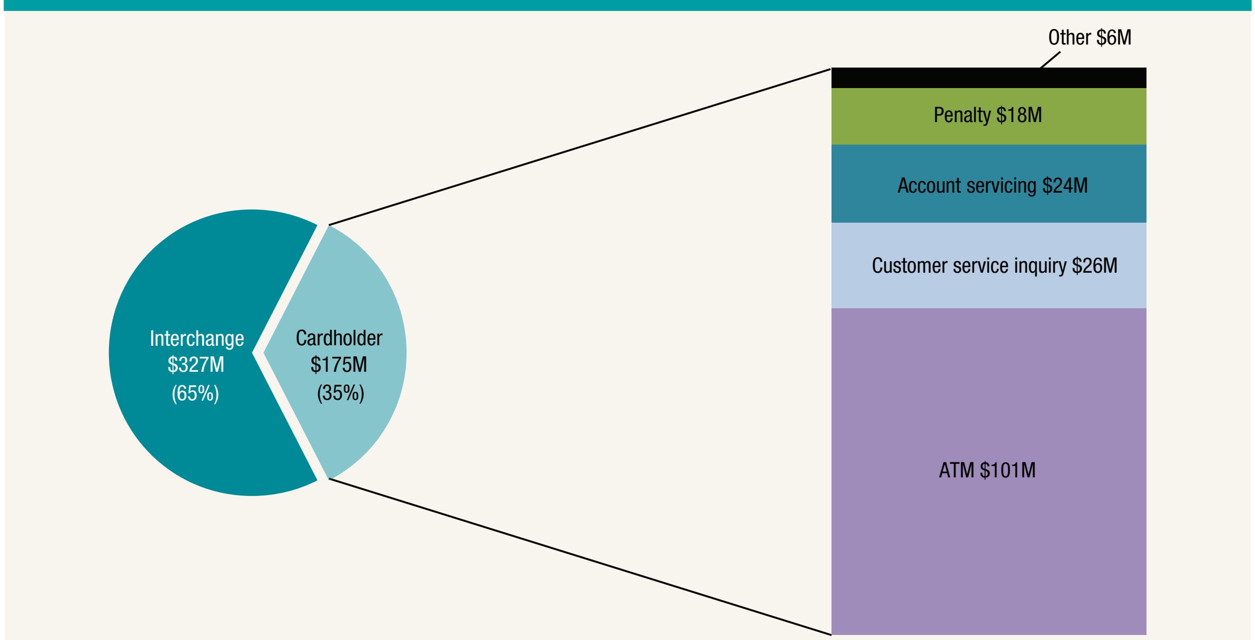
Issuers receive revenue from at least two sources: interchange fees and cardholder fees.[23] In 2013, issuers reported collecting $327 million in interchange fees and $175 million in cardholder fees from 563 programs. **Figure 2** illustrates the various sources of

[22] For example, WIC programs generally load a food "prescription" onto prepaid cards rather than dollar funds. The prescription specifies food items that a recipient may purchase. Similarly, TANF offices often configure their prepaid cards to prohibit purchases at establishments where program funds are not intended to be used.

[23] Although uncommon, issuers may also collect management fees from government offices. In addition, issuers may receive revenue from payment card network incentives and interest on program funds. The Board does not gather data on these sources of revenue.

As discussed in the background section of this report, issuers sometimes enter into arrangements with third-party program managers to manage customer call centers or provide other cardholder services and may share interchange or cardholder fee revenue with program managers as compensation for their services.

Figure 2. Issuer revenue by fee type



revenue collected by issuers in 2013. Compared with 2012, issuers collected a slightly larger share of their total revenue from interchange fees.[24]

Cardholder behaviors and program attributes can affect issuers' revenue. Cardholders who regularly use prepaid cards to make purchases at the point of sale generate relatively high levels of revenue for the issuer through interchange fees. Issuers note that cardholders are more likely to use prepaid cards like a traditional debit card when a program involves regular disbursements over a long period, such as child support. These recipients are also more likely to use the prepaid card's service offerings that generate additional cardholder fee revenue for the issuer. Conversely, cardholders who withdraw all or most disbursed funds from a prepaid card account in a single transaction at an ATM or over the counter (OTC) with a bank teller typically generate little interchange or cardholder fee revenue for the issuer. Issuers note that cardholders are more likely to withdraw all of their funds in a single transaction when a program involves frequent, low-value disbursements, such as weekly unemployment insurance, or infrequent disbursements, such as annual income tax refunds.

Interchange Fees

As shown in **table 2**, the interchange fees from prepaid card purchase transactions have been relatively stable since the Board began collecting these data in 2010. Across all programs from 2012 to 2013, the average interchange fee per purchase transaction increased by 2 cents, while the average purchase transaction value fell by 5 cents. As a result of these changes, the average interchange fee as a percent of purchase transaction value increased marginally from 1.1 percent in 2012 to 1.2 percent in 2013.

The average interchange fee as a percent of purchase transaction value remained at 1.1 percent for federal programs in 2013. It increased slightly, to 1.3 percent, for state and local programs in 2013 compared with 1.2 percent in 2012. As a percent of purchase transaction value, the average interchange fee decreased 0.1 percentage point across single-message transactions and increased 0.2 percentage point across dual-message transactions. Like other year-over-year comparisons in this report, the calculations of average purchase transaction value and the average interchange fee per purchase transaction are sensitive to changes in the pool of reported programs, which differs from year to year.

Transactions made using government prepaid cards are generally exempt from the interchange fee standards of Regulation II. The average interchange fee as a percent of purchase transaction value for government prepaid card transactions is similar to that for all debit card transactions exempt from the interchange fee caps of Regulation II.[25] In 2013, the aver-

[24] The ratio of interchange fee revenue to cardholder fee revenue was 65:35 in 2013 compared with 62:38 in 2012.

[25] See Board of Governors of the Federal Reserve System (2014), "Average Debit Card Interchange Fee by Payment Card Network," www.federalreserve.gov/paymentsystems/regii-average-

Table 2. Average purchase transaction value, average interchange fees

	Average value of purchase transaction[1] (dollars)				Average interchange fee per purchase transaction[2] (dollars)				Average interchange fee as percentage of purchase transaction value[3] (percent)			
	2010	2011	2012	2013	2010	2011	2012	2013	2010	2011	2012	2013
Total	**28.41**	**30.94**	**29.99**	**29.94**	**0.30**	**0.33**	**0.34**	**0.36**	**1.1**	**1.1**	**1.1**	**1.2**
Federal programs	35.49	36.82	38.11	44.83	0.38	0.40	0.40	0.48	1.1	1.1	1.1	1.1
State and local programs	27.42	29.81	28.14	25.58	0.29	0.32	0.33	0.33	1.1	1.1	1.2	1.3
Dual-message transactions[4]	—	30.16	28.70	25.42	—	0.37	0.37	0.39	—	1.2	1.3	1.5
Single-message transactions[5]	—	32.95	31.58	36.34	—	0.32	0.31	0.32	—	1.0	1.0	0.9

1 Average value of purchase transaction: value of settled purchase transactions divided by the number of settled purchase transactions.

2 Average interchange fee per purchase transaction: total interchange fees divided by the number of settled purchase transactions.

3 Average interchange fee as percentage of purchase transaction value: total interchange fees divided by the value of settled purchase transactions.

4 Dual-message transaction: transaction type by which the issuer receives authorization information in one message and clearing information in a separate message. Dual-message transactions normally require signature authentication, although a subset of these transactions (such as small-value purchases) may not require any cardholder authentication. Some issuers classify a single-message transaction routed over a network that primarily processes dual-message transactions as a dual-message transaction.

5 Single-message transaction: transaction type by which the issuer receives authorization and clearing information in one message. Single-message transactions normally require personal identification number authentication, although a subset of these transactions (such as small-value purchases) may not require any cardholder authentication.

age interchange fee as a percent of purchase transaction value for government prepaid cards was 1.5 percent for dual-message transactions and 0.9 percent for single-message transactions. The average interchange fee as a percent of purchase transaction value for all exempt debit cards was 1.4 percent for dual-message transactions and 0.7 percent for single-message transactions in 2013.

Cardholder Fees

The data provided by issuers show that cardholder fee revenue as a percentage of program funds disbursed by prepaid card declined from 0.26 percent in 2012 to 0.23 percent in 2013.[26] This decline is consistent with the anecdotal observations of some issuers and government offices that tougher contract negotiations and increasingly stringent contractual requirements have put downward pressure on cardholder fees over the past several years. For example, in 2008 and again in 2014, a consortium of states jointly issued an RFP for prepaid card services to obtain lower fees and more favorable terms from prospective issuers.

In addition to negotiating cardholder fee rates, government offices often restrict the number and type of cardholder fees that an issuer can charge. Most government offices require issuers to offer cardholders a certain number of free ATM or OTC cash withdrawals and prohibit issuers from charging cardholders certain types of fees, such as monthly maintenance fees.[27]

Occasionally, issuers provide cardholders with more favorable terms than those mandated by government offices, such as unlimited in-network ATM and OTC withdrawals. Indeed, issuers rarely charge purchase transaction fees and may waive cardholder fees under certain circumstances.

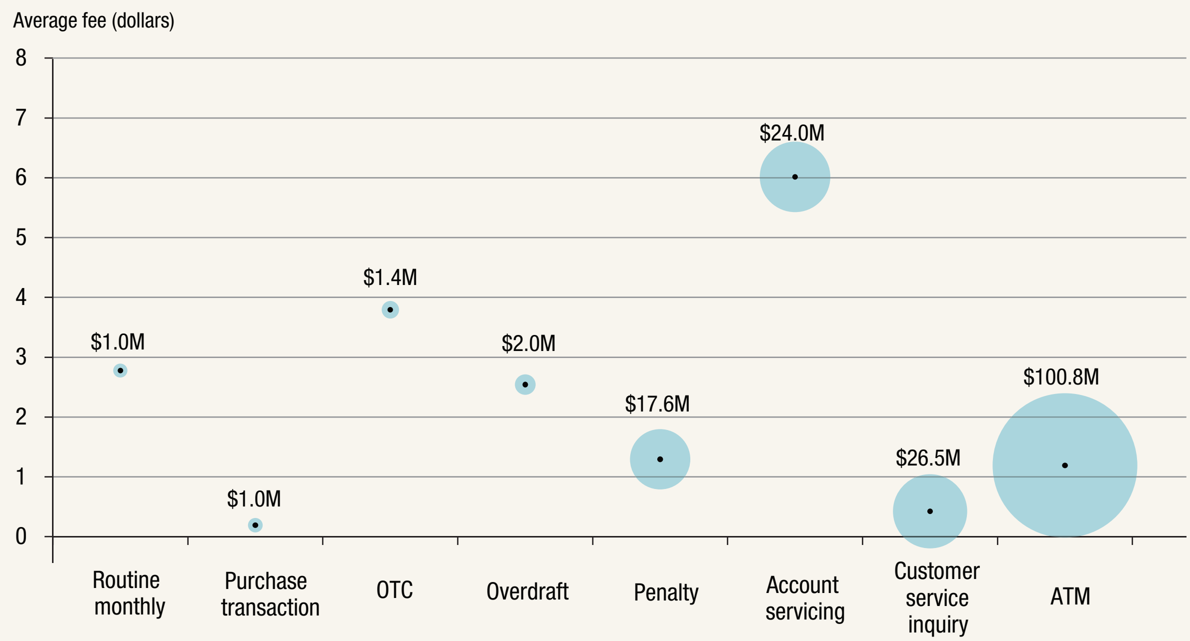
Figure 3 illustrates the total revenue issuers collected and the average charge per occurrence by cardholder

interchange-fee.htm. Government-administered, general-use prepaid card transactions constitute approximately 4.5 percent of all exempt transactions.

[26] Consistent with previous reports, when calculating cardholder fee revenue as a percentage of total funds disbursed by prepaid cards, the Board used all program data except SNAP. SNAP prohibits issuers from charging cardholder fees and is the second-largest reported program in terms of total funds disbursed by all payment methods.

[27] See Board of Governors of the Federal Reserve System (2013), *Government-Administered, General-Use Prepaid Card Survey*, FR 3063a, OMB No. 7100-0343, pp. 31–33, www.federalreserve.gov/paymentsystems/files/FR3063a_government_issuer_survey.pdf, for definitions of the various cardholder fees mentioned in this report.

Figure 3. Cardholder Fees



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

fee type in 2013.[28] The Board excluded transactions for which no fee was assessed from the average fee calculations. In 2013, issuers collected $100.8 million on ATM cash withdrawals, accounting for 58 percent of revenue issuers received from cardholder fees. The average fee charged by an issuer for an ATM cash withdrawal was $1.19 per transaction. Customer service inquiry fees represent roughly 15 percent of total cardholder fee revenue, while account servicing, penalty, overdraft, and OTC cash withdrawal fees largely account for the remaining 27 percent of total cardholder fee revenue. Account servicing fees are the highest type of cardholder fee, at an average of $6.01 per occurrence. As of July 21, 2012, prepaid cards that may incur overdraft fees are ineligible for the exemption from the interchange fee standards of Regulation II.[29] It appears that, rather than lose the exemption, issuers have largely abandoned overdraft fees; in 2013, issuers collected $2.0 million in overdraft fee revenue, an 83 percent decline from the $11.8 million collected in 2012.

Although figures 2 and 3 illustrate the distribution of cardholder fee revenue on an aggregate level, this distribution is not representative of any particular program. Government offices and issuers negotiate a cardholder fee schedule for each program. Furthermore, the proportion of transactions resulting in the assessment of a cardholder fee depends heavily on the type of program. As a result, there is significant heterogeneity in cardholder fees across programs that use prepaid cards to disburse funds.

Fees Paid by Issuers

Issuers pay fees to third parties when a cardholder withdraws cash from an out-of-network ATM or bank.[30] In 2013, issuers reported paying approximately $100 million in fees to third parties for ATM withdrawals and approximately $29 million in fees to third parties for OTC cash withdrawals.[31]

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28 The universe of programs included in the total revenue and average fee calculations is different for each cardholder fee type: routine monthly: 59 programs; purchase transaction: 76 programs; OTC: 448 programs; overdraft: 58 programs; penalty: 437 programs; account servicing: 461 programs; customer service inquiry: 481 programs; and ATM: 558 programs.

29 Pursuant to section 920 (a)(7)(B) of the EFTA, the exemption from the interchange fee standards of Regulation II does not apply if, on or after July 21, 2012, the issuer may charge the cardholder an overdraft fee with respect to the card, or an ATM fee for the first withdrawal per calendar month from an ATM that is part of the issuer's network (15 U.S.C. § 1693o-2(a)(7)(B)).

30 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 payment card networks (such as switch, license, and connectivity fees). The Board does not survey issuers of government-administered prepaid cards regarding network fees. Across all debit cards, issuers paid networks approximately 4.4 cents per transaction in 2013. See Board of Governors of the Federal Reserve System (2014), "Average Debit Card Interchange Fee by Payment Card Network," www.federalreserve.gov/paymentsystems/regii-average-interchange-fee.htm, for further information.

31 Issuers reported paying ATM and OTC fees for cash withdrawals with respect to 555 and 536 programs, respectively. On average, issuers paid approximately 52 cents per ATM cash withdrawal and $4.77 per OTC cash withdrawal in 2013. 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.

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