

A teal-tinted photograph of the Federal Reserve Building in Washington, D.C., serves as the background for the middle section. The building's classical architecture, including its columns and pediment, is visible. An American flag flies on a tall pole in front of the building. The sky is overcast.

Report to the Congress on  
Government-Administered,  
General-Use Prepaid Cards

July 2011

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM





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Government-Administered,  
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# Preface: Implementing the Dodd-Frank Act

The Board of Governors of the Federal Reserve System (the Board) is responsible for implementing numerous provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act). The Dodd-Frank Act requires, among other things, that the Board produce reports to the Congress on a number of potential reform topics.

See the Board's website for an overview of the Dodd-Frank Act regulatory reform effort ([www.federalreserve.gov/newsevents/reform\\_about.htm](http://www.federalreserve.gov/newsevents/reform_about.htm)) and a list of the implementation initiatives recently completed by the Board as well as several of the most significant initiatives that the Board expects to address in the future ([www.federalreserve.gov/newsevents/reform\\_milestones.htm](http://www.federalreserve.gov/newsevents/reform_milestones.htm)).



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# Report to the Congress on Government-Administered, General-Use Prepaid Cards

## Executive Summary

Section 1075 of the Dodd-Frank Act, which amends the Electronic Fund Transfer Act (EFTA), directs the Board to report annually on the prevalence of use of general-use prepaid cards in federal, state, and local government-administered payment programs and the interchange transaction fees and cardholder fees charged with respect to the use of such general-use prepaid cards.<sup>1</sup> The act requires the Board to begin submitting these annual reports 12 months after the date of enactment.

General-use prepaid card programs are used as a method for disbursing funds to individuals and allowing government agencies to make payment in the administration of government benefit, assistance, and other miscellaneous programs. In most instances, general-use prepaid cards replace the issuance of checks or vouchers when funds are not or cannot be disbursed directly to beneficiary accounts at financial institutions. The cards can be used to provide payments such as Social Security benefits, veterans' benefits, disability benefits, pensions, unemployment benefits, worker's compensation, emergency disaster relief, and child support disbursements. Examples of federal, state, and local government-funded programs that use general-use prepaid cards include Social Security; Temporary Assistance for Needy Families (TANF); Women, Infants, and Children (WIC); state unemployment; and court-ordered payments.<sup>2</sup>

Government-administered, general-use prepaid card programs can involve (1) federal funds that are disbursed by the U.S. Treasury on behalf of federal agencies to the cardholders or (2) federal funds that are directed to state agencies, which, in turn disburse funds to cardholders under state- or locally operated card programs. In other instances, state or local agencies provide the funding, and state, county, or city governments manage the disbursement of funds through their card programs.

In March 2011, the Board surveyed 15 depository institutions believed to issue government-administered, general-use prepaid cards; 50 state treasurers and treasurers from the District of Columbia and Puerto Rico; and the Department of Treasury's Financial Management Service (FMS). The depository institution response rate was high, with 75 percent of those actively engaged in the issuance of government-administered, general-use prepaid cards responding.<sup>3</sup> The state government response rate was much lower, with only 29 percent responding. FMS also provided a response to the survey request. The data provided by survey respondents are not inclusive of all federal, state, and local government-administered card programs; rather, the data provide a sample of government-administered, general-use cards.

This report discusses the prevalence of use in terms of the number of general-use prepaid cards used in federal, state, and local government-administered payment programs as of year-end 2010, and in terms of the volume and value of transactions made using those cards during 2010. Based on the low survey response rate and limited data provided by those that did respond to the state government survey, we are not able to calculate the prevalence of use of general-use prepaid cards as a proportion of total payments disbursed through related government-administered

<sup>1</sup> EFTA § 920(a)(7)(D), 12 USC 1693o-2(a)(7)(D). Section 1075(b)-(d) of the act exempts certain electronic benefit transfer (EBT) or reimbursement systems from the scope of this report. Although these EBT transactions are not reflected in the statistics included in this report, we reference EBT when relevant to the discussion.

<sup>2</sup> Under the welfare reform legislation of 1996 (the Personal Responsibility and Work Opportunity Reconciliation Act), TANF replaced the welfare programs known as Aid to Families with Dependent Children, the Job Opportunities and Basic Skills Training program, and the Emergency Assistance program.

<sup>3</sup> Depository institutions did not provide data for any general-use prepaid card programs administered in the District of Columbia or Puerto Rico.

programs. Also, because of the low response rate to the state government survey, the summary statistics provided in this report are based on the survey responses received from the depository institutions.

In 2010, depository institutions provided cardholder-use information for 90 federal, state, and local programs operating in 36 states. These programs employed 20 million cards, representing more than one billion transactions that were valued at \$34.8 billion.

Interchange fees were reported for 45 of the programs, encompassing 24 states. The average interchange fee for transactions in these programs was 30 cents, or 1.1 percent of the transaction amount. This average interchange fee is lower than the average 2009 debit card (including prepaid card) interchange fee revenue of 44 cents per transaction and average 2009 prepaid card interchange fee revenue of 40 cents per transaction reported by payment card networks in a separate survey administered by the Board. This is because a greater proportion of government-administered card transactions are made over personal identification number (PIN) debit networks, which have significantly lower interchange fees.<sup>4</sup> Federal programs had slightly higher interchange fees per transaction than state programs; however, the interchange fees as a percentage of the transaction total were essentially the same.

In addition, depository institutions provided cardholder fee information for 70 programs. For these programs, the average 2010 cardholder fee was \$9.69 per card, or 0.3 percent of the total amount disbursed to cards. The average automated teller machine (ATM) cash withdrawal fee was 47 cents, or 0.3 percent of the amount withdrawn. The average ATM cash withdrawal fee charged to cardholders, however, was about 20 percent less than the amount paid by card issuers to the ATM operators for these transactions.

The Board is evaluating and refining its survey instruments in an effort to increase the overall response rate and quality of data reported in future surveys.

<sup>4</sup> See the *2009 Interchange Revenue, Covered Issuer Cost, and Covered Issuer and Merchant Fraud Loss Related to Debit Card Transactions* report (table 3 on page 20 at [www.federalreserve.gov/debitfees\\_costs.pdf](http://www.federalreserve.gov/debitfees_costs.pdf)).

## Background

General-use prepaid cards are used by federal, state, and local governments in an effort to streamline financial transactions, reduce cost, and increase convenience. Some general-use prepaid card programs involve federal funds that are disbursed directly to the cardholders by the U.S. Treasury on behalf of federal agencies. In other programs, federal funds flow to the states and are managed at the state level or at the local level. There are also card programs, for which state or local agencies provide some of the funding, and the state, county, or city governments manage the program, such as Medicare and Medicaid.

Government-administered programs that are funded and managed at the federal level largely comprise three FMS programs: Direct Express, U.S. Debit Card, and the Navy/Marine Cash programs.<sup>5</sup> These card programs provide federal agencies with the ability to deliver typically recurring benefit payments, as well as general recurring and nonrecurring federal payments, to individuals and to provide civilian government employees or military personnel with access to cash to conduct official duties.

An initiative recently announced by the U.S. Treasury may increase usage of the Direct Express program. In December 2010, the U.S. Treasury issued a final rule to extend further the use of electronic payments for the disbursement of government benefits.<sup>6</sup> Pursuant to the rule, anyone applying for benefits on or after May 2011 is required to receive all payments electronically—via direct deposit to a deposit account

<sup>5</sup> The Direct Express card is used to disburse some federal benefit payments on behalf of several agencies, the largest percentage of which are Social Security Administration and Supplemental Security Income (SSI) payments. In addition, the Direct Express card is used to disburse some retirement and compensation payments on behalf of the Veterans Administration for benefits paid to veterans or their survivors, the Office of Personnel Management for retirement benefits for federal employees, the Railroad Retirement Board for retired railroad workers, and the Department of Labor for victims of black lung disease. The U.S. Debit Card supports programs, such as disaster relief, payroll, witness payments, travel, stipends to volunteers, and petty cash (for miscellaneous purchases). The Navy/Marine cash cards are only issued to personnel who have been assigned to a ship or to visitors on board a ship. The Navy/Marine cash cards combine a chip-based electronic purse (stored-value function) that allows the card to be used on the ship with the traditional magnetic stripe (debit card and ATM function) that can be used off the ship. Depository institutions reported on five federally administered, general-use prepaid card programs. The other two programs are relatively small and incorporate federal benefits and miscellaneous payments to employees.

<sup>6</sup> See 31 CFR 208, Management of Federal Agency Disbursements, and the final rule at [www.fms.treas.gov/eft/regulations/31cfr208\\_text.html](http://www.fms.treas.gov/eft/regulations/31cfr208_text.html).

at a depository institution or a Direct Express prepaid card account. Those already receiving benefits via paper checks will be required to switch to an electronic payment method by March 2013.<sup>7</sup>

The U.S. Treasury also recently initiated two pilot programs intended to leverage general-use prepaid cards. One pilot program offers taxpayers electronic delivery of their federal tax refunds via a “MyAccountCard” prepaid card.<sup>8</sup> The pilot program was launched this year in time to allow taxpayers to have their 2010 federal tax refunds deposited directly onto the cards. A companion pilot program was initiated to encourage current and potential payroll card users to have their 2010 federal tax refunds deposited directly onto payroll cards.<sup>9</sup> These pilot programs, however, were launched this year, and therefore are not reflected in the data collected for this 2010 report.

State governments offer a range of programs that may use general-use prepaid cards as a method to disburse funds. For example, these programs may include general assistance programs, state medical assistance programs, and crisis-assistance programs.<sup>10</sup> The use of general-use prepaid cards can vary by program and by state. In addition, state (or local) governments may administer funds received by federal agencies for disbursement, such as TANF, Heating and Energy Assistance Program, and Medicaid.<sup>11</sup> Further, a state may also manage card pro-

grams for which it has no funding responsibilities. For example, some states offer card programs for child support payments, which are not funded by the state government but are supervised and managed by the state or local municipality.

In this report, we generally divide the discussion between (1) federally funded, federally administered programs, and (2) state and local programs, regardless of the source of funding.

## Survey Scope and Approach

In March 2011, the Board distributed two surveys: a depository institution survey and a state government survey.<sup>12</sup> These surveys requested similar information regarding the use and fees associated with general-use prepaid cards in government-administered payment programs.<sup>13</sup> The depository institution survey was distributed to 15 depository institutions believed to issue government-administered, general-use prepaid cards.<sup>14</sup> The state government survey was distributed to 50 state treasurers, treasurers from the District of Columbia and Puerto Rico, and FMS. The reporting period for each survey was calendar year 2010.

### Depository Institution Survey

The depository institution survey was designed to obtain information on several components, including

<sup>7</sup> The U.S. Treasury has implemented a public education campaign that provides information about options for electronic delivery of federal benefit payments and how recipients currently receiving check payments can switch to an electronic payment method.

<sup>8</sup> The card allows for free point-of-sale transactions, online bill pay, ATM cash withdrawals at more than 15,000 ATM machines nationwide, and cash back at participating retail stores.

<sup>9</sup> The payroll cards are not specific to any government program and may include cards issued by corporations to their employees. Nationwide, more than 1.7 million workers currently use payroll cards to receive and access their wages (see [www.treasury.gov/press-center/press-releases/Pages/tg1021.aspx](http://www.treasury.gov/press-center/press-releases/Pages/tg1021.aspx)).

<sup>10</sup> For purposes of this report, general assistance programs are cash and in-kind assistance programs financed and administered entirely by the state, county, or locality in which they operate. They are generally designed to meet the short-term or ongoing needs of low-income individuals who are ineligible for (or awaiting approval for) federally funded cash assistance such as TANF or SSI. State medical assistance programs provide medical care to those not eligible for coverage under the Medicaid program. Crisis assistance programs provide cash and in-kind assistance towards rent, utilities, food, clothing, and other necessities.

<sup>11</sup> A notable general-use prepaid card program that is federally funded and state administered is electronic benefit transfer (EBT). The EBT card is used in all 50 states, the District of

Columbia, Puerto Rico, the Virgin Islands, and Guam to disburse electronically the Supplemental Nutrition Assistance Program (SNAP) benefits, formerly known as the Food Stamp Program. The EBT card is comprised of two distinct compartments—(1) the SNAP compartment, which can only be used for eligible food purchases, and (2) the cash benefit compartment, which can be used like cash for purchases and cash back with purchases at grocery stores and participating ATMs. The SNAP compartment of the EBT card is the sole mechanism for disbursement of SNAP benefits. The cash benefit compartment is currently used by at least 38 states to disburse funds associated with cash assistance programs, such as TANF, Heating and Energy Assistance Program, Old Age Pension, WIC, general assistance, and refugee assistance.

<sup>12</sup> The depository institution and state government surveys requested information on all card programs that include the issuance of a general-use prepaid card or other debit card that has been provided to a person pursuant to a federal, state, or local government-administered program, in which the person may only use the card to transfer or debit funds, monetary value, or other assets that have been provided pursuant to such program.

<sup>13</sup> The depository institution and state government surveys are available at [www.federalreserve.gov/newsevents/files/FRB\\_administered\\_prepaid\\_card\\_survey\\_20110323.pdf](http://www.federalreserve.gov/newsevents/files/FRB_administered_prepaid_card_survey_20110323.pdf).

<sup>14</sup> The major payment card networks identified the 15 depository institutions that issued government-administered prepaid cards in 2010.

- the number and names of federal, state, and local government-administered, general-use prepaid card programs;
- the number of cards outstanding;
- the volume and value of card transactions;
- the volume and value of general-use prepaid card transactions separately for signature-based and PIN-based general-use prepaid card operations, as well as ATM cash withdrawals; and<sup>15</sup>
- the interchange fee revenue and cardholder fee revenue earned with respect to these card transactions.

Of the 15 depository institutions surveyed, nine returned a completed survey, one indicated that the general-use prepaid card program for which it will issue cards was still being implemented at year-end, one indicated that it did not issue general-use prepaid cards, one indicated that it issued a small number of general-use prepaid cards and declined to respond to the survey questions, and three provided no response. Among the depository institution responses received, some respondents did not provide information on all data elements requested in the survey. For example, most issuers provided total interchange fees and cardholder fees charged for all the general-use prepaid government card programs for which they serve as the issuer, but only a subset of the issuers provided the data at the individual card program level as requested in the survey.

### State Government Survey

The state government survey contained similar components as the depository institution survey but requested additional information in an effort to determine the prevalence of the use of such cards to disburse benefits relative to other methods by the reporting entity. For example, the state government survey instructed respondents to provide the number of recipients receiving payments on general-use prepaid cards as well as the total number of recipients receiving payments regardless of the payment mecha-

nism, such as a check or a direct deposit to an account at a depository institution.

Of the 50 state treasurers plus the District of Columbia and Puerto Rico, only 15 returned a completed survey, three declined to respond, and 34 provided no response. Of the 15 states that responded, most did not provide information on all data elements requested in the survey. For example, some of the respondents did not provide the number of cards outstanding. In addition, none of the respondents provided interchange fees, and most did not provide cardholder fees charged to cardholders.

The Board also obtained information from FMS, which administers and oversees one federal benefit card program and two general-use card programs, on the federal government-administered card programs. The FMS survey requested information that was consistent with that requested of state and local government-administered programs through the state government survey. The Board, in consultation with FMS, determined that because similar data were provided by issuing depository institutions, relying on the depository institution survey data provided consistency across the summary statistics discussed in this report.

### Survey Results

The Board compiled the survey responses and reviewed the data for completeness and consistency and for anomalous responses. As indicated in the “[Executive Summary](#),” the data provided in this report are not inclusive of all federal, state, and local government-administered card programs; rather, they provide a sample of government-administered, general-use cards. The number of usable responses for a given calculation varied, but in general, depository institutions provided sufficient information on 70 to 80 percent of the card programs reported to compute average interchange fee and average cardholder fee calculations. We did not obtain sufficient usable information from the state government survey respondents to provide prevalence statistics as a proportion of total disbursements for programs that use general-use prepaid cards. The summary statistics reported are based on the responses received from the depository institution surveys. In addition, estimates generally cannot be combined or compared across

<sup>15</sup> For purposes of the survey, a signature-based, general-use prepaid card program provides access to prepaid funds in the cardholder’s account for purchase transactions through use of a general-use prepaid card in which access is not authorized through the use of a PIN. A PIN-based, general-use prepaid card program requires a cardholder to enter a PIN to gain access to prepaid funds (or in-kind payments) in the cardholder’s account for purchase transactions.

**Table 1. Volume and value of purchase transactions**

	Transaction volume (millions)	Percentage of total transaction volume	Transaction value (millions of dollars)	Percentage of total transaction value	Average value per transaction (dollars)
<b>Total</b>	<b>975</b>	<b>100.0</b>	<b>30,700</b>	<b>100.0</b>	<b>31.14</b>
Federal	65	6.7	2,250	7.3	35.50
Signature	32	3.3	962	3.1	30.47
PIN	33	3.4	1,288	4.2	39.53
State/local	910	93.3	28,450	92.7	30.88
Signature	456	46.7	12,795	41.7	28.08
PIN	454	46.6	15,655	51.0	34.47

tables due to differences in the composition of respondents.

## Card Use

The depository institution survey requested information on the number of cards outstanding at year-end 2010 and the number and value of general-use prepaid card transactions for federal, state, and local government-administered programs.

In total, depository institutions provided card use data on 90 federal, state, and local programs in 36 states—five federally administered card programs and 85 state- and locally administered card programs. Within these 90 federal, state, and local programs, approximately 20 million cards were outstanding in 2010, of which approximately two million cards were for federal programs and approximately 18 million cards were for state and local programs.

**Table 1** provides summary information on the volume and value of purchase transactions in the 90 federal, state, and local programs reported by depository institutions. Government-administered payment card volume was split about equally between signature- and PIN-based transactions for both federal and state and local programs; in contrast, more than 60 percent of overall debit card volume is signature-based.<sup>16</sup> PIN-based transactions represented about 55 percent of total government-administered payment card transaction value for government-administered programs, compared to about 40 percent for all debit cards. We are not able to report on

individual programs because depository institutions generally did not report data to that level of detail.

Depository institutions reported that there were approximately 185.5 million ATM cash withdrawals using government-administered, general-use prepaid cards in 2010 for these 90 programs. The average ATM cash withdrawal value in federal programs was \$179.04, compared to an average ATM cash withdrawal value of \$130.68 for state and local programs.

## Interchange and ATM Fees

Interchange fees are those fees set by the network, charged to the merchant acquirers, and received by issuers as part of purchase transactions. The merchant acquirer typically passes these fees on to the merchants, so interchange fees can be thought of as a cost to merchants and as revenue to card issuers. Depository institutions reported interchange fee revenue for 45 programs.<sup>17</sup>

**Table 2** provides summary information about interchange fee revenue received by issuers as a result of purchase transactions. The average per transaction interchange fee was lower for state and local programs than federal programs; however, as a percentage of the transaction value, the average interchange fee for federal, state, and local programs was essentially the same. This may be explained by the structure of interchange fees charged by payment card networks. In general, interchange fees for both signature-based and, more recently, PIN-based networks are structured similarly to credit cards in that they include both an ad valorem and a fixed compo-

<sup>16</sup> See the *2009 Interchange Revenue, Covered Issuer Cost, and Covered Issuer and Merchant Fraud Loss Related to Debit Card Transactions* report (table 1 on page 18 at [www.federalreserve.gov/debitfees\\_costs.pdf](http://www.federalreserve.gov/debitfees_costs.pdf)). The government-administered payment program data included in this report relate to 2010, whereas the Board's survey of debit-card issuers obtained 2009 data.

<sup>17</sup> One depository institution indicated that net interchange fee revenue for federally administered programs is remitted to the U.S. Treasury.

**Table 2. Interchange fee revenue received by issuers**

	Average per transaction interchange fee (cents)	Average interchange fee as percentage of transaction value
All programs	30	1.1
Federal programs	38	1.1
Signature	46	1.5
PIN	30	0.7
State/local programs	29	1.1
Signature	30	1.4
PIN	28	0.9

ment.<sup>18</sup> The higher average per transaction interchange fee for the federal programs may be attributable to the higher average value per transaction.<sup>19</sup>

The average interchange fee revenue received for all government-administered, general-use prepaid card transactions, as reported by survey respondents, was less than the average 2009 debit card interchange fee of 44 cents and the prepaid card interchange fee of 40 cents that was reported in the Board's recent card issuer survey.

ATM fees are analogous to interchange fees, with the fees flowing in the opposite direction. These fees are paid by the issuers to the ATM operators for each ATM cash withdrawal to compensate the ATM operators for the costs of deploying and maintaining the ATMs and providing cash services to the issuers' cardholders. Depository institutions reported ATM fees for 35 programs. **Table 3** provides summary information about fees paid to ATM operators by issuers. The fees issuers paid to ATM operators for cardholder ATM cash withdrawals were much higher per transaction than the interchange fees depository institutions received on purchase transactions.

<sup>18</sup> Signature-based transactions generally do not include a cap; however, most PIN-based transactions do have a cap on the total amount of the fee for each transaction.

<sup>19</sup> For the 45 programs for which depository institutions reported interchange fee data, the average value per transaction in federal programs was \$35.50. For state and local programs, the average value per transaction was \$27.42, which is less than the average transaction value of \$28.08 reported in table 1 that was based on transaction data for 90 programs.

**Table 3. ATM fees paid by issuers**

	Average per transaction ATM fees (cents)	Average ATM fee paid as percentage of withdrawal amount
All programs	60	0.4
Federal programs	55	0.3
State/local programs	62	0.4

## Cardholder Fees

Cardholder fees are fees the cardholder pays to the card issuer for accessing funds on a payment card.<sup>20</sup> Examples of cardholder fees include balance inquiry fees, penalty fees (such as an ATM decline for insufficient funds), ATM cash withdrawal fees, card replacement fees, and statement request fees. Most of the depository institution survey respondents indicated there are no monthly fees assessed to cardholders. In addition, cardholders are allowed at least one free ATM cash withdrawal per disbursement to the card, although most programs allow more.<sup>21</sup> As a result, it is possible for a cardholder to use the card with few to no fees.

In total, depository institutions provided cardholder fee data on 70 federal and state programs—five federally administered programs and 65 state- and locally administered programs. **Table 4** provides summary information about the cardholder fees charged per card and the percentage of disbursed dollars these charges represent. Cardholder fees charged per card were slightly less for federal programs than state and local programs.<sup>22</sup>

<sup>20</sup> The survey did not request information on fees charged to cardholders by ATM operators for cash withdrawals at nonproprietary ATMs, and thus such fee data are not included in the cardholder fee calculations in this report.

<sup>21</sup> Some respondents indicated that free ATM cash withdrawals were limited to cash withdrawals at ATMs owned by the card issuer or its partners. In addition, there is no cost to sign up for these general-use government cards, and cardholders are able to get free cash back with purchases at retail locations.

<sup>22</sup> Cardholder fees are prohibited by federal regulation on purchases under the SNAP program made with the EBT card; the government absorbs all transaction costs related to SNAP (7 CFR 274.7(c)). Unlike the SNAP program, there are no limitations on fees associated with the cash benefit category (such as TANF, state unemployment, and state general assistance) of the EBT card program; each state is responsible for developing and implementing its own policies.

**Table 4. Cardholder fees**

	Average 2010 cardholder fee per card (dollars)	Percent of disbursed dollars
<b>Total</b>	<b>9.69</b>	<b>0.3</b>
Federal	9.04	0.3
State	9.81	0.3

For state and local programs, one depository institution reported that, for the programs for which it issues cards, the fee for purchase transactions averaged \$0.17 per transaction; however, all other depository institutions reported that they assessed no fee

for purchase transactions.<sup>23</sup> Balance inquiries ranged from \$0.00 to \$2.95 per inquiry; penalty fees ranged from \$0.00 to \$20.00 per occurrence; and monthly fees ranged from \$0.00 to \$2.25. Issuers charged from \$0.00 to \$1.75 per ATM cash withdrawal (for withdrawals in excess of the free withdrawal(s)). The average ATM cash withdrawal fee charged to cardholders was about 20 percent less than the amount paid by issuers to ATM operators for these transactions.<sup>24</sup>

<sup>23</sup> We are not able to report on an individual transaction basis the range of cardholder fees for federally administered programs because of limited data provided by depository institutions.

<sup>24</sup> The average ATM cash withdrawal fee was calculated by dividing the total ATM cash withdrawal fees by the total transaction volume, which includes free ATM cash withdrawals.