



# LouisianaBankers

---

A S S O C I A T I O N

February 10, 2012

**TO:** LBA Members

**FROM:** David J. Boneno, General Counsel

**RE:** State tax refunds and prepaid debit cards

Earlier this month Louisiana financial institutions received a letter from Visa providing details about the Louisiana Department of Revenue's use of the Visa Prepaid Debit Card as a method for providing state income tax refunds to Louisiana taxpayers who do not opt to have their refunds directly deposited. The letter was sent to financial institutions operating in Louisiana who are members of the Visa network. The letter has raised some questions from bankers, and in order to obtain more information about the cards, I have contacted representatives of Visa and JP Morgan Chase (issuer of the prepaid debit cards on behalf of the State). See an attached copy of the letter. This memo provides some information obtained from J.P. Morgan about the use of Visa prepaid debit cards and their use to distribute Louisiana taxpayer refunds.

I recognize that this memorandum may not answer all of the questions about the cards that bankers may have. In order to provide additional information, I have scheduled a conference call for bankers with J.P. Morgan Chase and Visa. The **Conference Call** is scheduled for **Friday, February 17, 2012 at 1:00pm**. The call-in instructions are included at the end of the memo.

The general framework for the prepaid debit cards issued is that the issuer of the cards is Chase Bank. Chase Bank issues these cards on behalf of the Louisiana Department of Revenue to most tax filers who do not opt to receive their refund via direct deposit. The financial institutions that are presented with the debit cards and are asked to issue cash from the cards and act as acquirers-similar to a merchant acquirer. I have also been advised that this is not the first time that state government in Louisiana has used a prepaid debit card to distribute payments. The cards are already being used in Louisiana to provide unemployment benefits and child support payments.

## **1. Acceptance of the Visa Prepaid Debit Card – Manual Cash Disbursements.**

I have been advised that if a financial institution is a Visa network member, then it is required to follow the Visa Operating Regulations, which requires such an institution to honor the Visa prepaid debit card. Further, if a debit card holder presents a prepaid debit card to a Visa network member financial institution and requests a manual cash disbursement, then the institution must provide the holder with cash with certain limitations. I have been advised that Visa's operating rules restrict the financial institution from charging a fee for providing the holder with cash from the debit card. Also, according to Visa rules, it does not matter whether the presenter of the card is a customer of your bank or thrift. I also have been advised that the cards to be issued for state tax refunds should have a maximum of \$7,000.00 in value on them as set by the State (although the average refund amount is less than \$1,000.00). Also, the Visa rules require an institution to provide as much as \$5,000.00 in cash from a prepaid debit card, per day (assuming that a card has that much value on it). I have also been advised that the Visa rules restrict the bank from charging the presenter of the card a fee for providing cash. However, each transaction will generate an interchange fee. (I have been told that the interchange fee generated for providing an over the counter cash transaction is \$2.00 per transaction, which is something we will work to verify). Cardholders may also access cash by choosing to use an ATM.

## **2. Alternative to the cardholder obtaining cash.**

There is an alternative available to the cardholder other than obtaining cash with a prepaid debit card. The holder of the card is able to perform an ACH transfer of funds from the card into a deposit account. A holder can go onto the Chase website, [www.myaccount.chase.com](http://www.myaccount.chase.com), login with the card number and pin, select the transfer function, and provide the bank information-routing, transit and account number to which funds are to be transferred. Remember, this is a choice for the cardholder to make and does not prevent the cardholder from choosing to obtain cash via your tellers or ATMs.

### **3. Fraud Issues.**

I have been advised that all prepaid debit cards issued by the Louisiana Department of Revenue for tax refunds will have the name of the refund recipient embossed on the card. In order to prevent or detect fraudulent activity a financial institution presented with a prepaid debit card should require a picture id. to verify the cardholder's identity matches the name embossed on the card. Also, match the signature on the back of the card with the signature given with the transaction receipt. The bank or thrift will also want to obtain an approval code from Visa, which will give the bank or thrift guaranteed settlement with Visa, according to the operating rule requirements. It should be noted that there is still a risk of a charge back based on the Visa operating rules. Institutions may want to review chargeback protection procedures and make sure that personnel are following them. As we have seen with other incidents of debit card fraud or unauthorized debit transactions, the party with the greater risk of liability or loss is usually the issuing bank. (Chase).

In conclusion, the one point that seems to be consistent with all of the information I have obtained is that the Visa operating rules and regulations dictate how a financial institution is to respond relative to the prepaid debit card. It may be helpful to review the Visa operating rules, especially the section on manual cash disbursements, in order to verify that your institutions' practices and procedures are in compliance.

Here is the contact information for representatives from JP Morgan Chase and Visa who are familiar with the Prepaid Debit Card and with the Visa Operating Rules and who may be able to answer specific questions:

Mr. Tracy Dangott  
Sr. Product Manager for Public Sector Prepaid Cards  
JP Morgan Chase  
Email: [tracy.l.dangott@jpmchase.com](mailto:tracy.l.dangott@jpmchase.com)  
Phone: 312-954-9821

Mr. Steven Evans  
Public Sector Product Manager  
Visa  
Email: [stevevan@visa.com](mailto:stevevan@visa.com)  
Phone: 650-432-4006

### **CONFERENCE CALL – CALL IN INSTRUCTIONS**

Conference Call date: Friday, February 17, 2012  
Time: 1:00pm (CST)

Call in number: 866-886-5735  
Participant passcode: 1770426  
Conference ID #O0001829

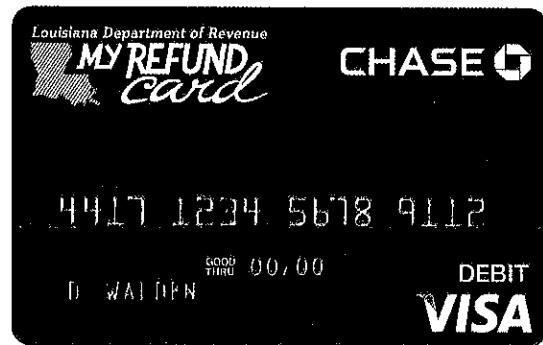


## NO FEE MANUAL CASH DISBURSEMENTS

### Visa Requirement

The Louisiana Department of Revenue has introduced the new Visa® Prepaid Debit Card pictured here.

This embossed Visa Prepaid Debit Card offers increased safety and convenience to individual taxpayers who choose to receive their refund on the card.



## MANUAL CASH DISBURSEMENTS

Cardholders are allowed to withdraw the cash from their prepaid card.\* This is a manual cash disbursement that Visa Member Banks must honor on all valid Visa cards whether the card is embossed or unembossed, personalized or not personalized with the cardholder's name. No surcharge or other fee should be added to the transaction amount. Do not refer cardholders to ATMs for service.

### DISBURSEMENT RULES\*

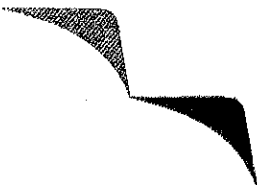
The Visa U.S.A. Inc. Operating Regulations require that members authorized to provide cash disbursements make manual cash disbursements to other issuers' Visa cardholders, even if the cardholder does not have an existing banking relationship with that member.\*

Visa cardholders shall have cash access to the penny on a valid Visa card. Visa Member Banks may not establish a minimum transaction amount for manual cash disbursements. Members may establish a maximum cash disbursement amount of not less than US \$5,000 (or local currency equivalent) per day, per cardholder.

Members are reminded that manual cash disbursements require only one piece of positive identification (such as a valid passport, driver's license or government identification card with picture) to validate the cardholder's identity. The signature on the Visa card must also be compared with the signature on the transaction receipt.

Members are reminded that they must comply with this requirement and all other requirements of the Visa U.S.A. Inc. Operating Regulations concerning manual cash disbursements.\*

**Visa and the Louisiana Department of Revenue thank you for making this service available for cardholders.**



\*Certain conditions may apply to cash disbursements in accordance with Visa U.S.A. Inc. Operating Regulations and Visa Prepaid Card program guidelines.  
Chase Bank issues the Louisiana Department of Revenue Prepaid Debit Card pursuant to a license from Visa U.S.A. Inc.