

No Fooling! New Prepaid, Payroll, and Government Benefit Card Protections Take Effect April 1

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Download issue briefs summarizing protections for prepaid cards and accounts, payroll cards, and government benefit prepaid cards at <https://www.nclc.org/issues/prepaid-debit-cards.html>.

(WASHINGTON) A new rule issued by the Consumer Financial Protection Bureau (CFPB) goes into effect April 1 providing protections for prepaid cards, payroll cards, government benefit cards, and certain mobile and online person-to-person payment services.

“Consumers who shop for prepaid cards will finally have clear, easy to compare fee charts and peace of mind that their accounts, once registered, are protected from unauthorized charges. Employers will have to make clear that workers cannot be required to accept their pay on a payroll card and will have to disclose fees before workers make their choice,” **explained Lauren Saunders, associate director of the National Consumer Law Center.**

Before the prepaid accounts rule, many prepaid cards were not covered by the protections of the Electronic Fund Transfer Act; payroll and government benefit cards were covered, but did not always come with clear fee disclosures. The rule was initially finalized in 2016 under former CFPB Director Rich Cordray, but technical changes were subsequently made and implementation was delayed until this year.

In addition to fee disclosures and basic protections against loss or theft, the rule also restricts overdraft fees on prepaid accounts. “Prepaid cards are an important option for people who have been burned by bank overdraft fees or cannot get a bank account. Unfortunately a few prepaid cards have had overdraft fees. Hopefully, with the limits of the new rule, overdraft fees on prepaid cards will now be a thing of the past. But look out for cards like the NetSpend ‘ACE Flare Account by MetaBank’ and the ‘NetSpend All-Access Account’, which may try to evade the overdraft fee limits by claiming that they are checkless checking accounts and not prepaid cards,” **Saunders warned.** NetSpend typically sells its cards at payday loan stores.

The prepaid accounts rule covers accounts whether they are accessed through a physical card or through mobile or electronic devices. Thus, the rule protects funds held in accounts, such as PayPal and Venmo.

Prepaid Accounts Will Now Receive Several Key Protections

1. **Protection from unauthorized charges and errors.** However, protection only begins after a consumer registers the card in their name.
2. **Clear, uniform fee charts.** A short chart of key fees will be on the outside of the package and provided online before purchase. More details will be on a longer chart inside the package and online at the URL provided on the package.
3. **A warning if funds are not FDIC insured.** But most prepaid accounts have FDIC insurance

once they are registered.

4. **Basic account information for free**, including account balances by telephone and transaction information online and by mail on request.
5. **Choice for employees and recipients of certain government benefits**. The rule clarifies existing rules that employers and government agencies cannot require consumers to receive wages or benefits in a particular account.
6. **Limits on overdraft fees and features**. Cards that offer overdraft features must disclose that fact on the package and wait 30 days before offering overdraft coverage. These hybrid prepaid-credit cards must comply with credit card and “fee harvester” rules, including a requirement to determine ability to repay, to limit total overdraft fees in the first year to no more than 25% of the credit line extended, and to give the consumer a choice of whether to permit automatic repayment.
7. **Public and consumer access to account agreements and fee schedules**. All prepaid account issuers, including issuers of payroll and government benefits accounts, must submit their account agreements annually to the CFPB. Companies that offer cards to the general public must post fee information online.

The prepaid accounts rule covers:

- Accounts labeled or marketed as “prepaid” and usable at unaffiliated merchants or at ATMs;
- Accounts, other than checking accounts, whose primary function is to conduct transactions with multiple unaffiliated merchants, at ATMs, or for person-to-person transfers;
- Payroll cards offered by employers; and
- Government benefits prepaid cards used by the federal government for Social Security, SSI, and other benefits, and also those used by state or local agencies to distribute non-needs tested benefits, such as unemployment insurance.

Related NCLC Resources

New Protections for Prepaid Card Accounts, March 2019

New Protections for Payroll Cards, March 2019

New Protections for Government Benefit Prepaid Cards, March 2019

Report: *Payday Lender Prepaid Cards*, July 2015

National Consumer Law Center’s *Consumer Banking and Payments Law* 2018 6th ed.