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MORE on NCLC's work on prepaid and payroll cards:
<http://www.nclc.org/issues/prepaid-debit-cards.html>

CFPB Issues Strong Rule to Protect Prepaid Debit Cards

(Washington, D.C.) Consumer advocates today praised the Consumer Financial Protection Bureau (CFPB) for protecting consumers who use prepaid and payroll cards. “The proposal offers strong protections for prepaid and payroll cards that will help ensure that funds are safe, costs are transparent, and prepaid cards are free from abusive overdraft fee practices,” said Lauren Saunders, associate director of the National Consumer Law Center. “The rules will increase consumer and employee confidence when they use prepaid and payroll cards,” Saunders added.

The CFPB proposal restricts, but does not completely ban, overdraft features offered on a few prepaid cards, especially those sold by payday loan stores. “Some prepaid cards push overdraft ‘protection’ that makes it harder for families to make ends meet, draining scarce wages with fees and leaving a hole in the next paycheck.” Saunders said. “The proposed rule requires companies to be honest when they are offering credit and not disguise it as overdraft ‘protection’ that can balloon into hundreds of dollars of fees a year,” she explained. The CFPB proposal requires prepaid cards that function as credit cards to comply with credit card rules including ability to repay, sufficient time to repay, limits on fees in the first year, and a wall between the credit account and the prepaid card funds. “While these rules are a big improvement,” Saunders noted that “overdrafts should be prohibited entirely on prepaid cards. Consumers should be able to rely on a prepaid card being truly ‘prepaid’ and as a safe way to control spending.”

The rule would also protect consumers in case of errors, theft, or unauthorized charges and provide clearer information about fees. “Prepaid cards will be safer and more transparent with better fee disclosures and the same protections that bank account debit cards get in the case of identity theft,” Saunders emphasized, while noting that “all fees should be on the outside of the card’s package so you can easily see the full price before you buy.”

The prepaid card market is growing rapidly. “While banks must do more to make traditional bank accounts safe and affordable for all consumers and should not limit lower income consumers to prepaid cards, the cards can be a safer, cheaper, and more convenient way to manage money than paying bank account overdraft fees, relying on cash, or paying check cashing fees,” Saunders explained.

The public has 90 days to comment on the proposed rule, which will be available on the CFPB’s website: <http://www.consumerfinance.gov/regulations>.

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