

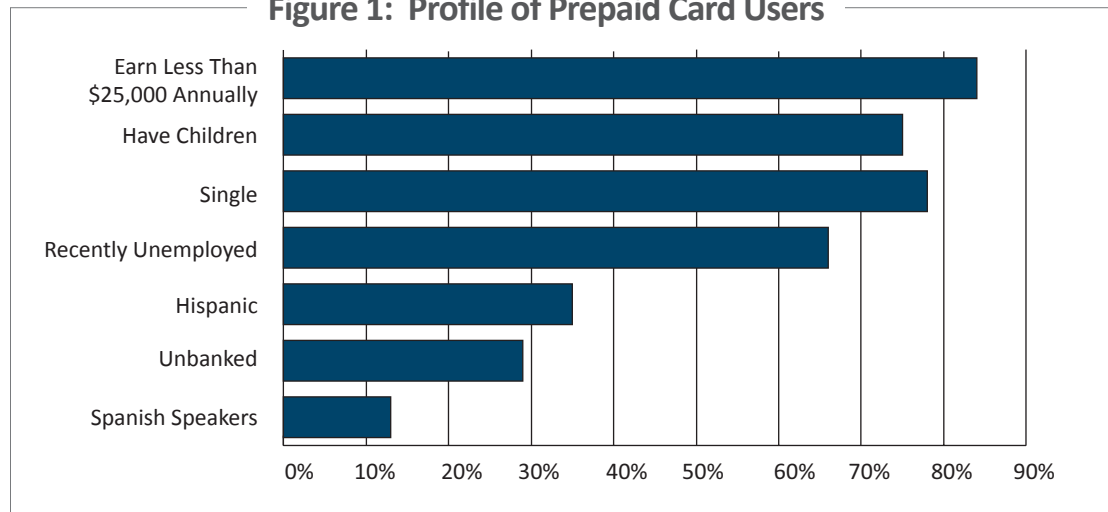
# PERSPECTIVES ON PREPAID CARDS FROM LOW-INCOME HISPANIC TAX FILERS

## INTRODUCTION

With more than one in six Latinos lacking a basic checking or savings account, prepaid debit cards—payment cards issued by banks that carry the American Express, Discover, MasterCard, or Visa logo—have been proposed as an alternative to traditional transaction accounts and are considered more secure than carrying cash. Many experts have speculated that a new regulation that reins in the ability of depository institutions to charge overdraft fees may result in fewer low-cost bank account options, making the question of a viable alternative for low-income families even more important. Moreover, many government entities have turned to reloadable cards as a more cost-effective way to deliver nutrition assistance and unemployment insurance payments. Little is known, however, about the experiences of Hispanic prepaid card users. The growing popularity of prepaid cards raises new questions about their role in helping families become more financially secure and about whether consumers are adequately protected from scams and financial abuse.

The National Council of La Raza (NCLR), the largest national Hispanic civil rights and advocacy organization in the United States, designed and administered a survey to better understand the experiences of low-income Hispanic families who have used prepaid cards (see Figure 1).<sup>\*</sup> In all, 279 surveys were collected between April 1 and April 15, 2010 from families seeking assistance at five Volunteer Income Tax Assistance (VITA) Program sites.<sup>†</sup>

**Figure 1: Profile of Prepaid Card Users**



<sup>\*</sup> This fact sheet was prepared by Janis Bowdler, Director of the Wealth-Building Policy Project within NCLR's Office of Research, Advocacy, and Legislation.

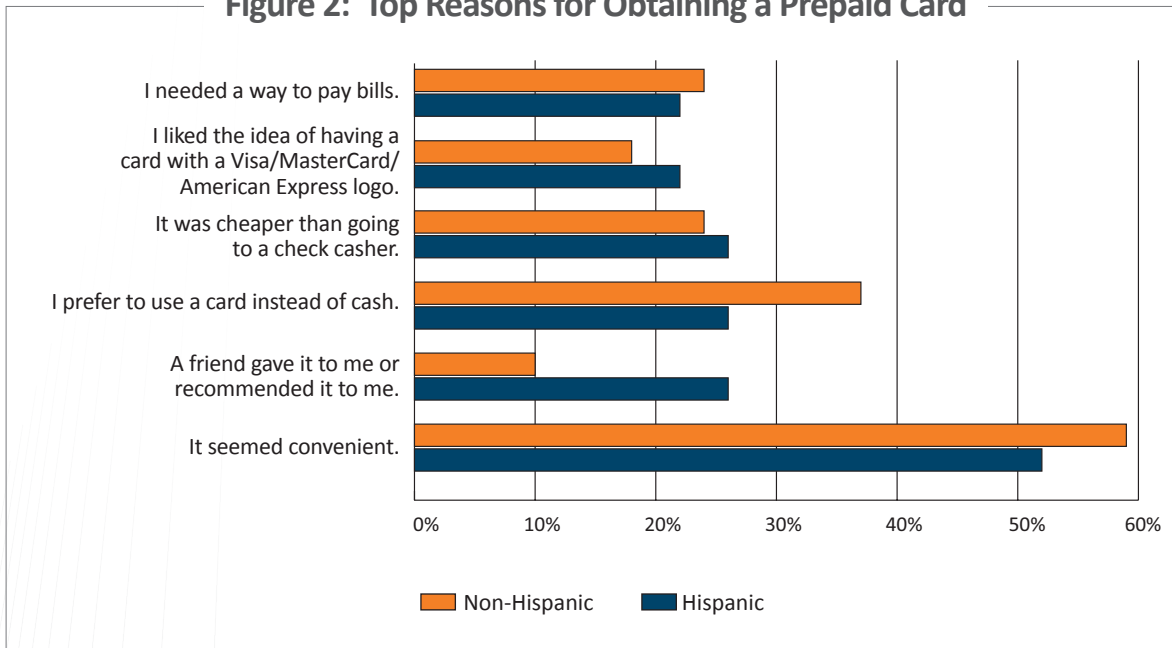
<sup>†</sup> The VITA Program offers free tax help to low- to moderate-income people who cannot prepare their own tax returns. The five VITA sites surveyed include: Accounting Aid Society, Detroit, Michigan; Central Arkansas Development Council, Little Rock, Arkansas; Co-Opportunity, Inc., Hartford, Connecticut; KC Cash Coalition, Kansas City, Missouri; The Resurrection Project, Chicago, Illinois.

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**KEY FINDINGS**

**Most users were attracted to their prepaid card because it seemed convenient.** Hispanic and non-Hispanic card users named convenience as the top reason for getting a card (see Figure 2). Latino respondents also cited “cheaper than going to a check casher,” “a friend recommended it to me,” and “prefer a card over cash” as drivers for their purchase of a prepaid card. All cardholders listed the same top four uses for their cards: to pay bills, make purchases online, shop for household items, and to use as a safety net in case of an emergency. Notably, Hispanic card users were far less likely than non-Hispanics to identify ATM cash withdrawals as a top use (13% versus 41%). Walmart was the single most popular place to buy a card, although buyers were found to purchase cards at a wide variety of stores.

**Figure 2: Top Reasons for Obtaining a Prepaid Card**



**Nearly three-quarters of Hispanic and more than half of non-Hispanic card users also had checking accounts.** While it is unclear whether participants were using their prepaid cards and bank accounts simultaneously, 26% of Latinos stated that they canceled their card because they had opened a traditional bank or credit union account (compared to only 11% of non-Hispanic respondents).

**Bouts of unemployment impacted how prepaid cards were used.** Half of all Latino card users and 73% of non-Hispanic card users had been unemployed for some portion of the 12 months prior to the survey. Compared to their fully employed counterparts, those experiencing unemployment were more likely to cite “not having enough money to put on the card” and “high fees” as reasons why they stopped using their prepaid card. Unemployed users were also more likely to load funds to their card “a little at a time,” compared to employed users who added “just enough to pay my bills.” While neither option dictates a specific timeframe, adding small amounts of money frequently over a short period of time is one of the most expensive ways to use a prepaid card. More than one-third of those who had experienced unemployment had used their card to take advantage of direct deposit. Thus it is not surprising that many of the same respondents also commented that they stopped using the card because the funds were no longer being automatically loaded onto their card by their employer.

*“Employer payroll was loaded onto this [prepaid] card. Now that I’m not working, my unemployment is on a bank card.”*

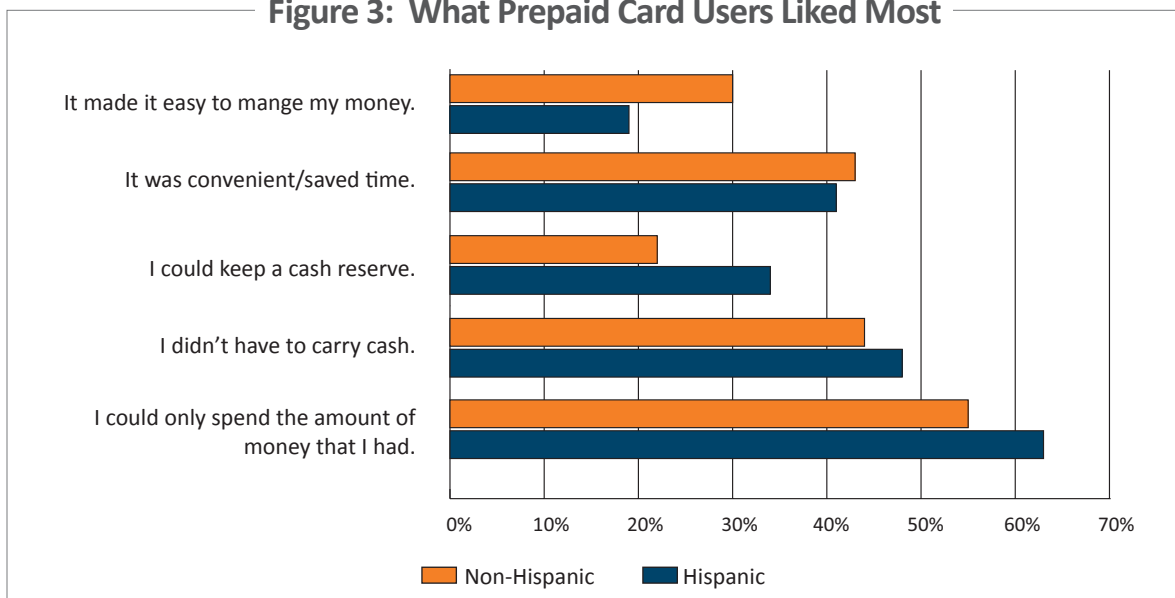
—Prepaid Card User, Little Rock, Arkansas

**The majority of card users (71%) described their experience using their card as “positive” or “very positive.”** Nearly two-thirds (63%) of Latino respondents named one of their favorite card attributes as, “I could only spend the amount of money I had,” and nearly half appreciated not having to carry cash (see Figure 3). Furthermore, 45% of Latino card users and 60% of non-Latino users had owned their card for more than ten months.

*“It makes it convenient to have a savings, checking, and debit account, without going to the bank. The prepaid cards are going to be the norm for years to come.”*

—Prepaid Card User, Detroit, Michigan

**Figure 3: What Prepaid Card Users Liked Most**



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**High or hidden fees were the least attractive card attributes for Hispanic card users.** Hispanic and non-Hispanic participants listed expensive fees as what they liked least about their cards (see Figure 4). More than one-quarter of all respondents noted that they had been charged a fee unexpectedly, and 39% of Hispanics and 30% of non-Hispanics stated they did not have all the information they needed to avoid paying fees. Furthermore, in answering what they did not like about prepaid cards, 29% of Hispanic respondents stated that they preferred using a traditional bank account, compared to only 16% of non-Hispanic respondents.

“In summary, very convenient, but [there are] many hidden fees attached to using the card, yet [the] terms and conditions [are] not always given to the consumer.”

—Prepaid Card User, Chicago, Illinois

**Figure 4: What Prepaid Card Users Liked Least**

