

**Written Statement of Green Dot Corporation
For
Senate Committee on Aging Hearing
“Private Industry’s Role in Stemming the Tide of Phone Scams”
November 19, 2014**

Chairman Nelson, Ranking Member Collins and members of the Committee, My name is Steve Streit and I am founder, Chairman and CEO of Green Dot Corporation, a Bank Holding Company regulated by the board of Governors of the Federal Reserve System, and Founder and Chairman of Green Dot Bank, a state chartered, fed-member commercial bank regulated by Federal Reserve and the State of Utah Department of Financial Institutions.

Green Dot appreciates the opportunity to submit testimony for the hearing entitled “Private Industry’s Role in Stemming the Tide of Phone Scams.” While impossible for any person or organization to completely stop con artists and their associated criminal activity, Green Dot has been a leader in developing techniques to help prevent such scams and it is therefore our pleasure to work with the Senate Committee on Aging in an effort to protect seniors, one of America’s most vulnerable populations.

About Green Dot

Green Dot is fifteen year old entrepreneurial start-up that invented what is known today as the prepaid debit card industry. Over the years, prepaid debit cards have become popular bank account products for millions of Americans because they are convenient, easy-to-use, easy-to-get and are generally much lower in cost compared to traditional bank checking accounts or credit cards. Prepaid cards are especially popular with low and moderate income Americans because consumers in that economic segment often have a difficult time obtaining traditional checking accounts and credit cards, which generally require certain minimum credit score thresholds and/or a successful past history of holding a checking account in order to obtain such accounts. While Green Dot invented the prepaid debit card industry and is today the largest prepaid debit card provider in the United States, many leading banks and financial services companies sell prepaid debit cards to consumers, including Chase, American Express, U.S. Bank, Wells Fargo, Comerica and many others.

About the MoneyPak

Around 2003, as part of Green Dot’s growing prepaid card business, the company needed to find an easy way for customers to be able to reload their prepaid card with cash at many different retailers from coast to coast. The challenge was that retailer “Point of Sale” (POS) systems were fairly old, inflexible and inconsistent from retailer to retailer. So, to overcome the lack of modern retail technology, Green Dot invented a “one size fits all” product called the “MoneyPak.” The MoneyPak was designed to serve as a defacto “deposit slip” allowing prepaid card customers to add cash to their prepaid card at many retail stores without the retailer having to modify their existing POS equipment. The innovation behind the MoneyPak that allowed it to be sold without POS modification was the “PIN method of reloading.” With the innovation of selling a “PIN,” a unique multi-digit number that represented a certain amount of money, the customer could then buy a PIN for certain amount of money and then redeem that PIN online or by phone and instruct Green Dot to load the value represented by that unique PIN to whatever prepaid card they instructed. Shortly thereafter, with the PIN method of reloading in production, Green Dot was then able to open its proprietary reload system to other prepaid card companies.

This gave birth to the Green Dot Reload Network, which offered users of many different brands of prepaid cards the ability to add cash to their prepaid card at any Green Dot retail location. Because of the MoneyPak's ubiquity and ease of use, it became an almost immediate hit with consumers and grew in popularity in proportion with the growth of the prepaid debit industry itself. Today, the Green Dot Network serves customers from nearly 200 prepaid programs, including Green Dot customers, who can add cash to their prepaid cards at nearly 100,000 retailers. In 2013, the Green Dot network processed more than forty million reload transactions on behalf of millions of Americans who rely on prepaid cards as their bank account of choice.

Victim Assisted PIN Fraud

While the PIN method of reloading facilitates the safe reloading of cash on behalf of millions of honest customers each year, the PIN method of reloading a card has also become susceptible to exploitation by scammers who target seniors with confidence scams. Such scams are designed to convince the senior that they have won a prize or some other similar enticement and that the way for the senior to collect the prize is to buy a MoneyPak (or a similar competitor's product) for a specified amount of money and then provide the secret PIN number associated with that MoneyPak to the scammer. This is the equivalent of the senior telling a stranger their debit card account number and providing them their secret PIN, or providing a con artist with their bank account number and their online login secret password. As the Committee knows, the scammer immediately uses that secret PIN to empty the MoneyPak and transfer the associated funds to their own account. At that point, the senior's money is gone and the scammer is gone.

This method of fraud is called "Victim Assisted Fraud" because the scam can only happen when a willing victim purposely gives away their personal information to a stranger. Because the victim themselves actively facilitates the scam, it has been very difficult to stop. Based on dispute filings, we believe Victim Assisted Fraud represented approximately \$30 million in cash loads in 2013 out of total load volume through Green Dot's network of approximately \$20 Billion, or less than one-quarter of one percent of loads. While this amount of fraud is not material in statistical terms, Green Dot recognizes that it is certainly material to the senior who fell victim to the confidence scam.

In an effort to help stop this type of scam, Green Dot has spent millions of dollars to combat victim assisted fraud. Such measures include:

- A. Developing technology to help identify potentially nefarious transactions and blocking the PIN before the fraud can be completed. This has helped somewhat, but often times ends up snaring too many honest customers along with the scammers.
- B. Developing methods to quickly track the flow of funds after being notified by a victim of such a scam. This allows Green Dot to attempt to block and recover funds for the victim and to provide law enforcement with detailed information on the scammer. This has helped somewhat, with Green Dot reclaiming millions of dollars in scammed money and returning that money to victims, while helping law enforcement to make a number of key arrests both domestically and internationally.
- C. Blocking cash withdrawals on its Green Dot Bank issued debit cards at ATM machines outside the United States so that scammers won't want to use Green Dot Bank issued cards as the receiving account of such stolen funds. This has been effective, but Green Dot Bank issued cards represent only a portion of the overall prepaid card industry.

- D. Lastly, Green Dot has spent many millions of dollars reprinting and distributing all MoneyPak packaging with large red warning notices where the PIN is located urging consumers to never give out their secret PIN number. We have also worked with consumer advocates, the Better Business Bureau and law enforcement agencies to place warnings and create videos on helping educate seniors on confidence scams. However, it would appear that this tactic has not achieved the intended goal because the seniors ignore the warnings, convinced that the con artist is genuine.

All these tactics in aggregate have indeed helped somewhat. However, given the "Victim Assisted" nature of the fraud and our inability to completely eradicate this nefarious use of our MoneyPak PIN product, Green Dot has decided to discontinue the PIN method of reloading a card altogether, and instead, move fully to a more modern and more fraud resistant "card swipe" reload process. The swipe reload process is a more fraud resistant reload method because "swipe reloading" requires the actual cardholder to be present with their card in the store in order to reload. So, without the PIN, the scammer will have no method of instructing a senior to buy a product and no method of redeeming any associated PIN number.

Of course, confidence scams have been around for hundreds of years and we understand that seniors will always need to be cautious of strangers bearing gifts. But at least Green Dot's MoneyPak will no longer be able to be used by scammers to facilitate such fraud.

The PIN product has already been removed from Walmart and many other Green Dot retailers and will be completely unavailable in all Green Dot retailers by end of Q1 2015. Today, the vast majority of Green Dot reloads are already performed using the swipe method of reloading and not a PIN number.

Green Dot is proud of our efforts to protect our nation's seniors from scams, and we are ready and willing to continue our work with law enforcement, the Committee and its members to explore other ways in which we can enhance the protections for our nation's most vulnerable consumers.

About Green Dot

Green Dot Corporation is a bank holding company that owns Green Dot Bank, a state member bank located in Provo, Utah. We are regulated by the Board of Governors of the Federal Reserve System and the State of Utah Department of Financial Institutions. We have approximately 800 domestic employees with offices in Pasadena, California; Palo Alto, California, Bentonville, Arkansas, Provo, Utah, Sandy, Utah, Tampa, Florida and Birmingham, Alabama.

Green Dot's mission is to reinvent personal banking for the masses with a sole focus on low cost, fair and easy to use banking products for low and moderate income Americans. Our accounts feature no penalty or overdraft fees of any kind and short, simple and clear disclosures. Green Dot cards and reload services are available to consumers at 100,000 retailers nationwide, online and via the leading app stores. Each year, Green Dot will open more than 5 million new FDIC insured bank accounts for Americans who were either previously unbanked or underserved by traditional banks.

Green Dot prepaid cards are not anonymous and are fully compliant with the USA PATRIOT Act. Green Dot products adhere to our customer covenant of clear disclosures, no minimum

balance requirements and no penalty fees ever and our products routinely win numerous awards and positive recognition from the nation's leading consumer groups. Furthermore, Green Dot is publicly on record of supporting the CFPB's newly announced proposed rule on prepaid cards. See the attached press release for further information.

Nov 13 2014

CFPB Proposes Strong Federal Protections for Prepaid Products

Bureau's Proposal Includes New 'Know Before You Owe' Prepaid Disclosures

WASHINGTON, D.C. – Today the Consumer Financial Protection Bureau (CFPB) is proposing strong, new federal consumer protections for the prepaid market. The proposal would require prepaid companies to limit consumers' losses when funds are stolen or cards are lost, investigate and resolve errors, provide easy and free access to account information, and adhere to credit card protections if a credit product is offered in connection with a prepaid account. The Bureau is also proposing new "Know Before You Owe" prepaid disclosures that would provide consumers with clear information about the costs and risks of prepaid products upfront.

"Consumers are increasingly relying on prepaid products to make purchases and access funds, but they are not guaranteed the same protections or disclosures as traditional bank accounts," said CFPB Director Richard Cordray. "Our proposal would close the loopholes in this market and ensure prepaid consumers are protected whether they are swiping a card, scanning their smartphone, or sending a payment."

Prepaid products are consumer accounts typically loaded with funds by a consumer or by a third party, such as an employer. Consumers can use these products to make payments, store funds, get cash at ATMs, receive direct deposits, and send funds to other consumers. Prepaid products are often bought at retail stores or online. Prepaid products are amongst the fastest growing types of consumer financial products in the United States. For example, the amount of money consumers loaded onto "general purpose reloadable" prepaid cards grew from less than \$1 billion in 2003 to nearly \$65 billion in 2012. The total dollar value loaded onto general purpose reloadable cards is expected to continue to grow to nearly \$100 billion through 2014.

This proposal would apply a number of specific federal consumer protections to broad swaths of the prepaid market for the first time. The proposal would cover traditional plastic prepaid cards, many of which are general purpose reloadable cards. In addition, the proposal would cover mobile and other electronic prepaid accounts that can store funds. The prepaid products covered by the proposal also include: payroll cards; certain federal, state, and local government benefit cards such as those used to distribute unemployment insurance, child support, and pension payments; student financial aid disbursement cards; tax refund cards; and peer-to-peer payment products.

Prepaid Protections

Many consumers use prepaid products as an alternative to traditional checking accounts. Currently, however, there are limited federal consumer protections for most prepaid accounts. The proposal would ensure that most prepaid account consumers would have important protections under the Electronic Fund Transfer Act after registering their account. The protections are generally similar to those checking account consumers already receive and include:

- **Easy and free access to account information:** Under the CFPB proposal, financial institutions would be required to either provide periodic statements or make account information easily accessible online and for free. Unlike checking account customers, prepaid users typically do not automatically receive periodic statements. The proposal would ensure that consumers are able see their account balances and a history of their transactions and fees.
- **Error resolution rights:** The proposed rule would require financial institutions to work with consumers who encounter errors with their account. Currently, prepaid customers who are double-charged for a transaction or charged an incorrect amount may not be guaranteed a practical way to fix the problem. This proposal would require financial institutions to investigate errors that consumers report on registered accounts and to resolve those errors in a timely manner. If the financial institution cannot resolve an alleged error within a certain period of time, it would be required to temporarily credit the disputed amount to the consumer to use while the institution finishes its investigation.
- **Fraud and lost-card protection:** The proposal would protect consumers against unauthorized, erroneous, or fraudulent withdrawals or purchases, including when registered cards are lost or stolen. Consumers receive this protection on their credit and debit cards, but it is not guaranteed on prepaid products. If consumers lose their prepaid card or find erroneous or fraudulent charges on their prepaid account, the rule would limit their responsibility for transactions they did not authorize and create a timely method for them to get their money back. As long as the consumer promptly notifies their financial institution, the consumer's responsibility for unauthorized charges would be limited to \$50.

Know Before You Owe: Prepaid Fees

The Bureau's proposal also includes new "Know Before You Owe" prepaid disclosures that would provide consumers with standard, easy-to-understand information about the prepaid account. Consumers cannot always tell what fees apply to their prepaid cards before purchasing them because such disclosures are inside the packaging or hard to find online. The current lack of an industry-wide standard on prepaid-card fee disclosures can make it difficult for consumers to comparison shop and make well-informed decisions. Under the proposal, prepaid consumers would have access to:

- **Standard, easy-to-understand information upfront:** The CFPB’s proposal includes two required forms, one short and one long, with easy-to-understand disclosures. The short form would concisely and clearly highlight key prepaid account information, including common costs like the monthly fee, fee per purchase, ATM withdrawal cost, and fee to reload cash onto the account. In addition, under the CFPB’s proposal, consumers would have to receive or have access to a full set of the account’s fees and related information before acquiring the account. The long form would contain all of the fees on the short form, plus any other potential fees that could be imposed in connection with the account.
- **Publicly available card agreements:** To facilitate comparison shopping, this proposal would require that prepaid account issuers post their account agreements on their websites. Additionally, issuers would be required to submit those agreements to the Bureau for posting on a public, Bureau-maintained website.

The proposed disclosures are available at:

http://files.consumerfinance.gov/f/201411_cfpb_prepaid-model-sample-disclosure-forms.pdf

Credit Protections

The proposal also includes strong protections in connection with credit products that allow consumers to pay to spend more money than they have deposited into the prepaid account. Under the proposed rule, if consumers choose to use a credit product related to their prepaid account, they would be entitled to the same protections that credit card consumers receive today. These protections largely stem from the Truth in Lending Act and the Credit Card Accountability Responsibility and Disclosure Act of 2009. The protections that would also apply to prepaid credit products include:

- **Ability to pay:** Like credit card issuers, prepaid companies would be required to first make sure consumers have the ability to repay the debt before offering credit. Under the proposal, companies cannot open a credit card account or increase a credit line related to a prepaid card unless they consider the consumer’s ability to make the required payments. For consumers under 21, the companies would be required to assess these consumers’ independent ability to repay the credit.
- **Monthly credit billing statement:** Prepaid companies would be required to give consumers the same monthly periodic statement that credit card consumers receive. This statement would detail consumers’ fees, and if applicable, interest rate, what they have borrowed, how much they owe, and other key information about repaying the debt.
- **Reasonable time to pay and limits on late fees:** Prepaid companies, like credit card issuers, would be required to give consumers at least 21 days to repay

their debt before they are charged a late fee. Additionally, late fees must be “reasonable and proportional” to the violation of the account terms in question.

- **Limited fee and interest charges:** During the first year a credit account is open, the total fees for prepaid credit products would not be allowed to exceed 25 percent of the credit limit. Card issuers generally are prohibited from increasing the interest rate on an existing balance unless the cardholder has missed two consecutive payments. Card issuers may increase the interest rate prospectively on new purchases, but must generally give the consumer 45 days advance notice – during which time the consumer may cancel the credit account.

The CFPB’s proposal also includes some additional protections to ensure that the prepaid account and the credit product are distinct, such as:

- **Thirty-day waiting period:** The CFPB’s proposal would require companies to wait thirty days after a consumer registers the prepaid account before they could formally offer credit to the consumer. This would allow consumers to get experience with the basic prepaid account before deciding whether they want to apply for a credit product.
- **Wall between prepaid funds and credit repayment:** Prepaid companies could not automatically demand and take credit repayment whenever a prepaid account is next loaded with funds. Further, prepaid companies could not take funds loaded into the prepaid account to repay the credit when the bill is due unless the consumer has affirmatively opted in to allow such a repayment. Even then, companies cannot take funds more frequently than once per calendar month. Payment also cannot be required sooner than 21 days after the mailing of the periodic statement.

In May 2012, the CFPB issued an [Advance Notice of Proposed Rulemaking](#) on prepaid cards. The Bureau carefully reviewed all of the comments received and conducted outreach in the development of this proposal.

The proposed rule and disclosures will be open for public comment for 90 days after its publication in the Federal Register. A copy of the proposed rule, which includes information on how to submit comments, will be available Thursday at: <http://www.consumerfinance.gov/regulations/>

A CFPB study of the prepaid market can be found at: http://files.consumerfinance.gov/f/201411_cfpb_study-of-prepaid-account-agreements.pdf

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The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit ConsumerFinance.gov.