

At Green Dot, Consumers Embrace Fees for Bank Services

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Having been burned by reckless lending and trading, banks are now focusing on making money by acting more like utilities — charging fees to customers to facilitate the storage, distribution, deployment and access of cash. But the frequently hefty and arbitrary fees have inspired a consumer backlash.

One rapidly growing company is finding greater consumer acceptance of charging fees for providing bank-like services — albeit without the branches and the loans. Green Dot Corporation, which went public in July 2010, sells pre-paid debit cards that permit people to pay bills, conduct debit card transactions, and use ATMs. "It's a checking account without checks," as Green Dot CEO Steve Streit tells me in the accompanying video. Cash can be loaded onto cards at Wal-Mart, Rite-Aid, and other retail chains where they are sold, or online. Many customers also have payroll or benefit checks loaded onto them through direct deposit.

Unlike most banks, Green Dot is very upfront about the need to charge fees to consumers who use its cards — that's its business model. Green Dot doesn't rely on interest spreads of loans. "We are neither a lender nor a borrower," Streit adds. About 45 percent of Green Dot's revenues come from fees paid by consumers, and the rest comes from fees paid to it by counterparties and merchants for executing transactions. "Nothing's free, and when you're supplying a bank account with worldwide call centers, and if you get a refund when your card is lost or stolen -- all those things are expensive services," Streit says. "The question is: How do you disclose those fees, how many are there, and can consumers get in trouble."

There are no minimum balance requirements, no overdraft charges, and no fees for using in-network ATMs. "I describe it as a bowling alley with bumpers," says Streit. It costs up to \$4.95 to buy a card plus a monthly maintenance charge of \$5.95 per month. But those fees can be waived if holders make at least 30 debit card purchases per month or load \$1,000 onto the card. Here's the full description of the fees. People who use Green Dot cards like gift cards will wind up paying significant fees, but those who use them like a bank account won't pay as much — especially if they load salaries or benefits onto the cards.

Green Dot went public in July 2010. And while the stock performance has been uneven, the business has been performing quite well. The more cards it sells, and the more transactions it enables, the more money it gets. The company, which has 4.2 million active customers, in its most recent quarter reported that nearly two million cards were activated. The number of cash transfers and active cards were both up 30 percent from the year-ago quarter. The "gross dollar volume," — i.e. the amount of money spent using the cards — was up 63 percent from the year before. Green Dot is on track to facilitate about \$15 billion in transactions this year.

Green Dot has a high-profile deal with Wal-Mart, and its typical customer looks something like a typical Wal-Mart customer. "They're more female than male, making about \$40,000 per year," says Streit. "They're people who work in everyday jobs — service personnel, administrative assistants, college students."

The company's future growth is predicated on the assumptions that consumers will continue to find it frustrating to deal with banks, and that middle-income consumers will continue to favor opting for debit over credit. But it's looking for growth. Green Dot has set up a unit to work with governments to set up payment systems, and last year applied to be a bank holding company because it wanted to purchase Bonneville Bank in Utah. Why does the company that has defined itself as something of an un-bank want to buy a bricks-and-mortar institution? "We'd like to do it because it gives us regulatory stability, it gives us some good vertical integration, and we want to innovate more rapidly," says Streit. Just don't expect the innovations to include high-interest credit cards.

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