

# Consumer Protection and Reloadable Prepaid Cards

**Federal Regulation of the  
Prepaid Card Industry  
Federal Reserve Bank of Philadelphia  
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# Types of Reloadable Prepaid Cards

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- Privately selected by consumer.
- Mandated:
  - Payroll cards
  - Non-EBT (non-needs based) public benefits and other government payments (Social Security, unemployment, child support)
  - Electronic Benefits Transfer (EBT) (TANF, other needs-based programs)

# Opportunities and Perils

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- Prepaid cards benefit from banking industry neglect, failures in reaching unbanked.
- Can offer real advantages to consumers.
- Must emerge from the “shadow banking system”: carry full consumer protection, avoid missteps of banking products.

## 7 Essentials for Consumer-Safe Prepaid Cards

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1. Choice.
2. FDIC insurance.
3. Conspicuous, usable disclosures.
4. No unreasonable fees.
5. True protection from unauthorized use, loss, errors.
6. Transaction information, statements available.
7. No dangerous credit features.

# 1. Choice

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- Privately selected cards: Consumer chooses.
- Mandated cards: Consumer must have choice of direct deposit first, and option of a paper check in case of hardship (disability, location).

## 2. FDIC Insurance

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No reloadable prepaid cards should be permitted on the market if not structured to ensure FDIC insurance *to the consumer on a direct or pass-through basis* (i.e., in compliance with FDIC General Counsel Opinion No. 8 (Nov. 13, 2008)).

# 3. Disclosures

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- Fees, ID requirements, prominently visible before purchase or enrollment; “Schumer box”
- Provide wallet-size card listing fees.
- Card and exterior package show phone number, website for full info on fees, terms & conditions.
- Fees easily findable on website (not buried in fine print terms and conditions).
- Consumer-friendly T&C, i.e. re dispute rights.

## 4. Fees to Prohibit for All Cards:

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- Overdrafts or “shortages”
- Denied transactions
- Balance inquiries
- Customer service
- Inactivity, expiration
- Periodic statements (above \$1/month)
- Ad hoc request for statements
- Closing account, final check
- Fee for one replacement card/year

## 4. Fees (cont.) Prohibit for Mandatory Cards:

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- Application
- Participation (monthly, annual, etc.)
- One ATM and one teller withdrawal per deposit, and at least 2/month
- Purchases, regular transactions
- Loading benefits, wages
- Any fee for ordinary use of the card.

## 5. True Protection from Unauthorized Use, Loss, Errors

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- EFTA, Regulation E coverage.
- Improve Reg E payroll card rule: Trigger timelines to dispute a charge, fee only upon *receipt of information reflecting the unauthorized use, error.*
- *Not* by mere “availability” of information on a website based on the myth that the unbanked are monitoring accounts online.

## 6. Statements and Transaction Information

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Why important?

- make it easy (not theoretical) to monitor for identify theft, errors
- personal budgeting, recordkeeping
- make fees visible, give consumers the ability to know about and avoid them so not a hidden tax

## 6. Statements and Transaction Information

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- Periodic statements must be available, for \$1/month or less.
- Rules should encourage text, email and telephone alerts.
- Make ad hoc statements available for free.
- At least one free annual summary statement if other options not chosen.

## 7. No Dangerous Credit Features

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- iAdvance, others: 150%-650% APR payday loans on prepaid cards.
- Need to prohibit automatic repayment/offset features, which avoid laws protecting essential income and security of one' account.
- Low-income consumers need ability to pay food, rent before lines of credit.
- Credit card repayment cannot be linked to bank accounts; assets in prepaid accounts should have the same protection.

# Is All This Too Much To Ask?

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No!

Comerica's Direct Express Card for Social Security and SSI benefits has most of these features.

# Thank you.

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