

## Features of a Safe Basic Banking or Prepaid Card Account

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Over 17 million Americans are unbanked, relying on alternative, and often costly, financial services providers. Policymakers, consumer advocates and the banking industry are increasingly working to move people into the financial mainstream by promoting basic banking accounts. Prepaid cards have also been promoted as safe alternative transaction account. Indeed, the bank account and prepaid models are converging, as prepaid features come to resemble those of traditional bank accounts, and banks offer “checkless checking” with a structure (and sometime fees) that mimic prepaid cards.

Efforts to reach the unbanked will only succeed if these basic accounts have low barriers to entry, offer sufficient functionality to meet consumers’ needs, are affordable, and are free of the minefields that have driven many out of the banking system.

### **Low Barriers to Entry**

To reach the unbanked, account qualifications and costs must be low.

- Accounts should be available to those who have been excluded in the past, and be designed so that future mistakes are hard to make.
- Opening balance and account minimums should be de minimis.
- Direct deposit should be encouraged but not required.
- Monthly fees must be low but need not be free. (Indeed, such accounts rarely are). A modest \$3 fee should not discourage consumers if the account offers value.

### **Transparent Costs**

Consumers may be lured in initially with an account that looks cheap, but they will quickly leave if the true cost is found in hidden fees. The costs of the account should be transparent so that the consumer can honestly assess whether it is worth having.

- The primary cost should be the monthly fee. The consumer should not incur other fees when using the account for everyday purposes.
- Profits should not depend on consumer mistakes. Overdraft, nonsufficient funds, declined transaction, and similar fees should be eliminated. Higher fees should not be triggered by failure to conduct enough debit card or other transactions.
- Responsible behavior, such as checking one’s balance, should not cost the consumer.

### **Access to Checks and Safe Check Alternatives**

Low frills checking accounts often have severe limits on the number of monthly transactions. Purely electronic models cannot fully serve consumers who need to pay landlords or other bills today, in person.

- Consumers need at least 10 checks or check equivalents per month.
- Accounts should offer safe check alternatives, such as prefunded checks or inexpensive money orders.
- Electronic bill payment and debit cards can increasingly substitute for checks as consumers become comfortable, but give them time.

### **Address Check Cashing and Cash Access Needs**

Consumers often need access to money immediately and have trouble waiting for checks to clear or knowing when their money will be available.

- Offer check cashing with low fees that are reasonable and proportional in light of the type of check and the history with the consumer.
- Allow \$100 to \$200 same day cash availability for low risk checks, and remind consumers that (starting July 2011) \$200 will be available the next business day and \$200 the day after that.

### **No Dangerous Credit or Overdraft Features**

Overdraft fees have driven many out of the banking system. Newer triple-digit “account advance” bank and prepaid card payday loans also jeopardize the safety of scarce funds.

- Eliminate overdraft fees. Overdraft transactions should generally be denied.
- Any lines of credit or loan features must be affordable, 36% APR or less.
- Do not endanger basic wages or benefits by offering loans that require electronic repayment or electronic security.
- Offer true overdraft protection by links to savings accounts for a minimal fee.
- Banks should not seize exempt funds to repay other debts owed to the bank.

### **Access to Usable Information Necessary to Manage the Account and to Budget**

Some banks are now charging as much as \$8/month to receive paper statements. Prepaid cards typically do not offer statements, even if the consumer is willing to pay. But statements are an important consumer protection. Not all consumers can monitor their accounts online, and even those who can may find that they are unlikely to do so. Usable transaction information is essential to prevent identity theft and to help consumers monitor for unwanted fees, unauthorized transactions and billing errors.

- Paper statements should be free for bank accounts, where they are required by law unless the consumer has opted out. Statements are not currently mandated for prepaid cards but should be made available, for no more than \$1 more per month.
- Cell phone, email and telephone alerts for transactions, low balances, and deposits are important new tools to give consumers timely, usable information, and may make some consumers more comfortable opting out of paper statements.
- Customer service and balance inquiries should always be free.
- Ad hoc paper statements and an annual summary should be available at no cost for those not receiving regular paper statements.

## **Facilitate Savings**

Developing a savings cushion can support the safety of a transaction account.

- A safe bank account should provide options for automatic transfers to savings.

## **FDIC Insurance and Dispute Rights for Prepaid Cards**

FDIC insurance is a given for individual bank accounts. Most prepaid card funds – which are held in pooled accounts in the name of the card provider, not the consumer – now carry FDIC insurance payable to the consumer, but not all do. Similarly, federal law gives bank account consumers, but not all prepaid cardholders, protection from loss or theft of their ATM or debit card, unauthorized charges and billing errors.

- All general use prepaid cards should be required to carry FDIC insurance on a pass-through basis payable to the consumer.
- Prepaid cards should be covered by the full protections of the Electronic Funds Transfer Act.

## **No Penalties for Inactivity or Closing the Account**

Not every account is right for every consumer. Yet some prepaid cards make it difficult to get your money back, with fees as high as \$15, and some banks make it difficult to close an account.

- No fees should be charged for requesting a final check or closing an account.
- A safe bank or prepaid account will not have inactivity fees that consume the account through attrition.
- Consumers should have the right to close an account and stop fees from piling up even if it is overdrawn.

**For more information**, contact Lauren Saunders, [LSaunders@nclc.org](mailto:LSaunders@nclc.org), (202) 452-6252 x 105 or see the comments of the National Consumer Law Center, Consumer Action, Consumer Federation of America, Consumers Union and US PIRG on the FDIC Safe Account Template (June 7, 2010) and other information available at [www.nclc.org/issues/banking.html](http://www.nclc.org/issues/banking.html).