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Federal Reserve Board
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Docket No. OP-1456

Notice for Comments Regarding Community Reinvestment Act

Dear Sirs:

We believe that the Community Reinvestment Act should alter how it examines "iso-issuers" of general purpose reloadable ("GPR") cards.

An iso-issuer is a bank whose main source of accounts comes from prepaid cards.

To an extent, we would also support any effort to include the prepaid cards offered by larger banks as a supplement to CRA exams.

There are two main elements to our proposal. We believe that the assessment area must include a sample of MSAs drawn from across the country. We have a specific set of criteria for determine possible locations. For the larger cards, all MSAs should be considered for inclusion in the sample.

Secondly, we believe that the focus should emphasize services. Lending is not appropriate for prepaid debit cards and there is no history of investment by any of these issuers.

Scope

GPR cards now constitute the fastest growing product class in deposit services. Increasingly, they are a choice made by low-income consumers. Some would argue that they are a poor substitute for a traditional bank account, but equally valid is the viewpoint that they are a better substitute to relying upon cash and alternative financial service ("AFS") products. In either case, the current regulations in the CRA make little sense.

Use of the GPR continues to grow. According to the Consumer Financial Protection Bureau, the total value of amounts loaded on to general purpose-reloadable debit cards will reach $167 billion in 2014. That number is approximately 13 times greater than the sum loaded in 2012[i].

Geography Scope of Cards Does Not Fit with the Assumptions of Assessment Areas

Most of the nation's largest prepaid card issuers operate fewer than ten branches, and generally they do so inside a footprint that makes up a small fraction of their reach. As a rule, GPR cards can be used in any location and most of the popular cards are distributed through national retail franchises. The four largest iso-issuers, by number of accounts:

- MetaBank: Branches in Sioux Falls, South Dakota and Storm Lake, Iowa
- Green Dot Bank: One branch in Provo, Utah
- Bancorp Bank: One branch in Wilmington, Delaware
- International Bank: One branch in McAllen, Texas

The footprints of these banks are very narrow.

Some large banks now have some of the more popular prepaid cards. According to American Express, its BlueBird card now has approximately 500,000 accounts. That card is issued through a partnership with Wells Fargo (the deposits are held at Wells but the transactions are processed through American Express). JP Morgan Chase's Liquid Car has even more accounts. Nonetheless, those institutions are so large that their role in prepaid is irrelevant to their examination. Even in the case of the evaluation of Comerica Bank, the institution that issues more than 3 million accounts of the Treasury Direct Card, there is no mention of the word "prepaid" in its CRA evaluation.

Although these are important products that serve tens of millions of poorly served institutions, the CRA evaluation skips over the needs of their account holders entirely.

In our opinion, the ideal solution balances the business model of the GPR card against the broad scope of their usage. One key fact is that there is no boundary to selling these cards anywhere. A company like Green Dot, for instance, offers cards in Wal-Mart and in a national pharmacy chain. Bancorp issues the AccountNow card, one of the more popular cards, but only over the Internet.

In this request for comments, the OCC, The Board of Governors of the Federal Reserve, and the Office of the Comptroller of the Currency acknowledge the difficulty in finding opportunities to serve the community development needs of consumers in broader areas. In our opinion, that problem is even greater with the prepaid card.

But one solution – to require a minimum standard of service (and investment and lending) across all areas with deposits – could have some relevance here. We think that the CRA would better serve LMI consumers if its products could reach their local areas.

In discussing a CRA commitment, one executive at a leading prepaid card issuer insisted that a reasonable CRA commitment must fit with the profitability of these banks. He emphasized that it is not fair to compare iso-issuers with traditional banks according to their account volume. Most prepaid card products have to overcome significant sunk costs before they are profitable. For example, a card marketed through the internet will have to be used regularly by a customer for four months before the company offsets its cost of acquiring the customer. Thus, even though Green Dot is a market leader with more than 4 million accounts, the company only earned $47 million in 2012. Similarly, MetaBank has earned an average of $12 million over the last three years even though it has issued millions of accounts during that time. Green Dot has less than $50 million in assets.

One means of reconciling the limited capital available to these banks, while still designing a CRA regime to fit the wide scope of their service area, is to draw a limited sample of coverage areas within the broader set of areas where the cards are used.

An Alternative

We believe that precedent supports an alternative vision. There is precedent to adopt an assessment area based not upon the location of branches but instead upon the location of deposits when a bank has a business model oriented toward a national customer base. Examinations of banks with specialization in serving military households are one example. Consider the treatment of Fort Sill National Bank:

> *FSNB considers its assessment area to be the bank's deposit customer base in lieu of defined geographic areas. The regulation governing compliance with the Community Reinvestment Act provides a special provision for banks which are chartered to, and serve primarily military personnel and related individuals to define their assessment area as such (Office of the Comptroller of the Currency, 1998).*

A strategic plan for an iso-issuer of prepaid cards is only one more example of a bank that serves a national customer base.

This then begs the question "if not by branch then by what means should an assessment area be identified?"

a) Identify assessment areas by the location of depositors. In this method, the Federal Reserve would have to sort cardholders by their MSA.
b) Identify assessment areas according to the footprint where the cards are sold: Today the national prepaid card networks also have relationships with large retailers. Approximately 85 percent of prepaid cards are purchased in stores. Thus, with most issuers there will be legitimate clusters of card holders rather than one that is distributed evenly throughout the country. Bancorp Bank's new relationship with Family Dollar stores – in common partnership with NetSpend – will mean new customers but only in about seven states.

One benefit of the second approach is its simplicity. In order to make it scalable, we recommend that the groups of served MSA be narrowed to a manageable sample of perhaps seven to ten metropolitan statistical areas.

Suitable Choices for CRA Credit

Compared to a typical "banked" consumer, the prepaid cardholder often comes from a different financial place. This is true even when the group of "banked" consumers is narrowed to only those with the characteristics that are usually applicable to the CRA targets. While they may come from low-income areas or have a low household income, they have exposure to far fewer bank products. For these individuals, the problem is not that they cannot qualify for good mortgage or small business loans. Rather, their hurdle is to secure any access to the formal banking system.

Some of the services that qualify for consideration under existing bank exams are certainly suitable for evaluating a prepaid card program. They include credit building services, financial literacy training, and asset building programs. In each case, these services would fit the needs of the core group of prepaid debit card consumers. There is no "stretch" to believe that these services would veer outside of the traditional foci of CRA. In fact, banks already receive positive consideration in a CRA exam.

But the metrics could include some ability to gauge inclusion. In a presentation to the FDIC yesterday, Jonathan Wilk of JPMorgan Chase commented that 74 percent of Liquid customers were entirely new to Chase. Alpesh Chokshi, President of Global Payments at American Express, contends that the BlueBird Card has allowed his company to serve a set of customers that were previously excluded from any of his company's services. Dan Henry, CEO of NetSpend, often comments that his cardholders use his product not as an alternative to a regular bank account but instead of cash.

Thus, any simple metric which allows a bank to demonstrate that its prepaid cards enhance access to the payments system would be appropriate.

Better than the Current System

At this moment, iso-issuers are evaluated for the same types of activities as any other institution: for their lending, investments, and services. To date, no iteration of lending on a prepaid card has been beneficial to consumers. It is our opinion that anything except perhaps a secured card with excellent consumer protections and rates set below state usury caps will not be a positive development. Thus, lending is a poor indicator of financial inclusion. Similarly, prepaid card issuers would probably find it difficult to make investments that serve their core customer base. This leaves services – which currently consist of outreach in the local community surrounding the physical location of deposits.

As an example, Green Dot Bank in Provo, Utah is evaluated for services, investments, and loans that serve a customer base which is entirely outside of their core consumer. In conversations with their CEO, I have heard that they make very few loans. Indeed, the 2010 and 2011 HMDA data include no reference to any loans at either Green Dot Bank or Bonneville Bank. The CEO also indicates that they make a few small business loans. Most of those loans are originated to doctors in the neighborhoods surrounding Brigham Young University. Were the bank to not engage in these pursuits, they would have little to show for the CRA exam. Yet in many ways, these actions are somewhat of a charade and certainly a contradiction to the idea that the CRA does not force a bank to engage in programs that would otherwise avoid.

For all of these reasons, we sincerely hope that this rulemaking can include revisions for how these financial institutions are evaluated.

Thank you for your concern.

Sincerely,

Adam Rust
Reinvestment Partners

[i] http://files.consumerfinance.gov/f/201205_cfpb_GPRcards_ANPR.pdf