

Prepaid Debit Card Program Called a Win-Win for Consumers, Government

by Nicole Duarte

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Consumer advocates praised a new prepaid debit card program announced January 13, which will allow Treasury to slash costs associated with processing paper tax refunds while offering consumers an alternative to controversial refund settlement products.

Starting in mid-January, Treasury will mail 600,000 invitations to low- and moderate-income taxpayers, encouraging them to receive their tax refund payments electronically via direct deposit onto prepaid debit cards. Consumer advocates welcomed the "MyAccountCard" program, which they say will reduce the incentive for consumers to seek fee-laden refund anticipation loans or checks. (For the Treasury release, see *Doc 2011-817*.)

The program will cost approximately \$1.5 million to administer, but the potential savings for the government are enormous. Treasury spokeswoman Sandra Salstrom said processing an electronic payment costs 10 cents -- just one-tenth the cost of issuing and mailing a paper check. Treasury issues 45 million paper checks per year for various payment programs, including tax refunds and Social Security benefits.

Consumers also benefit, Salstrom said. The pilot program will offer taxpayers a chance to have their tax refunds deposited directly into a new bank account with one of several types of reloadable bank cards. Treasury will track the popularity of the features and fee structures offered. That testing will help "determine the benefits and feasibility of a card account as an integrated part of the tax filing and refund process," Treasury said in its release.

All the cards will function as mainstream debit cards for purchases and ATM withdrawals, with fewer fees than traditional bank cards, Salstrom said. Some cards will require a \$4.95 monthly account maintenance fee, others will have no fees, and some cards will offer a linked savings account, she said. In addition to free services such as online bill pay and point-of-sale transactions, the cards will let taxpayers use other financial services in exchange for varying fees, the Treasury release said.

The program also has features to reassure those reluctant to open a bank account. Leslie Parrish, a senior researcher at the Center for Responsible Lending, said many people fear they will incur overdraft fees or will be unable to maintain a minimum balance. Treasury and the Green Dot Corp., the prepaid financial services company managing the program, have designed a product with no minimum balance and no opportunity to overdraw, she said.

Consumer advocates are also pleased that the cards offer many of the consumer protections enjoyed by taxpayers whose accounts are held in traditional banks.

Jean Ann Fox, director of financial services at the Consumer Federation of America, said the cards will be PIN-protected and eligible for the protections of the Electronic Fund Transfer Act, which enables taxpayers to try to recover their funds in case of loss, theft, or fraud. "It's the same risk you would have if you direct-deposited your tax refund into your bank account," she said.

Payment cards also have more protections than paper checks, said Lauren Saunders, managing attorney at the National Consumer Law Center. She said that regulation E (12 CFR 205) governs electronic transfers on debit cards and provides "caps on liability for unauthorized use, including fraud or theft, and a mandated error resolution procedure with recredit after 10 days."

"Plus, network-branded payment cards (i.e., Visa or MasterCard) carry those networks' 'zero liability' protections, and maybe even some protection if you don't get what you paid for (but not as strong as for credit cards)," she said, adding that she believed the refund debit card and government-issued payroll card were negotiated to include this protection, which is absent on most private prepaid debit cards.

Though consumer advocates praise the program as an attractive alternative to high-cost refund settlement products, the program is limited in its ability to assist or educate "unbanked" taxpayers. Salstrom said that while one of the goals of the program is to introduce unbanked taxpayers to the banking system, the program will not offer any financial literacy education.

"People see these cards as instead of a mainstream bank account," Fox said. She also pointed out that the program was not designed to provide taxpayers with a way to transition into the mainstream banking system.

Adam Rust, research director at the Community Reinvestment Association of North Carolina, said easing taxpayers into the mainstream banking system isn't a desirable goal for the program. "More and more, the banks are acting like they don't want low-asset customers. I am not willing to say that all of these consumers would be better off in a bank account. For many, the low fees and the pricing transparency [of the debit cards] reflect a better choice," he said.

Further, the Treasury card beats its private-sector competitors on one important score, Rust said: "Consumers don't have to pay to use the card as a destination for their refund. Many RAL consumers, lacking either a bank account or a debit card, have to pay for a one-time temporary account."

Still, Parrish said it is unclear whether some unbanked taxpayers have the financial literacy to take advantage of all the features of the card or to advocate for themselves if a card is lost or stolen. She also said that she was unaware of any research to suggest how taxpayers may behave when they receive their refund on a card as opposed to a paper check, but that taxpayers will be "getting that windfall no matter what. Our main concern is, are they going to get all that's owed to them, or are they going to end up

taking a refund anticipation loan or check from a preparer and get those funds stripped away?"