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## Discussion of

Samolyk, Critchfield, Galindo and Watson. *“Checking Account Activity, Account Costs and Account Closure Among Households in Low-and-Moderate Income Neighborhoods.”*

Wilshusen, Hunt, van Opstal and Schneider. *“Consumers’ Use of Prepaid Cards: A Transaction-Based Analysis.”*

at the Third Annual FDIC Consumer Research Symposium

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October 17, 2013

*Opinions expressed in this presentation do not necessarily reflect the views of the FDIC nor its Board of Directors.*



# Contributions

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- Both papers use transaction-level data for a very large number of accounts to explore consumer usage patterns and associated fees for financial transaction products: checking accounts and prepaid debit cards.
- These are timely explorations in light of the current policy interest in whether/how prepaid cards are/can be good substitutes for checking accounts:
  - May 23, 2013: CFPB issued Advance Notice of Proposed Rule-Making “seeking comment, data, and information from the public about general purpose reloadable (GPR) prepaid cards...”
- One area of concern is prepaid debit card fees:
  - New York Times, Jun 30, 2013: “Paid Via Card, Workers Feel Sting of Fees.”
  - New York Times, Oct 9, 2013: “Prepaid Debit Cards Shed Some Fees, But Face Scrutiny.”

## Discussion of Samolyk et.al.

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- Clearly very labor-intensive data management with transaction-level data for such a large number of accounts for up to a 15 month timeframe.
  - A lot of effort went into thinking about usage characteristics that could affect fees and involuntary account closure as evidenced by the large number of account-usage explanatory variables used in the analyses.
- Use of multivariate econometric techniques to estimate relationships that take into account the simultaneous effects of many different explanatory variables.
  - Authors take care to discuss and show how correlations between different explanatory variables can lead to potentially erroneous results if some of the variables are excluded.
- Authors careful to note that their analyses encompass a large number of accounts at a small number of institutions .



## Discussion of Samolyk et.al.

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### Questions and Suggestions:

- Panel data transformed into cross-sectional data for the analysis
  - Lose a lot of information such as timing and variation that complement the levels variables.
- Analysis sample and 90-day account closure window
  - Analysis sample is a subset of the full random sample of accounts for which authors received data.
  - Why 90-day account closure window (as opposed to duration model estimates) and robustness of selected 90-day window.
- Voluntarily closed accounts
  - Accounts may voluntarily close to avoid being involuntarily closed .

## Discussion of Samolyk et.al.

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### Questions and Suggestions (cont'd):

- Weighting of data in the estimation
  - Weights created to equalize the number of accounts across banks?
  - Why weight account-level data when results are at the account-level and FI fixed-effects are included in all models?
  - How different were weighted versus unweighted estimates?
- Ordered logit fee regressions
  - Parallel regression assumption (testable).
  - Ignores information in the dependent variable (fee amounts are quantities).
  - Suggest explore quantile regression (which can also be performed on panel data).



## Discussion of Wilshusen et.al. .

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- Clearly very labor-intensive data management with 280 million transactions on more than 3 million prepaid cards over a 6-year period.
  - The large number of account-usage, revenue and fee variables created for the analyses reflect that a lot of effort went into thinking about the many dimensions of prepaid debit card usage that would be of interest.
- Authors careful to separately report statistics for different categories of prepaid debit cards.
- Authors careful to note that their analysis is at the prepaid debit card level as they cannot identify if a cardholder has more than one card in the data and nor do they have information about additional cards they may have outside of the data.
- Authors provided a comprehensive analysis of issuer revenue and cardholder costs that broke out many different components including interchange fees, ATM fees, and other cardholder fees.

## Discussion of Wilshusen et.al.

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### Questions and Suggestions:

- Surprisingly short median life span for all categories of prepaid debit cards
  - Would be informative to see more information about the lifespan distribution for each program type (e.g. median, 75<sup>th</sup> percentile, 90<sup>th</sup> percentile)
  - Any existing research on determinants of prepaid debit card holders stopping use of a card and how often they purchase new prepaid debit cards?
  - Any indication of longer life spans for more recently issued cards?
- Interesting bimodal pattern in number of purchases over life of card
  - Would be informative to also report median number of purchases per month



## Discussion of Wilshusen et.al.

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### Questions and Suggestions (cont'd):

- Across most measures, large differences between web GPR and retail GPR
  - Retail GPR shows less usage in general except for those with direct deposit.
  - Are there differences in characteristics of typical web GPR or retail GPR cards that could help explain these usage differences?

# Final Observation

- Payroll cards and cards with direct deposit appear most likely to be serving as substitutes to checking accounts:
  - For these cards, average cardholder costs per active month (\$7.38 and \$10.72) look quite similar to the average total monthly fees in the Samolyk et. al. paper (\$9.05).
  - For cardholders in the top quintile, average costs per active month (\$15.91 for payroll cards) appear lower than the monthly fees faced by checking account customers in the top quintile.
    - A large share of the monthly fees for checking account customers in the top quintile appear to be NFS fees;
  - A caveat for this comparison: usage intensity and levels may be very different between payroll cardholders/cardholders with direct deposit and checking account customers.