

Green Dot to Benefit from Industry Growth; Regulation Looms

Companies: ADP, COF, GDOT, WMT, NTSP

January 26, 2012

Research Question:

Will Green Dot's recent bank purchase, expanded retail footprint, and fallout from the Dodd-Frank Act be catalysts for continued growth?

Summary of Findings

- Ten of 12 sources expect continued growth in the prepaid card market which stands to benefit [Green Dot Corp.](#) (GDOT) as the dominant player.
- Areas for growth beyond the unbanked are within large corporations/government that are looking to reduce check fee costs. Two sources in separate silos cited government's move into using more prepaid cards.
- Government regulation is the biggest threat to Green Dot's dominant position.
- The [Consumer Financial Protection Bureau](#) (CFPB) may be worth monitoring more closely than Dodd-Frank for its impact on prepaid cards as it is a new agency with a broad reach that is already taking on payday lenders, and puts the prepaid card fee income stream and disclosure rules under attack.
- Green Dot's bank purchase was likely an effort to leverage/benefit from the Durbin Amendment, to embrace crossover financial services, and to realize efficiencies from issuing prepaid cards in-house. But, it is too soon to tell whether increased regulatory oversight of its banking venture will end up being detrimental to Green Dot.
- One industry specialist thought Green Dot could follow the path of [Capital One Financial Corp.](#) (COF) who started as a credit card lender but is now a retail and commercial lender, thus diversifying their revenue streams.

Silo Summaries

1) PREPAID CARD COMPANY EXECS & FINANCIAL SUPPORT COMPANIES

Three of four sources see growth in the prepaid card market, one specifying Green Dot's growth will need to be in the online market and another noting prepaid card adoption by government and the insurance industry. One source believes Green Dot purchased Bonneville Bank in order to avoid state regulations while a second believes the purchase was to control costs with regard to interchange fees, and a third source says it will give Green Dot control over the Durbin Amendment's regulatory requirements. One source speculated Green Dot will start offering short-term loans. Another source believes there is a new category of unbanked customers he labels as the 'debanked' which stands to benefit Green Dot as a market leader in prepaid cards.

2) BANK EXECUTIVES

Sources were split on the impact of Green Dot's Bonneville Bank purchase on Green Dot's market share. Our first source believes Green Dot's bank purchase will support their growth and market share because of the ability to add product offerings as a bank. Our second source believes Green Dot's bank purchase could hinder growth because of additional regulations that come with owning a bank. This source foresees the Consumer Financial Protection Bureau cracking down on prepaid card fee structures which will negatively impact Green Dot. But, The Durbin Amendment could benefit prepaid card companies if banks look for partnerships. Our third source expects growth in the industry and is seeing growing demand for pre-paid cards in her regional bank.

3) RETAIL STORE EXECUTIVES

Our two retail store executives expect growth in the prepaid card market to continue with one source seeing 5%-10% year-over-year growth in their own brand of cards. Both sources see the Bonneville Bank purchase as a positive. Sources believe the purchase will help their product speed to market and distribution, and both believe it will help Green Dot improve market share. One source says the Dodd-Frank Act could have a significant impact on the industry if fee limits were set too low not allowing enough revenue to cover the cost of providing prepaid card services.

4) INDUSTRY SPECIALISTS

All three sources cite growth in the prepaid card industry. Our first source believes the purchase of Bonneville Bank was intended to help Green Dot expand nationally without having to comply with state laws as set out in The National Bank Charter. Our second source sees the bank purchase as a positive as Green Dot will not need to outsource their card issuance, but the negative impact will be from exposure to more regulations. Our third source sees the bank purchase as giving Green Dot diversification, similar to Capital One's path.

	Pre-paid Card Industry Growth	Bank Purchase Impact on GDOT's Market Share
Prepaid Card Execs & Financial Support Companies	↑	↑
Bank Executives	→	→
Retail Store Executives	↑	↑
Industry Specialists	↑	↑

Background

Findings from Blueshift's September 2011 Green Dot [report](#) showed a growing demand for prepaid debit cards among the population of 60 million unbanked and under-banked. Green Dot is the clear market leader with its Wal-Mart Stores Inc. (WMT) [MoneyCard](#), strong brand recognition and largest retail footprint. New products and services are emerging in the industry and banks had little or no knowledge about providing services, leaving Green Dot in the leading position to service this growing market segment.

CURRENT RESEARCH

In this next study, Blueshift assessed whether Green Dot will see continued growth from its [Bonneville Bank acquisition](#), expanded retail footprint with partnerships expanding their services to [Plastyc](#) at 7-eleven's and [Blackhawk Network](#) locations, and impact from the Dodd-Frank Act. Blueshift employed its pattern mining approach to establish and interview sources in five independent silos:

- 1) Prepaid card company executives and Financial support companies (4)
- 2) Bank executives (3)
- 3) Retail store executives (2)
- 4) Industry specialists (3)
- 5) Secondary sources (3)

Blueshift interviewed 12 primary sources, including three repeat sources, and included three of the most relevant secondary sources focused on Green Dot's partnership with Plastyc, security concerns over Green Dot cards, and a new celebrity prepaid card competitor from [Suze Orman](#).

Silos

1) PREPAID CARD COMPANY EXECUTIVES AND FINANCIAL SUPPORT COMPANIES

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➤ VP and marketing executive, global payment solution company focused on mobile; repeat source

Green Dot and [NetSpend Holdings Inc.](#) (NTSP) should continue to grow in a path parallel to the growth in sales and interest in prepaid cards. Green Dot's bank purchase was not intended to stimulate growth but rather designed to control costs with regard to interchange fees. Market share among the prepaid card players has remained stable but [Meta Bank](#), a big player in prepaid, has lost market share in the wake of regulatory scrutiny. [Bancorp](#) [Inc./TBBK] and [First California](#) may be benefiting. Growth for prepaid is strong in India, Senegal and Kenya. In the U.S., large corporations that previously relied on checks are moving to prepaid debit. The source cited government and the insurance industry as two sectors moving into prepaid cards in an effort to severely cut operational costs.

- "We are seeing an increasing interest in prepaid cards and it is an area that is gaining market share within financial services. I believe we will see Green Dot and NetSpend revenues follow that trend as well."
- "Green Dot's purchase of a bank has had no impact on us. We thought it was more due to Durbin and GE Money in an effort to ensure stability to the interchange fee and to keep the cap more in line with where they want it to be. But it also was part of their vertical integration. It was more of a cost-control factor that may not have much impact on growth."

- “We view Green Dot and NetSpend as potential partners. ... Overall, Dodd-Frank is a positive for the prepaid segment. ... Given the state of the economy, we are seeing more and more under-banked customers and more moving away from banks.”
- “As for market share, the 800 pound gorilla is Wal-Mart and Green Dot has a play in that effort.”
- “[Green Dot] had already been partnering [with Blackhawk] for several years so this may have been more of a move to make it official.”
- “Prepaid cards are a key part of our offering through MasterCard Money Send. We most often partner with institutions and corporations and we serve as the operating partner behind the system. Our customers cut across many industries. For example, we are the enablers for a large name insurance company that offers disbursements to claimants using cards. It’s an easier and less expensive way to get the claimant the money they are owed. The insurance company may not announce that is how they are paying but we are the facilitator/enabler for the service, though you would not see our logo. They previously were making the payments by check but the prepaid card cuts costs quite a bit. It may cost \$6.00 to \$15.00 to issue a check but with the prepaid card the cost is closer to \$1.00 to \$2.00 per issue.”
- “We see more growth in some of the vertical areas of B-to-C and B-to-B. The insurance industry is a good example of those moving toward prepaid; anyone who has had to write a lot of checks. So the growth is with the bigger issuers. The government is a big growth area. Payroll cards are a growth area and both Green Dot and NetSpend have lines into that business. NetSpend a few years ago bought Skylight, a payroll company. But both are more focused on retail. In payroll, the biggest player is ADP [Automatic Data Processing/ADP].”
- “The offerings typically sell to customers who do not have a bank account and there are 60 million to 80 million un-banked or under-banked [in the U.S.], according to the Census Bureau, and the segment is growing. We see increasing interest in family money products purchased for or by the 18 year old and younger.”
- “The bigger market for prepaid is overseas with the fastest growth seen in India, Kenya and Senegal. I have no statistics on growth areas in the U.S. but we are serving all 50 states and in our work with that insurance company they have been working to promote the cards in specific regions. Number one is California and two is Colorado.”
- “In the near term, I don’t think the different chip and pin regulations in Europe are a big issue. They all still enable the traditional card swipe so it’s not as if you can’t use your card over there. The regulations have not come to the U.S. which is more debit based for pin transactions. It is more of an issue for the card processors. There is an added expense to change out the cards.”
- “Most of the banks do not play in the general re-loadable card space. They are more into the gift card and I think that will continue.”
- “We haven’t seen market share shifts among prepaid card companies. The shifts are more with the banks. Meta Bank has been losing market share because they came under scrutiny for certain practices and that prompted customers to go elsewhere. As Meta retracts we may see others come in. One beneficiary of Meta is that we may see one of the smaller banks come in. To date, Bancorp has been a big recipient of Meta’s problems. But there is room for others. First California has seen some benefit.”
- “We are seeing a lot of activity with mobile from banks, especially with the under-banked in other countries where people buy cell phones and use them for transactions. That’s a big part of what we do. Nokia is a big player in this space. They have added 200,000 retail agents to promote Nokia Money [in India] and we are likely to see them bring it elsewhere. In the U.S. and developed nations, most often we see the banks leading the mobile banking space by allowing customers to connect to the bank through a mobile application. We are seeing good traction in this area. Keep in mind, there is a large untapped sector. Some 30 million businesses offer goods and services but only six million accept credit cards so the potential is large. Then there are taxi drivers and small day care centers. Prepaid fits into these markets. The biggest players are [Square](#) and [Intuit \[Inc./INTU\]](#).”
- “We see lots of branded offerings like Suze Orman. I don’t think she will take anything away from Green Dot or NetSpend.”

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*VP & Marketing Executive
Global Payment Solution Company*

- “We have seen some management changes recently at Green Dot so you may want to poke around. They have spun it as being part of their natural evolution but management changes always make you wonder.”

➤ CEO of online banking system

Prepaid card signups are increasing in Atlanta, Chicago, New York, and Houston. However, there is less room in brick-and-mortar stores for Green Dot and other competitors to expand and grow, although Green Dot does have an advantage at brick-and-mortar locations with its dominant rack space. The bank acquisition will make it easier for Green Dot to have control over regulatory requirements of the Durbin Amendment. The Blackhawk Network connection may enable the newly-public company to show annual growth of 10,000 new locations to satisfy stockholders. In order to grow, Green Dot will need to move online. Companies that will do well are [Account Now](#) and [Plastyc](#), both involved in direct deposit and online. Green Dot stands to benefit from [Plastyc's](#) success as they are partners at 7-eleven distribution points. For the most part, celebrity cards aren't credible. There is a new category of people not using traditional banks called the 'debanked' either because they voluntarily left traditional banks or were dropped by banks which stands to benefit the prepaid card industry and Green Dot as the market leader in that industry.

- “Prepaid card signups are increasing in a handful of cities including Atlanta, Chicago, New York, and Houston. Houston stands out, where there are high signups. Thirty-six percent of Texans are unbanked.”
- “The only way Green Dot can really grow is online. Growth is difficult in brick-and-mortar stores because space is limited. There is only so much space in the stores, so much room for J-hooks. With 60 million unbanked, there is still plenty of growth for the market, but not in stores. Eventually, any channel ends up saturating.”
- “One of the reasons for a bank equation is to have control over regulatory requirements. But I'm not sure if the bank will make it easier for them. One thing that will help is part of the Durbin Amendment, which limits the amount of fees that may be received by banks with more than \$10 billion in assets. For larger banks, it is harder to be exempt. By buying the bank, Green Dot gets an automatic exemption.”
- “Blackhawk is a mystery to me. Green Dot already has good distribution in [Wal-Mart](#), [Walgreens](#), [7-Eleven](#). They already have 50,000 excellent locations. If they up that to 60,000, will it make a difference? But now that Green Dot is a public company, they may need to show growth each year, and Blackhawk gives them that growth for the year.”
- “Green Dot and NetSpend are the two biggest competitors in prepaid cards. Companies that are involved more with direct deposit and online are [Account Now](#), which has the most volume, and [Plastyc](#). [Plastyc](#) is growing fast. It is hard to catch up with Green Dot and NetSpend because they already have existing channels. It is also hard for a new entrant. You end up fighting for rack space with companies that already have a good dominant platform.”
- “...There is a risk of brick-and-mortar replacement by technology.”
- “Suze was very upset about the [comparison chart](#) of Suze Orman's card versus the UPSide Card, and she brought in her lawyers. But she didn't do a good job of shopping around and understanding the differences in cards.”
- “There are not many public figure heads who are very credible financially, and if you become rich, then you are no longer credible. I'd be skeptical of the others, [like Suze Orman].”
- “There are a lot of unbanked people around. They are either low income, financially distressed, with overdrafts; intimidated by banks; immigrant workers or illegals; or they work in a cash business.”
- “There is a new category, debanked. The existing banks no longer want them. Or the angry banked. One guy called me up, and he said he was overbanked. He had money in a number of banks, and wanted to drop them all. He was going to sign up with us.”
- “We want to be an online bank that is cheaper than a bank. We are not quite there yet, but we are working on it. We are competing with banks and providing customer service. After all, we all connect to the same network, the

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CEO, Online Banking System

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[VISA](#) and [American Express](#) cards. It's like using cell phone space; the companies all use the same space. The difference is customer service; it should be a top priority. It is very important. And that will be the difference."

- "We are interested in young students. They are very comfortable online, and they would prefer not to set in banks."
- "The [UPside prepaid business card](#) is really competing with the Green Dot card. But UPSide users can download money using Green Dot's Swipe&Load at 7-Eleven stores. Green Dot also makes money by licensing that technology."
- "Sixteen million Americans are underbanked or unbanked. They don't have checking or credit cards either because they are too young, have poor credit or no credit rating, or they can't afford the high fees."

➤ Sales and marketing manager of check cashing agency, New York City

Cards with fewer fees will do better in the future and prepaid cards will continue to gain popularity as the public tires of traditional banks. Prepaid cards are popular with college students and tourists. Green Dot and NetSpend are popular prepaid cards along with a handful of prepaid Visa cards, including CashZone, which allows direct deposit. Some check-cashing agencies sell prepaid cards, but it is not a big part of their business.

- "The cards with the least fees will do well. People shop around; they are trying to be careful with these cards. Western Union is expensive, so they try to avoid that option."
- "[The public] is sick of the banks, so these cards will become more popular. Our stores sell 60 to more than 100 a week. We sell more on Thursdays and Fridays; when people get paid, they tend to purchase more."
- "Green Dot and NetSpend are popular prepaid cards in New York. You do see Green Dot in all the stores around the city. Other popular cards are the [RushCard](#); I think people like the different colors and Russell Simmons. Also the [Excella](#) and [CashZone](#). CashZone does direct deposits, so I think it is more popular than Rush or Excella."
- "We have our own card; each company has their own type of card. We use NetSpend and [Nexis](#), [Mastercard](#), and VISA. But it is not a big part of our business."
- "All types of people use these cards, young and old, male and female. There is no one profile in this city. They are popular with the college students and the tourists. The tourists go crazy, the way they buy."

➤ Director of operations, check cashing service

The prepaid debit market is capped out; everyone who wanted a card has one. Green Dot acquired the Bonneville Bank to avoid state regulations. The company may also be interested in starting short-term loans using the cards. This would make the cards more useful and open the market some, although the effectiveness of short-term lending will depend on future regulations. The Dodd-Frank Act has had no lasting effect, only a short-term increase in consumer demand for prepaid cards. Blackhawk gives Green Dot a little more visibility. This check cashing service loses money on NetSpend transactions but carries the card as a necessary service to customers.

- "I have heard that the prepaid debit market is capped out. The natural market is already filled. Anyone who needed a card, like the underbanked, has been presented with a card."
- "The primary reason Green Dot went with a bank was for state preemptions, which may prove helpful."
- "Green Dot may also start offering short-term loans [using the cards]; this would be an interesting perspective. The cards could be used as a delivery method for a loan. This would make them more useful and open the market some."
- "NetSpend has the largest number of cards out there, and Green Dot is trying to cut into that market with more visibility [Blackhawk]."
- "Dodd-Frank has really had no effect. It created more of a [prepaid card] demand of consumers for a while."
- "Wells Fargo is the largest bank with the least known figures. Both Wells Fargo and US Bank offer cash advanced loans. People are unhappy with bank fees, but credit unions are starting to raise their fees."
- "We use NetSpend prepaid cards, so in essence, we are a direct competitor of Green Dot. But NetSpend is not our primary product; it's really ancillary for us. We lose money on NetSpend transactions, maybe 5%. We get some revenue from the cards, but we carry them more for necessity. Everyone carries them, and we have to offer that service for our customers."

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2) BANK EXECUTIVES

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➤ VP of card services for a regional bank with 200-plus branches in two states

Green Dot's bank purchase will stimulate additional and continued growth and ultimately increase market share. Dodd-Frank has not yet impacted the industry but Durbin will increase costs for all institutions because it requires that companies implement new card security measures such as adding another chip and backup network.

- "Green Dot's purchase of a bank will help its growth if only by extending its reach to crossover services in the financial services industry. It definitely should increase their market share although I don't think that has happened yet. I'm sure they will see ongoing systemic growth because they are adding and expanding their product offerings with a bank purchase."
- "The interchange fee and Dodd-Frank have not impacted anything yet. But there will be extra expenses for us and others since you are required to run a second network and put a second bug on the back of the cards."
- "[NetSpend is] just another player in the prepaid market. No one in our area is gaining market share although more and more retailers are trying to offer prepaid cards. Our local grocer, HEB has one and G.E. supports it."
- "We have been in the prepaid card space for six to seven years and our program is in three areas: prepaid payroll, instant issue/gift cards and re-loadable cards. We will be dropping the instant issue later in the year."
- "Sales are flat on the gift cards and that is why we are planning to sunset the product. With instant re-loadable, we can still take advantage of some of the new laws. But the products have not really gotten off the ground with regard to growth because the products are for our customers only. So it's not as if we can say to anyone outside of our account holders, 'Hey on the way to the mall, why not pick up one of our gift cards.'"
- "We still have a steady flow of incoming card purchasers but there is no big push to promote them or market them. The products are not at the top of our minds for those in the selling branch."
- "I would say consumer interest in the cards, in order of popularity is: general purpose, then payroll and then gift. Sales of the instant gift cards are flat. The general-purpose card sales are cyclical particularly around Mother's Day and for students going off to college. The profile of the customers buying our cards are mostly parents buying cards for their kids."
- "In the next three to six months, we would like to see an uptick in sales of our general purpose card. With Mother's Day and graduations, we may see some continuing benefit but after that, the plan is to sunset the program."
- "There has been a lot of crossover since Dodd-Frank so it's not a big shocker that Green Dot bought a bank. The day after Durbin passed Wal-Mart ran a full-page newspaper ad marketing their new prepaid card. But if you read the fine print on some of these cards, there are a lot of rules. They have a 12-page document outlining the terms of use and fees. There is a \$3.95 a month storage fee and a reload fee of \$1.50. There are all these surcharges if you read the fine print on these cards. Our card only costs \$5 to purchase."

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*VP of Card Services
Regional Bank*

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- “Suze Orman has got a strong public presence and a national image with her radio and cable talk shows. She ... has established herself as an authority. I was absolutely surprised when they announced getting into the prepaid market but it also fits with her mode of operating as a consumer advocate who is trying to help people be smarter about how they handle finances. I don’t know that she will impact Green Dot or NetSpend but her card gives her the option of offering new add-ons to her existing products and marketing.”

➤ VP prepaid division, financial institution member organization

Green Dot’s bank purchase could hinder growth because banks are privy to stringent government regulations. Additionally, the new Consumer Financial Protection Bureau is poised to crack down on the prepaid card fee structure and disclosure rules, which ultimately would level the playing field between banks and prepaid card companies, now exempt from the burden of certain disclosures. That would possibly reduce Green Dot’s revenue. Small to midsize banks continue to exit the prepaid sector, making their business a growth opportunity for Green Dot via partnerships. But Green Dot must reposition itself and move from marketing its products as prepaid cards to person-to-person transactions. Two other growth areas are travel cards and payroll cards but Green Dot and others would need an additional security chip on cards and develop partnerships with banks.

- “Our first reaction to the Green Dot purchase [of Bonneville Bank] was seeing it as a pre-emptive strike. We are waiting to see how they leverage the asset. We hope they do not leverage it in a predatory direction with excessive fees and non-disclosure of fees.”
- “Will Green Dot continue to thrive? I don’t think they will die of natural causes but they could die of regulation. The CFPB could be poised to regulate the revenue right out of Green Dot’s core product.”
- “On the question of acquisition, it certainly reflected their health initially. But [Green Dot is] now perceived as a possible threat. They were a non-banking competitor but now are a bank competitor. There is positive in their buying a bank in that they will now probably be regulated as a bank. Non-bank companies operate on a different playing field that made it difficult to compete. But the FDIC requirements will support leveling of that playing field and they will have to be somewhat aligned with what we offer. I’m sure they will be as tickled about the regulations as we are. The biggest threat to Green Dot now is regulation [FDIC and CFPB].”
- “The CFPB is the other important part of this and with Richard Cordray as director he can extend his power of regulation from the banks to the non-banks. [Green Dot’s] products and current fee structures with prepaid cards will have to be very self-explanatory and everything will have to be disclosed. CFPB’s first line of defense will be disclosure and if they still see predatory practices, there will be fee setting. As for Green Dot’s traditional model, the CFPB will be very tough for them to deal with because there are a lot more rules.”
- “The Durbin Amendment, which was the swipe fee piece of Dodd-Frank, gave the prepay industry a pass because they got an exemption from the debit/interchange fee. That was a positive for Green Dot and the prepaid industry. But there will be new eyes toward prepay looking at how you offer your products. Now we can’t tell how much longer that exemption will stand. [Banks] would like to see all interchange fees regulated. The fee cap of 21 cents does not apply to prepay. We, and customers, are very skittish about additional consumer fees. That said, prepay adds extra fees all the time. A \$5 fee might suddenly jump to \$7 or \$10. The CFPB will be looking to reduce the number of ways card companies can charge fees and they will want all of the charges easily discovered and readily disclosed on the prepay side. The fee income stream will be under attack and I can guarantee you the reload fees will be under attack and thoroughly scrutinized.”
- “I don’t yet know if Green Dot fully wants to go toward managing bank accounts. At this point, I don’t think Green Dot and NetSpend have positioned themselves as a bridge. They are still positioned to just help unbanked consumers get their money out from under the mattress, not

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*VP of Prepaid Division
Financial Institution Member Org.*

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necessarily as a bridge to get the money from under the mattress and into a bank account.”

- “Most small to midsize financial institutions have a different way of looking at prepaid. In most categories, with the exception of the general-purpose card, they offer them to provide a service to customers. But they don’t make any money on them. They don’t even really market the cards, although 95% have them as a product. Just because you offer a product does not mean you are pushing it. The people that normally lead in offering new products have bailed on these programs. The number one reason is lack of sales. Prepaid is seen more as a retail product.”
- “Until Durbin, prepaid was a market in decline on the bank side, at least among the community banks. If you look at the surveys, the numbers suggest this may not be a product that is in growth mode right now.”
- “Durbin is a category for growth and could have banks looking to partner and looking to offer accounts with a company like Green Dot.”
- “Smaller banks are more likely to offer something like a travel card than the larger banks. This tells me they may be in decline. Most nations, except the U.S., Mongolia and Kazakhstan, require no chip on the trailing edge and as a result, you find that US debit cards are not working that well overseas. So if you offer a card with a chip, it could drive the sale of travel cards and be valuable. The whole community has to change this and it will because of Durbin. Green Dot does not yet have one but I suspect they have one in the works. Visa has recommended it.”
- “The largest technology provider is [Mondex](#). The chip would benefit security and store more information and encryption. Right now, they all have readable magnetic strips, which is antique. The banks that offer them largely partner with one supplier and that is FIS. Another competitor may be a company like Travelex, a major currency company that pioneered the chipped travel card so it’s a different kind of company compared with Green Dot. You would not see them in a 7-eleven.”
- “I don’t think Green Dot works with corporate funded customers. But the pay rules support direct deposit to payroll cards so this could be a big growth area for someone like Green Dot. Among the large banks, 14% offer payroll cards. On the second and third tiers only 4% offer them and among the smallest banks zero percent offer them so when it comes to payroll cards, size matters. Those who offer payroll cards are thrilled about the exemptions and have been aggressively marketing them. The banks know the corporate funder is good, the risk is less. The problem is the smaller banks do not have the resources to serve the corporate customer. The banks that are doing it are making significant revenues. So that’s where the growth is for a Green Dot to be able to serve the smaller banks.”
- “The biggest challenge for banks as sellers of prepaid cards is the number of disclosures, which is the difference between the banks and a Wal-Mart. There are certain disclosures a bank must provide. Under the bank requirements, it would be onerous for Green Dot under their current business model. Imagine going in to a 7-eleven and having to provide all these disclosures every time you sell a card. That’s an issue. You would have to train the staff and you really can’t spend time training a group of personnel for something that may only sell twice a year. That’s why banks are exiting the market.”
- “Again, until last year, they were moving away from prepaid and it was of lower importance. That changed with Dodd-Frank and the general purpose prepaid. I would be really bullish on having Green Dot facilitate the person-to-person pay transfer. The traditional check is going away so it stands as the last frontier. Green Dot is moving into money orders but if they were to move into person to person, the community banks and others would be very bullish on partnering with them. Person to person has to evolve in a way that makes the information worthless outside the context of the transaction. But it is a growth area for a Green Dot, more so than the money order.”
- “Green Dot calls itself and markets itself as a prepaid card and both banks and customers are wary of that. It is about marketing. They should have an aggressive marketing strategy to position themselves as a person-to-person card and that would be a better message to banks. A big factor in their growth comes down to if they can reposition themselves as a P-to-P player and not exclusively as a prepaid card provider.”
- “The impact of Orman is to serve as a midwife for the unbanked to move into the banking world. I think she sees prepaid as a remedial product and a step toward banking. The challenge now for Green Dot is how to develop partnerships with banks. Banks would be positioned to partner with them but some of the banks these

Durbin is a category for growth and could have banks looking to partner and looking to offer accounts with a company like Green Dot.

*VP of Prepaid Division
Financial Institution Member Org.*

companies now partner with are banks that have had some compliance problems such as Key Bank and Wood Forest.”

➤ **Assistant vice president and branch manager of a Minnesota regional bank**

Sales of prepaid cards have risen at this Minnesota bank in the past couple of years, especially as the economy lags and many people in this mining community do not have checking accounts. This particular bank uses Visa prepaid cards, which she believes are gaining market share with customers using both re-loadable cards and one-time prepaid cards, either for themselves or as gifts. An increasing number of customers are asking for cards and she expects this trend to continue.

- “The number of customers asking for prepaid cards is increasing because we have advertising throughout the bank, around the holidays, to let customers know we offer these.”
- “I would say [sales of prepaid cards] have increased in the past couple of years. We sell gift cards around the holidays.”
- “We have not had any complaints about prepaid cards.”
- “Prepaid cards are convenient for the customer and a lot of people get them because they cannot really handle a checking account, so they put money on that card so they can use it wherever. There are \$100 cards or \$200 cards, any amount customers are looking for. They really are for the people who cannot handle a checking account. We also have gift cards where you can put \$20 or \$25 and it is a one-time card.”
- “Visa is probably gaining [market share]. Usually I see Visa cards. Wal-Mart has them, and Menards, a hardware/lumber/appliance chain, has them too.”
- “The majority of customers buying prepaid cards are people over 50, because they are travelling more and using them. Or, it is a grandma or aunt or uncle buying gifts for the kids.”

3) RETAIL STORE EXECUTIVES

Our two retail store executives expect growth in the prepaid card market to continue with one source seeing 5%-10% year-over-year growth in their own brand of cards. Both sources see the Bonneville Bank purchase as a positive. Sources believe the purchase will help their product speed to market and distribution, and both believe it will help Green Dot improve market share. One source says the Dodd-Frank Act could have a significant impact on the industry if fee limits were set too low not allowing enough revenue to cover the cost of providing prepaid card services.

➤ **Drugstore retail store executive who has been in his position for over 10 years; store carries Green Dot cards and reloads several others under the Green Dot network**

This retailer has experienced positive year-to-year sales since they began carrying Green Dot cards 10 years ago. He expects the same during the next three to six months. Collaborations with others such as Amazon and PayPal would help speed growth. Green Dot’s purchase of Bonneville Bank is a natural move that allows them to make decisions faster, and this speed to market will help maintain their already dominant market share. The Dodd-Frank Act fallout is still to be determined, but increased involvement in the gift-card and debit-card categories may be negative for retailers or the third parties that supply to them. Unredeemed cards across the industry amount to millions of dollars annually, and this retailer hired a company to deal with the liability, though some states see these funds as potential revenue and are attempting [escheatment](#) laws.

- “In the next three to six months, our Green Dot sales growth will remain positive. I am not hearing anything that would change that.”
- “I definitely think Green Dot has options for speeding growth. They are collaborating with companies like PayPal and Amazon. Amazon doesn’t necessarily have its own vehicle ... so Green Dot is the perfect card for that.”
- “[Green Dot] has flooded the [retail] market. What’s next is the set of offerings—getting a new customer base and figuring out how to keep them. They are all no contract cards. Strategically, I see Green Dot focusing less on retailer acquisition but feature acquisition: making the experience better, showing customers what else they can do with the card.”

Green Dot is by far the leader and market share holder in prepaid debit cards. ... No one comes close to them and you can’t compare them to anyone else.

Drugstore Retail Store Executive

- “Green Dot is by far the leader and market share holder in pre-paid debit cards. ... No one comes close to them and you can’t compare them to anyone else.”
- “Customers are finding more uses for the cards: parents are giving them to college students; people who want to stick to tighter budgets; higher-income customers who buy don’t want to use their credit cards online.”
- “[The purchase of Bonneville Bank is] a natural move. They can ... make decisions, get back to the retailers faster. It’s all about speed to market. Kudos to Green Dot.”
- “[The Impact of Dodd-Frank] remains to be seen. Debit cards are exempt. ... Nobody wants to be regulated by the Fed. ...The first way to kill a good program is to get the Fed involved. If they do get involved with gift cards in general, retailers or the third-party will pull from the retailers.”
- “New Jersey Governor Christie tried to make up revenue by collecting on cards that had not been redeemed, collect on escheatment. Those sit as a liability [for the issuing company] until redeemed. ... It depends on the state but typically [that’s the case] for five years. We’ve hired an outside company to manage it. How much money that is depends on the size of the company. A few years ago [unredeemed cards] for Home Depot amounted to something like \$10million per year.”
- “Green Dot and NetSpend have good service. They rely on customers coming back. The average life of a card is seven to eight months, so if they don’t provide the service, they won’t come back.”
- “[Suze Orman] is no dummy. People understand what her brand signifies: fiscal responsibility and trust. Customers buy based on trust of a brand and the person. But it is just another branded card. She has to put a twist on hers to be customer friendly; people know what she’s about. She may be able to help people into [better] credit—but responsibly. It’s good overall for the business. If she gets approved, it’s easier for [other pre-paid companies] to do the same thing. But if you get 15-20 doing the same thing, it confuses the customer.”

Customers are finding more uses for the cards: parents are giving them to college students; people who want to stick to tighter budgets; higher-income customers who buy don’t want to use their credit cards online.

Drugstore Retail Store Executive

➤ Merchandising and financial services executive for national supermarket chain

This retailer has seen 5%-10% year-over-year growth in their own prepaid cards. Green Dot’s bank purchase will help their distribution and could help increase their market share. The Dodd-Frank Act’s affect on the industry will be significant if it means limiting the fee amount prepaid debit card companies can charge to the extent that they cannot cover the cost of providing the service.

- “Our [prepaid card sales] are up 5%-10% year-to-year.”
- “We have had [our card] for a few years and it is gaining popularity.”
- “Green Dot is the market leader of pre-paid, reloadable cards. What we have is complimentary, another offering.”
- “Green Dot’s bank purchase will give them more power, could help in distribution and market share. It will affect them positively.”
- “The Dodd-Frank Act could have significant impact if it means limiting the fees that can be charged—if we can’t collect fees to cover the costs.”
- “The Approved Card from Suze Orman is another competitor in the market for Green Dot. But my initial thought is that it will not have that big of an impact.”

4) INDUSTRY SPECIALISTS

All three sources cite growth in the prepaid card industry. Our first source believes the purchase of Bonneville Bank was intended to help Green Dot expand nationally without having to comply with state laws as set out in [The National Bank Charter](#). Our second source sees the bank purchase as a positive as Green Dot will not need to outsource their card issuance, but the negative impact will be from exposure to more regulations. Our third source sees the bank purchase as giving Green Dot diversification, similar to Capital One’s path, and control over card issuance. One source noted the FDIC is pushing traditional banks to issue smaller and shorter loans while another believes [MoneyPak](#) gives Green Dot an advantage as the only large scale solution for reloading but expects to see more competition in the prepaid card arena because of the low barriers to entry.

➤ **Professor of Law with expertise in consumer protection, consumer credit and lending; repeat source**

Green Dot is not trying to enter retail banking by buying a bank. Instead, they are trying to preempt state laws and regulations, which are very punitive to prepaid debit cards. The Durbin Amendment of the Dodd-Frank Act has stimulated growth in the industry, and as long as that amendment is still valid, Green Dot and NetSpend will continue to grow.

- “My speculation about Green Dot and its acquisition of the bank and Blackhawk connection is really that they are looking for regulatory preemption of state laws. The National Bank Charter makes it easier for Green Dot to expand nationally without having to comply with a bunch of state laws.”
- “So long as the Durbin Amendment is on the books, Green Dot and NetSpend will continue to grow. Durbin has stimulated growth in the prepaid debit card industry.”
- “It is hard for me to think that Green Dot is really trying to enter retail banking.”
- “The states are getting very punitive on prepaid cards, so there’s a real threat there. [State laws] are dicier now in the post-Dodd-Frank era, and I think [Green Dot] is more concerned about individual states piling on regulations.”

My speculation about Green Dot and its acquisition of the bank and Blackhawk connection is really that they are looking for regulatory preemption of state laws. The National Bank Charter makes it easier for Green Dot to expand nationally without having to comply with a bunch of state laws.

*Professor of Law
Consumer Protection Expertise*

➤ **Banking reporter for an online financial information aggregator**

The bank acquisition was a good move for Green Dot as they will save money by not outsourcing back-end banking operations; however, Green Dot will be under more regulatory scrutiny. Blackhawk Network will give Green Dot a bit more exposure, and the Dodd-Frank Act will allow reloadable prepaid debit card companies to make more money on each transaction compared to non-reloadable cards that national banks issue. The prepaid card market has been growing consistently the past few years and Green Dot holds the only large-scale solution for reloading, MoneyPak. But, the future holds more competition as the prepaid card market has low barriers to entry.

- “I’d say [the bank acquisition] is a good move for Green Dot. Most of the prepaid card providers have to outsource the back-end banking operations to third-party providers such as Bancorp Bank, so they’ll probably end up saving some money this way. The downside I would see is increased regulatory scrutiny. Other alternative financial service providers, such as Wal-Mart, have faced regulatory questions when it comes to officially getting into banking, so it will be interesting to see what happens with Green Dot there.”
- “Regarding Blackhawk, more exposure can’t hurt.”
- “My understanding about Dodd-Frank is that the cap on debit interchange fees does not apply to reloadable prepaid cards, so I believe [Green Dot] will gain an advantage over traditional debit cards in terms of profitability. If large national banks are limited to 24 cents or so per debit transaction and Green Dot can charge 44 cents, it’s clear the latter is going to have an easier time making money on debit.”
- “The market for reloadable prepaid has been growing consistently over the last few years.”
- “I think the whole prepaid debit card industry is really growing right now, since the new regulatory environment really makes it harder for big national banks to make money serving less affluent customers. Those customers won’t be able to meet higher average balance requirements being put in place at the big guys, and won’t be willing to pay a bunch of monthly maintenance fees to carry a debit card. So I do see some growth for prepaid as some of those customers are pushed into the prepaid space.”
- “American Express’s prepaid debit card only charges one fee for ATM

I would say that Green Dot has the advantage of a huge presence in retail locations, and the ubiquity of its MoneyPak prepaid reloading solution. One of the big hurdles prepaid cards face is that because they lack branches, it’s difficult to load cash on the cards. Really the only large-scale solution for a lot of prepaid providers is the MoneyPak offered by Green Dot.

*Banking Reporter
Online Financial Info Aggregator*

withdrawals, but it lacks a direct-deposit solution that a lot of prepaid card providers offer as a solution for regular users to make fee-free loads. Wal-Mart's MoneyCard offers pretty competitive pricing, as does The Approved Card being offered by Suze Orman."

- "The problem I see is that there's a very low cost of entry into this industry right now. Institutions like Bancorp Bank that offer turnkey debit card services make it easy for practically anyone to start a prepaid debit card program. As a result, Green Dot faces a lot of competition."
- "There are not too many barriers to entry in the prepaid debit space, so I think we're going to see more celebrities like this get in. It will be a crowded marketplace."
- "I would say that Green Dot has the advantage of a huge presence in retail locations, and the ubiquity of its MoneyPak prepaid reloading solution. One of the big hurdles prepaid cards face is that because they lack branches, it's difficult to load cash on the cards. Really the only large-scale solution for a lot of prepaid providers is the MoneyPak offered by Green Dot."

➤ **18-year veteran financial reporter; repeat source**

He expects sales of prepaid cards to continue to increase as lawmakers and consumer activists push for more services to the under-banked. He sees Green Dot's bank acquisition as a positive business diversification story as well as giving them more control over their prepaid card issuance. Several banks have been more active in issuing "second chance" bank accounts and a push by the FDIC to get traditional banks more engaged in short-term and small-dollar loans. Suze Orman should boost the awareness of the industry, but it depends on the quality of the product and on the endorsement.

- "I would expect the trend to continue to increase in regards to sales of prepaid cards for the next three months."
- "If we are talking specifically about the kind of prepaid cards that the underbanked or unbanked might purchase, I certainly think it is becoming more common and people are more familiar with them, at least within that specific market. I am not sure how mainstream they are, though."
- "Green Dot's purchase of Bonneville Bank makes it easier for Green Dot to conduct its prepaid business, if it can now issue the cards itself instead of having to rely on a partner to do so. It brings the service in-house, which gives it more flexibility and control. The question is whether it intends to maintain other services by that bank. Capital One used to be just a credit card lender, but it is now a major retail and commercial lender in many East Coast communities. That has clearly strengthened its finances and business potential. It means that the company is stronger and better able to weather business cycle changes, since it is more diverse. The same could happen with Green Dot."
- "Regulators, lawmakers and consumer activists are pushing banks to provide more service to this market, so I would think the business would increase. Having said that, traditional banks and credit card companies have not had a lot of success in serving the underbanked and unbanked; if they were, there would not be many people in those categories, and we know that is not the case."
- "I know there has been a big push by the FDIC and others to get traditional banks more engaged in providing small-dollar, short-term loans, as a better alternative to what are seen as predatory payday loans. That is one big area. Credit unions, of course, are better in this area, since their loans are smaller in dollars anyway, but you still have to be a member, so that does not work for someone who is otherwise unbanked."
- "Also, there are a few banks that are more active in 'second-chance' bank accounts, for customers who already have black marks on their records for bouncing too many checks, etc., and who are on ChexSystems as a result. KeyBank is one that I know in particular, but there are others."
- "I think the impact will not come from [the Dodd-Frank Act] itself but from the Consumer Financial Protection Bureau, once it is really up and running now that it has a director and can truly exercise its broad authority. Even there, it seems a big part of the focus will be on

Green Dot's purchase of Bonneville Bank makes it easier for Green Dot to conduct its prepaid business, if it can now issue the cards itself instead of having to rely on a partner to do so. It brings the service in-house, which gives it more flexibility and control. The question is whether it intends to maintain other services by that bank. Capital One used to be just a credit card lender, but it is now a major retail and commercial lender. ... The company is stronger and better able to weather business cycle changes, since it is more diverse. The same could happen with Green Dot.

Veteran Financial Reporter

ensuring clear and complete disclosures and fairness to consumers, so the impact may simply be more regulation and oversight – unless the companies start making mistakes or behaving badly.”

- “I know that payroll cards or other nontraditional uses of prepaid cards are increasing. It is becoming an easy, efficient, and cost-saving means for employers or governments to dole out paychecks or government benefits, so more and more companies or governments are adopting that.”
- “Orman has a name brand and cache that is bound to increase the awareness of the industry, and the product. On the other hand, it depends how good the product and endorsement are. One word: Kardashians.”
- “There is clearly some skepticism out there about Suze’s new product, and the fees attached and other limitations. Nice of her to get involved, but she is putting her own reputation at risk if it turns sour and gets widely panned, especially by consumer advocates.”

Secondary Sources

Our first article discusses the partnership between Plastyc and Green Dot which brings Green Dot’s Swipe&Load functionality to more than 6,500 7-eleven stores. Our second article showcases negative consumer reviews on Green Dot cards, specifically security concerns over electronic theft of the card’s funds. Our third source highlights a new celebrity prepaid card competitor, Suze Orman’s The Approved Card.

➤ Jan. 17 Payments Market article

Plastyc announced a partnership with Green Dot to offer UPSide Visa holders the ability to load cash to their card using Green Dot’s Swipe&Load functionality at more than 6,500 7-eleven stores. Plastyc adds no additional fees but the Swipe&Load service cost \$4.95 or less.

<http://paymentsmarket.com/news/adding-cash-upside-visa-prepaid-cards-just-got-easier>

- “Plastyc announced today that effective immediately, UPSide Visa cardholders can load cash onto their cards at more than 6,500 7-Eleven stores throughout the U.S. with a simple swipe of their card at the stores’ cash registers.”
- “The cashier swipes the card and the money is added to the card on the spot.”
- “This valuable feature is made possible through Plastyc’s partnership with Green Dot Corp.”
- “Using Green Dot’s Swipe&Load functionality allows UPSide Visa cardholders to immediately use the deposited cash to pay bills online, shop anywhere Visa is accepted, top off cell phone minutes, and even issue paper checks from their mobile or online account.”
- “The Swipe&Load service and Green Dot MoneyPak each cost \$4.95 or less. Plastyc adds no additional fees.”

➤ Jan. 4 Consumer Affairs consumer reviews

This website gives numerous examples, three of which are detailed below, of people purchasing Green Dot cards and attempting to use them only to find out the balance on the cards had been stolen even though they were the only one’s in possession of the cards.

http://www.consumeraffairs.com/credit_cards/green_dot_prepaid.html

Complaint #1; Jan. 4, 2012

- “My daughter went to the Walgreens ... and purchased two Greendot cards, because it was told to her that the limit is \$500 per day. So she purchased one for \$500.00, and one for \$100.00, and paid the \$4.95 for each reloadable card purchased.”
- “I then spoke to a customer service rep, and they told me that my funds were put on someone else’s card.”
- “I asked how that is possible, when the card was just scratched off, and no one else had access to the card number, so I would like the funds to be placed on my card, like they are supposed to be.”
- “I have come to find out that, not only was the \$500 card money was stolen and placed on someone else’s card, but the \$100 that wasn’t supposed to be uploaded until the next day, because of the \$500 a day rule, was gone, and placed on the same card. ... Three days later, a call was made to my daughter telling her that the case was closed, because the funds have been used by the person that they placed my money on. I then made a call back to the Greendot company, to tell them the case is not to be closed, until the money is refunded to the right person, and I was told by the rep that I need to file a police report, and they will subpoena the records, and press

charges against them, and I asked them why am I the one going after them, and it is their company that has the fault. They need to go after them, not me.”

- “This is unacceptable, because for one, I don't have \$610.95 to just give to someone else for their pleasure. I am the victim here, and I am very angered that that they are getting away with taking people's money.”
- “I will report them to the BBB, and encourage any and everyone to contact them with your complaint. I am willing to talk to a lawyer. If anyone is willing to take my case, please call the number provided, because as of yet, I have not been rewarded my money, and it is now four days later.”

Complaint #2: Dec. 27, 2011

- “I bought a Green Dot card and added \$100.00 to the card. I ordered something online and never received the product. When I called them they said the card was active and they couldn't process my order; but when I check the balance on my card the money is gone. Now I've tried for many hours trying to talk to someone but haven't succeeded in doing so. Now what do I do? I would really like to be refunded but no one wants to help.”

Complaint #3: Nov. 22, 2011

- “I purchased a Green Dot card and went online to their MoneyPaks bill pay to pay my phone bill. They took the money off my account but my bill was never paid. I have been on the phone for numerous hours on hold and disconnected and they still haven't paid my phone bill. My services will be disconnected. I am a single parent living on a low income I can't afford to have money basically taken from me.”

► Jan. 9 Marketplace Business article

This article discusses financial celebrity Suze Orman's entrance into the prepaid card market. Orman hopes to prove that prepaid cards can be a tool some use to put them on a path towards financial success. Orman also wants consumers to be able to build and improve their credit scores through the use of debit cards, which would cause a shake-up in the reporting industry.

<http://www.marketplace.org/topics/business/suze-orman-introduces-prepaid-debit-card>

- “[Suze Orman] is, quite possibly, the biggest personal finance celebrity there is.”
- “So the news today that she's breaking into the prepaid debit card business is actually news in certain circles. Orman's promising low fees and free credit reports for her customers.”
- “The Approved Card works like this: Deposit at least \$20 onto it every month, and pay just \$3 a month. Use the card to pay bills and shop.”
- “Now, other celebrities have put their faces on prepaid cards, but Orman is different. She has a consumer finance show on CNBC. Viewers rely on her for advice. And now she'll be peddling a prepaid card. Conflict of interest?”
- “I don't know if she's in it to make money,’ said Lauren Saunders, managing attorney at the National Consumer Law Center.”
- “[Saunders] met with Orman a few months ago. She believes Orman really is on a mission ... to prove that prepaid cards can be a viable option for people and can help them on the pathway to financial success.”
- “Orman's card offers free credit reports from TransUnion. She wants consumers to be able to build up their credit scores through debit cards.”
- “I don't know if we could quite call it a game changer but it certainly would shake things up,’ said Michelle Jun of Consumers Union.”
- “But Jun says, even in her missionary zeal, Orman does charge some extra fees. And you should read the fine print before you sign up.”

Orman's card offers free credit reports from TransUnion. She wants consumers to be able to build up their credit scores through debit cards.

Marketplace Business Article

Next Steps

We will monitor the impact of any prepaid card regulatory efforts proposed by the CFPB. We will also continue to watch the positive and negative benefits Green Dot realizes from their purchase of Bonneville Bank. We will follow the impact of Suze Orman's prepaid card on the industry in terms of credit agencies taking into account prepaid cards in their FICO score

calculations. Finally, we will monitor the rate at which corporations and government entities replace traditional checks with prepaid reloadable cards.

Additional research by Carolyn Marshall, Renee Eucher, Lindsay Gadsby and Cheryl Meyer

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