

A teal-tinted photograph of the Federal Reserve Building in Washington, D.C. The building's classical architecture, including its prominent columns and portico, is visible. A flagpole with the American flag stands in front of the building. The text is overlaid on the upper portion of the image.

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

July 2012

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 (the 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.

See the Board's website for an overview of the Dodd-Frank Act regulatory reform effort ([www.federalreserve.gov/newsevents/reform\\_about.htm](http://www.federalreserve.gov/newsevents/reform_about.htm)) and a list of the implementation initiatives recently completed by the Board as well as several of the most significant initiatives that the Board expects to address in the future ([www.federalreserve.gov/newsevents/reform\\_milestones.htm](http://www.federalreserve.gov/newsevents/reform_milestones.htm)).



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# Executive Summary

Pursuant to section 1075 of the Dodd-Frank Act, which amends the Electronic Fund Transfer Act (EFTA), the Board is required to report annually to the Congress on the prevalence of use of general-use prepaid cards (prepaid cards) in federal, state, and local government-administered payment programs and on the interchange transaction fees and cardholder fees charged with respect to the use of such prepaid cards.<sup>1, 2</sup> The Board distributed a survey to 15 depository institutions (issuers) and another survey to 158 federal, state, and local government offices (government offices) representing more than 200 programs to gather data for calendar year 2011.<sup>3</sup>

Government offices reported prevalence-of-use data for 158 federal, state, and local payment programs that disbursed more than \$149 billion in 2011. Of these funds, 67 percent was disbursed through prepaid cards. This percentage is largely attributable to one large program's exclusive use of prepaid cards to distribute funds. The Board was not able to calculate

the prevalence of use of prepaid cards in 2010 because of the limited data provided by government offices.

Issuers provided interchange fee data for 118 programs. The average 2011 interchange fee per transaction in these programs was 33 cents, or 1.1 percent of the average transaction value. The average interchange fee increased 3 cents from 2010. Average transaction size, however, also increased in value from 2010, so the average interchange fee as a percentage of average transaction value remained essentially unchanged from 2010.

Issuers also provided information on fees that issuers pay to third parties for withdrawals from automated teller machines (ATM fees) and for over-the-counter transactions at banks (OTC fees). Issuers submitted data on ATM fees paid by issuers for 108 programs and OTC fees for 103 programs. The average per transaction ATM fee paid by issuers to third-party ATM operators decreased from 60 cents in 2010 to 52 cents in 2011. The average per transaction OTC fee paid by issuers to third-party banks was \$2.03. The Board did not collect information regarding OTC fees in 2010.

In addition, issuers provided information on fees—including ATM fees, overdraft fees, and account servicing fees, among others—that they assessed to cardholders. The average cardholder paid \$2.90 in fees per card, or approximately 0.1 percent of the average total amount disbursed through prepaid cards. As with prevalence-of-use data, the average cardholder fees per card generally is attributable to one large program, which does not assess any fees to cardholders. ATM fees accounted for the largest percentage of cardholder fee revenue to issuers by a significant margin. The average ATM cash withdrawal fee was \$1.22, or 0.27 percent of the amount withdrawn.

<sup>1</sup> Sections 1075(b) – (d) of the Dodd-Frank Act amend benefits statutes such that electronic benefit transfer (EBT) cards issued in connection with the relevant benefit program are not subject to the provisions of section 920 of the EFTA. The amended 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 the Board did not include in the 2010 report information about EBT cards issued under these acts, the Board believes that it is appropriate to include in this report information about EBT cards because such cards represent a significant portion of prepaid cards issued pursuant to government-administered payment programs.

<sup>2</sup> Federal, state, and local governments use prepaid cards as a method for disbursing funds for a range of programs. The government managing the program may or may not also fund the program. For instance, state and local governments may manage programs that are funded by the federal government, such as Temporary Assistance for Needy Families (TANF), the Heating and Energy Assistance Program, and Medicaid. Some states and local governments manage programs, such as child support, that are not funded by any government.

<sup>3</sup> The 2011 surveys are available online at [www.federalreserve.gov/reportforms/formsreview/FR3063a\\_FR3063b\\_20111222\\_surveys.pdf](http://www.federalreserve.gov/reportforms/formsreview/FR3063a_FR3063b_20111222_surveys.pdf). See Appendix – Methodology on page 7 in this report for more details about the surveys.

The number of responses and the quality of data submitted by government offices and issuers for the 2011 surveys increased significantly from those for 2010.<sup>4</sup> The Board attributes these increases to the

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<sup>4</sup> Data generally cannot be combined or compared across tables or across sections in the report because of differences in the

revised survey instruments and the new methodology used to identify survey participants.

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composition of respondents. In addition, because of the variance in the responses to the 2010 and 2011 surveys, the Board makes comparisons between the 2010 and 2011 data only where meaningful similarities exist.

# Survey Results

## Prevalence of Use

Government offices reported data on the prevalence of use of prepaid cards for 158 programs in 36 states. These programs disbursed more than \$149 billion in 2011, and 67 percent of that amount was disbursed through prepaid cards.

The proportion of funds disbursed through prepaid cards varied widely by program. Seventy-three percent of all funds disbursed through prepaid cards can be attributed to the Supplemental Nutrition Assistance Program (SNAP). SNAP, formerly known as the Food Stamp Program, disbursed nearly \$73 billion in benefits in 2011 and all of those funds were disbursed through prepaid cards.<sup>5</sup> Excluding SNAP, 35 percent of program funds was disbursed through prepaid cards. Government offices reported data on 26 unemployment insurance programs that disbursed a total of nearly \$39 billion, 37 percent of which was disbursed through prepaid cards.<sup>6</sup> In addition, TANF program benefits were almost exclusively disbursed through prepaid cards, while only approxi-

mately 1 percent of payroll program funds were disbursed through prepaid cards.

## Interchange Fees

The average interchange fee per purchase transaction increased about 5 percent for federal programs and about 9 percent for state and local programs from 2010 to 2011.<sup>7, 8</sup> Average transaction value, however, also increased about 4 percent for federal programs and about 9 percent for state and local programs from 2010 to 2011. Thus, average interchange fees as a percentage of purchase transaction value did not change appreciably. **Table 1** provides summary information about the average interchange fees received by issuers from purchase transactions in 2010 and 2011.

Issuers reported receiving more than \$208 million in interchange fee revenue from 118 programs during 2011. Approximately 61 percent of that revenue was from signature-based purchase transactions and 39 percent from personal identification number (PIN)-based purchase transactions. Of the total interchange fee revenue reported, about 80 percent was attributable to cards issued under state and local

<sup>5</sup> SNAP benefits are disbursed electronically using EBT cards in all 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, and Guam. The EBT card is composed of two distinct compartments: (1) the SNAP compartment, which only can be used for eligible food purchases, and (2) the cash benefit compartment, which can be used to make purchases and to obtain cash back when making a purchase or a cash withdrawal from an ATM. The SNAP compartment of the EBT card is the sole mechanism for disbursement of SNAP benefits. The cash benefit compartment is currently used by at least 38 states to disburse funds associated with cash assistance programs (such as TANF; Heating and Energy Assistance Program; Old Age Pension; Women, Infants, and Children (WIC)), general assistance, and refugee assistance.

<sup>6</sup> The reported unemployment insurance disbursements represent 68 percent of the approximately \$57 billion in unemployment insurance benefits disbursed by states during 2011, according to the United States Department of Labor (see [www.ows.doleta.gov/unemploy/content/data.asp](http://www.ows.doleta.gov/unemploy/content/data.asp)). The portion of total funds disbursed through prepaid cards under other state and local programs was, in most cases, much lower.

<sup>7</sup> An interchange fee is any fee established, charged, or received by a payment card network and paid by a merchant or an 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 and as revenue to issuers. The interchange fee limits do not apply to the following types of debit cards: (1) debit cards issued by an issuer that, together with its affiliates, has assets of less than \$10 billion ("exempt issuers"); (2) debit cards issued pursuant to a government-administered payment program; and (3) certain general-use, reloadable prepaid cards. 12 CFR 235.5.

<sup>8</sup> Federal programs in this report are defined as programs both funded and administered by a federal government office. Programs such as TANF, which are funded at the federal level, but are administered at the state and local level, are referred to as "state and local programs."

**Table 1. Average purchase transaction value, average interchange fee revenue received by issuers**

	Average value of purchase transaction (dollars)		Average interchange fee per purchase transaction (dollars)		Average interchange fee as percentage of purchase transaction value (percent)	
	2010 <sup>1</sup>	2011	2010	2011	2010	2011
<b>Total<sup>2</sup></b>	<b>28.41</b>	<b>30.94</b>	<b>0.3</b>	<b>0.33</b>	<b>1.1</b>	<b>1.1</b>
Federal	35.49	36.82	0.38	0.4	1.1	1.1
Signature	—	32.41	0.46	0.48	1.5	1.5
PIN	—	41.42	0.3	0.3	0.7	0.7
State and local	27.42	29.81	0.29	0.32	1.1	1.1
Signature	—	29.7	0.3	0.35	1.4	1.2
PIN	—	30.97	0.28	0.32	0.9	1

<sup>1</sup> The average values of signature- and PIN-based purchase transactions in 2010 are not available.

<sup>2</sup> Some program data reported in aggregate could not be allocated between federal and state and local programs. These data, however, are reflected in the total figures.

programs, while about 20 percent was attributable to cards issued under federal programs.

## Fees Paid by Issuers

Issuers pay fees to third parties for a cardholder's use of a prepaid card to withdraw cash.<sup>9</sup> In 2011, issuers reported paying ATM fees for prepaid card use in 108 programs and OTC fees for prepaid card use in 103 programs. Issuers reported paying approximately \$75.5 million for ATM and OTC cash withdrawals. Average ATM fees paid by issuers decreased 14 percent between 2010 and 2011. **Table 2** provides summary information about fees paid by issuers to ATM operators.

<sup>9</sup> Issuers pay ATM fees to ATM operators for each ATM cash withdrawal to compensate the ATM operator for the costs of deploying and maintaining the ATMs and of providing cash services to the issuers' cardholders. Issuers pay OTC fees to banks that provide cash withdrawals to cardholders at the teller window.

**Table 2. Average ATM fees paid by issuers**

	Average ATM fee per withdrawal (dollars)		Average ATM fee as percentage of average withdrawal value (percent)	
	2010	2011	2010	2011
<b>All programs<sup>1</sup></b>	<b>0.6</b>	<b>0.52</b>	<b>0.4</b>	<b>0.3</b>
Federal programs <sup>2</sup>	0.55	1.27	0.3	1.1
State and local programs	0.62	0.51	0.4	0.3

<sup>1</sup> Some program data reported in aggregate could not be allocated between federal and state and local programs. These data, however, are reflected in the "All programs" figures.

<sup>2</sup> The increase in the average ATM fee per withdrawal is largely attributable to one federal program.

Issuers reported paying fees on 111 million cardholder cash withdrawals from ATMs in 2011. The vast majority of those withdrawals is associated with prepaid cards under state and local programs. The average ATM fee per withdrawal decreased in 2011, both in dollar terms and as a percentage of withdrawal value. This decrease was driven largely by an 8 percent increase in the average value of ATM withdrawals in state and local programs. The average value of ATM withdrawals for state and local programs increased from \$130.68 in 2010 to \$141.46 in 2011. The average value of ATM withdrawals for all reported programs was \$143.38.

Issuers reported the number of cardholder OTC cash withdrawals for 31 programs. For these programs, issuers reported paying fees on more than 2.6 million cardholder cash withdrawals in OTC transactions in 2011. Issuers paid an average OTC fee of \$2.03 per withdrawal. The average OTC fee per withdrawal for state and local programs was also \$2.03, as OTC fees associated with state and local programs represented the vast majority of the reported OTC fees. Issuers reported paying OTC fees associated with only one federal program. The average OTC fee per withdrawal for that federal program was \$4.00; however, the number of OTC withdrawals reported in connection with that program was very small.

## Cardholder Fees

Average cardholder fees totaled \$2.90 per card in 2011, or 0.1 percent of the dollars disbursed through prepaid cards.<sup>10</sup> In calculating this average card-

<sup>10</sup> Cardholder fees are fees the cardholder pays to the card issuer. The Board collected data on fees assessed to cardholders, such

holder fee per card, the Board used data reported by all programs, including the SNAP program. The SNAP program prohibits issuers from charging cardholders fees and was the largest program reported. Average cardholder fees excluding the SNAP program, however, totaled \$6.33 per card, or 0.3 percent of the dollars disbursed through prepaid cards.<sup>11</sup>

Issuers reported that they received in excess of \$120 million in cardholder fee revenue on 524.5 million transactions in 113 card programs. Issuers reported \$59 million in ATM fees, which accounted for the greatest percentage of total cardholder fee revenue in both federal and state and local programs.<sup>12</sup> ATM fees accounted for approximately 80 percent of total cardholder fee revenue associated with federal programs, with an average ATM fee of \$1.00 per transaction, and 43 percent of total cardholder fee revenue associated with state and local programs. The average ATM fee was \$1.37 per transaction.

Overdraft fees accounted for less than 1 percent of the total cardholder fee revenue received by issuers in federal programs, with an average overdraft fee of \$13.80 per occurrence. In contrast, overdraft fees accounted for a significant portion—25 percent—of the total cardholder fee revenue received by issuers in state and local programs, with an average overdraft fee of \$8.68 per occurrence.

Issuers reported that they often did not assess cardholder purchase transaction, ATM, OTC, and customer service inquiry fees.<sup>13</sup> For example, issuers assessed fees on purchase transactions in 25 pro-

as purchase transaction fees, ATM fees, OTC fees, account servicing fees, routine monthly fees, customer service inquiry fees, penalty fees, and overdraft fees. For definitions of these types of cardholder fees, see the issuer survey glossary at [www.federalreserve.gov/reportforms/formsreview/FR3063a\\_FR3063b\\_20111222\\_surveys.pdf](http://www.federalreserve.gov/reportforms/formsreview/FR3063a_FR3063b_20111222_surveys.pdf). Similar to the 2010 issuer survey, the 2011 issuer survey did not request information on fees charged to cardholders by ATM operators for cash withdrawals at nonproprietary ATMs and, thus, such fee data are not included in the cardholder fee calculations in this report.

<sup>11</sup> Cardholder fee data cannot be reliably compared with data reported last year for 2010. The number and nature of programs reported for 2011 is significantly different from programs reported for 2010.

<sup>12</sup> Issuers provided data on both ATM fees paid to third-party ATM operators by the issuer and ATM fees paid to the issuer by cardholders for 103 programs. For these programs, issuers paid \$49.4 million in ATM fees to third-party ATM operators, and cardholders paid \$40.1 million in ATM fees to issuers.

<sup>13</sup> Among the reasons that issuers did not assess cardholder fees were government-imposed fee restrictions. Some government-imposed fee restrictions enable cardholders to conduct a certain number of activities, such as purchase transactions or ATM

**Table 3. Ranges of reported average cardholder fees in dollars**

Type of cardholder fee <sup>1</sup>	Range of reported average cardholder fee in federal programs <sup>2</sup>	Range of reported average cardholder fee in state and local programs
Purchase transaction	—	0.13–1.50
ATM	1.00–3.84	0.77–3.49
OTC	1.00–1.57	1.00–15.00
Account servicing	1.00–6.95	0.01–18.10
Routine monthly	1.00–1.86	1.17–1.29
Customer service inquiry	1.00–1.00	0.16–2.56
Penalty	—	0.83–2.35
Overdraft	11.37–13.86	0.04–20.26

<sup>1</sup> The Board redefined several cardholder fee types in the 2011 survey. Therefore, 2011 data on average ranges of cardholder fees should not be compared to 2010 data appearing in last year's report.

<sup>2</sup> Average cardholder fees were calculated for each reported program by dividing total fees received by the number of times a fee was charged. The ranges reflect the lowest and highest averages reported.

grams, but did not assess fees on approximately 90 percent of the transactions under those programs. In addition, issuers assessed fees on ATM cash withdrawals in 99 programs, but did not assess ATM fees on approximately 60 percent of the withdrawals. Similarly, issuers assessed fees on OTC cash withdrawals in 37 programs, but did not assess fees on approximately 87 percent of the withdrawals. Finally, issuers assessed fees for customer service inquiries in 34 programs, but did not assess fees on approximately 38 percent of the inquiries.

In addition to total fee revenue received, issuers also reported the number of times fees were charged, allowing the Board to calculate average fees by fee type for each reported program. The range of reported average cardholder fees by fee type for 2011 are reflected in **table 3**.

Fees assessed to cardholders on a regular basis (such as purchase transaction fees and routine monthly fees) were on average much lower than fees assessed on an ad hoc basis (such as penalty and overdraft fees). The highest fees charged in 2010 and 2011 were overdraft fees.<sup>14</sup> Generally, cardholder fees for state and local programs had a much wider range than those for federal programs.

cash withdrawals, per month or per disbursement period without being charged by the issuer.

<sup>14</sup> In 2010, issuers reported overdraft fees under the penalty fees type of cardholder fee. The 2011 data suggest that overdraft fees increased marginally from 2010.



# Appendix

## Methodology

To collect calendar year 2011 data, the Board distributed one survey to government offices and another survey to issuers.<sup>15</sup> The Board designed the government survey to gather information regarding prevalence of use of prepaid cards and the issuer survey to gather information on interchange and cardholder fees in connection with prepaid cards. The Board sent the surveys to 158 government offices and 15 issuers.<sup>16</sup>

In preparing the 2011 surveys, the Board revised the format of and questions in the 2010 surveys for clarity to elicit better quality data and to reduce respondent burden. In the 2011 government survey, the Board continued to ask questions regarding the prevalence of use of prepaid cards, and eliminated questions regarding transaction and fee information that government offices generally do not track. In the 2011 issuer survey, the Board continued to ask questions regarding the number of cards issued, and eliminated questions regarding the number of active accounts. The Board believes that the number of cards issued is easier for issuers to identify than the number of active accounts. The Board more clearly defined and segregated some cardholder fee types used in the 2010 issuer survey, and included additional cardholder fee types that the Board had since identified through discussions with card issuers. Further, the Board included a glossary of terms in both 2011 survey instruments to help respondents better understand what data should be submitted for each question.

The survey approach in 2011 differed from 2010 in a few key ways. The Board contacted government offices directly to request that they respond to the

2011 government survey.<sup>17</sup> Also, issuers were required to respond to the 2011 issuer survey, as opposed to the 2010 issuer survey, in which participation was voluntary. In addition, the Board posted both 2011 survey instruments online in a user-friendly format, rather than sending spreadsheet files to respondents.

Of the 158 government offices surveyed, 75 responded.<sup>18</sup> Of the 15 issuers surveyed, 12 completed the survey, two indicated they did not disburse payment program funds through prepaid cards during 2011, and one did not respond.<sup>19</sup>

The number of responses the Board received in 2011 increased significantly from 2010. The Board attributes the increased response to the government survey to the simplified survey instrument and the distribution of the survey directly to government offices. The Board attributes the increased response to the issuer survey to the clarification of the survey instrument, posting the survey online for completion, and making responses mandatory.

The quality of data the Board received in 2011 also improved significantly from the 2010 data. Some government office respondents, however, either did not provide information on all data elements requested in the government survey, or provided information that

<sup>15</sup> The government and issuer surveys are available online at [www.federalreserve.gov/reportforms/formsreview/FR3063a\\_FR3063b\\_20111222\\_surveys.pdf](http://www.federalreserve.gov/reportforms/formsreview/FR3063a_FR3063b_20111222_surveys.pdf).

<sup>16</sup> The Board identified issuers to be surveyed by consulting with relevant payment card networks.

<sup>17</sup> The Board distributed the 2010 government survey to state treasurers, treasurers of the District of Columbia and Puerto Rico, and the U.S. Department of the Treasury's Financial Management Service, believing that treasurers had the knowledge of, and the relationships with, government offices that was necessary to collect, compile, and submit the requested data. Based on the low response rate to and feedback received regarding the 2010 survey, the Board altered its approach for the 2011 survey by directly contacting the government offices believed to use prepaid cards to disburse payment program funds. As a result, the 2011 government survey response rate increased to 47 percent.

<sup>18</sup> The Board obtained information regarding SNAP that appears in this report from the U.S. Department of Agriculture's Food and Nutrition Services website ([www.fns.usda.gov](http://www.fns.usda.gov)), rather than from the survey responses.

<sup>19</sup> The Board reported this bank's lack of response to its primary regulator.

was otherwise unreliable. For example, data received regarding the number of prepaid cards outstanding by program sometimes appeared to include prepaid cards that were not covered by the scope of the Board's survey, such as cards that remained in inventory. The Board excluded these data from further analyses.

Some issuer respondents were able to provide information only at the aggregate level for all programs for which they served as issuers. Thus, these data were included in the "total" figures in this report, but not in the figures calculated by program or jurisdiction type.

