

Research shows that usage of prepaid cards is on the rise nationally, with growth of more than 50% between 2012 and 2014.¹ Approximately 12 million Americans use prepaid cards at least once a month, and Hispanics[†] account for 12% of prepaid card users.² Prepaid cards are used widely by both individuals and institutions—consumers use them to manage personal finances while federal and state governments distribute unemployment and other benefits on them as an alternative to paper checks. The product is considered by many to be a safe and accessible alternative to having a checking account.³ Over half of all prepaid card users (59%) also own checking accounts, suggesting that consumers are adopting a hybrid approach to financial management as opposed to a traditional relationship confined to one institution.⁴ Despite the increased usage of prepaid cards and the benefits the product can provide, Latino consumers experience challenges with prepaid cards. Imminent rulemaking by the Consumer Financial Protection Bureau (CFPB) will provide necessary protections for consumers who use these products and establish standards within the prepaid card industry.

This profile is part of a series that explores the observations of Latino community leaders working to help low-income communities achieve economic security and build wealth. For this issue, we surveyed NCLR Affiliates who are members of the Financial Services Advisory Council[‡] to learn about their perspectives on the usage of prepaid cards in their communities and the benefits and challenges for their Latino clients in using this product.

PREPAID CARD USAGE

Survey results suggest that some respondents have observed an increase in prepaid card usage over the past year. One-third of respondents indicated they had seen a moderate to significant increase in their use during the past year, whereas two-thirds saw little to no increase in prepaid card use.

DEFINITION

A prepaid card, or a general-purpose reloadable card, allows consumers to load and reload a personal debit card with money upfront and use them anywhere debit cards are accepted. A prepaid card is also called a prepaid debit card, or a stored-value card. You can buy prepaid cards at many stores and online.



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† The terms “Hispanic” and “Latino” are used interchangeably by the U.S. Census Bureau and throughout this document to refer to persons of Mexican, Puerto Rican, Cuban, Central American, Dominican, Spanish, and other Hispanic descent; they may be of any race.

‡ The NCLR Financial Services Advisory Council (FSAC) includes 10 NCLR Affiliates who, combined, serve more than 40,000 clients annually. The results in this document are from a 23-question survey completed by representatives from each FSAC member in November 2015. Survey question types included interval scale, open-ended, and multiple choice. Due to the small sample size, these findings are not generalizable and only represent the results of NCLR’s survey.

BENEFITS OF PREPAID CARDS

Survey respondents noted several benefits of prepaid cards for their community members. Specifically, prepaid cards were seen as a product that increases financial access for people who are unable to open a bank account. A person may not be able to open a bank account for various reasons, including the lack of identification required for a bank account. The benefits of prepaid cards to Latino consumers identified through this survey included:

- Relative ease of access and availability.
- Ability to control card balances.
- Inability to overdraw.
- Ability to use the cards to obtain public benefits, like SNAP.
- Access to the product and ability to use it without a traditional bank account.

“There are a couple of advantages to prepaid cards that are important to our clients: 1) access and availability—they are usually offered in convenient locations that make it easy for clients to purchase; 2) the ability to control/dictate how much is on their cards; and 3) not having to worry about overdraft fees, as once the balance is gone it will deny any further transactions.”

—*Hacienda Community Development Corporation, Portland, Oregon*—

CHALLENGES OF PREPAID CARDS

While there are benefits to prepaid cards, survey respondents also identified problems that can arise for Latino consumers. Many of the issues that respondents reported were related to card fees and transparency, as well as the inability of prepaid cards to provide a stepping stone to other mainstream financial products. Specific issues with prepaid cards, according to survey respondents, included:

- High fees for card holders who are already financially vulnerable.
- Non-transparent fees and varying fee structures make it difficult for consumers to know how or when purchases will incur additional charges.
- Lack of access to account statements or account information can make it difficult to manage funds.
- Lack of credit-building opportunities since the cards are not recognized by lenders as proof of formal account ownership.

“For our homebuyer clients, there have been issues on the availability of account statements and how information is displayed in these statements. Very little information is provided and lenders do not accept them as a client’s bank account.”

—*YWCA El Paso Del Norte Region, El Paso, Texas*—

Respondents noted great value in prepaid cards as an option for the Latino communities they serve, but they also indicated improvements are needed: nearly all respondents said prepaid card oversight by the CFPB was “definitely valuable” or “essential.” Survey respondents mentioned several ways to improve card features and provide better education for consumers, including:

- Offer transitions or pathways to credit-building products.
- Provide information on the fee structure and fine print, in both English and Spanish.
- Inform individuals on how they can maximize card usage to avoid fees.
- Provide information so consumers understand how prepaid cards are different from a checking or savings account and what potential limitations exist with prepaid cards.

CONCLUSION

For consumers using nontraditional financial products like prepaid cards, improved education, increased transparency, and strengthened protections are needed to ensure that these products can enhance their economic security. To this end, Latino community leaders are anxiously awaiting a finalized rule from the CFPB. As policymakers navigate rulemaking around prepaid cards, it is essential that any rule has strong, enforceable safeguards for consumers. In addition, card issuers must provide free and easy access to account and fee information and consider how to better serve consumers by creating pathways to traditional credit.

ENDNOTES

- 1 Pew Charitable Trusts, *Banking on Prepaid: Survey of Motivations and Views of Prepaid Card Users*, (Washington, DC: Pew Charitable Trusts, June 2015), <http://www.pewtrusts.org/~media/assets/2015/06/bankingonprepaidreport.pdf?a=en>.
- 2 The Pew Charitable Trusts, “Why Americans Use Prepaid Cards: A Survey of Cardholders’ Motivations and Views” (Washington, DC: February 2014), http://www.pewtrusts.org/~media/legacy/uploadedfiles/pes_assets/2014/prepaidcardssurveyreportpdf.pdf.
- 3 Susan Herbst-Murphy, “Millennials with Money: A New Look at Who Uses GPR Prepaid Cards,” The Federal Reserve Bank of Philadelphia (Philadelphia, PA: September 2014).
- 4 The Pew Charitable Trusts, “Why Americans Use Prepaid Cards.”