

## Prepaid Card Payday Loans

### *390% Loans Evade State Rate Caps*

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***States are increasingly reinstating interest rate caps to attack predatory lending.*** Many states limit the rates on small loans, including payday loans. Ohio passed a 28% cap in 2008 and Arizona's 36% cap took effect in 2010. A decade ago, payday lenders tried partnering with banks to avoid state law through preemption. But after a national outcry, banking regulators eventually shut down these rent-a-bank arrangements.

***Banks are again helping payday lenders evade state law, but now with prepaid cards.*** The payday lender CheckSmart (owned by Community Choice Financial, Inc.) is offering a prepaid card, issued by Florida-based Urban Trust Bank, with credit features designed to skirt rate caps:

- Consumers can get an advance of wages or public benefits for a "convenience transfer fee" of \$3.50 per \$28.50 advance (\$14 per \$100 in credit) plus 35.9% interest.
- Loans can also be made through an "overdraft protection service fee" of 15% of the negative balance (\$15 per \$100).
- The loans evade state interest rate caps by charging fees that do not purport to be interest. But the annual rate for a 14-day loan is 390% to 401%.
- The loans require direct deposit of public benefits or wages to the prepaid card and are repaid by the next deposit, as soon as a day or two later.

***Prepaid card payday loans can induce consumers to become unbanked.*** Traditional payday borrowers have bank accounts because they must leave a post-dated check. But to be eligible for a prepaid card payday loan, the consumer must arrange direct deposit of their income to a prepaid card, likely leading them to close their bank account.

***Prepaid card payday loans evade protections for unemployment benefits and other income needed for necessities.*** The loans are repaid automatically before food or rent, evading laws against garnishing wages or benefits and other exempt income needed for life necessities.

***Other prepaid card payday loans were found by banking regulators to be unfair or deceptive.*** In 2010, the Office of Thrift Supervision, which was merged into the Office of the Comptroller

#### What is prepaid card?

Prepaid cards are debit cards that hold consumer funds in a pooled account but are not tied to an individual bank account. Often Visa- or MasterCard-branded, they work like bank debit cards but may not have the same consumer protections.

#### How can you have credit on a "prepaid" card?

A line of credit on a prepaid card might seem to be an oxymoron. Prepaid cards are marketed as safer alternatives to credit and debit cards because you typically cannot spend money you don't have and most cards don't have overdraft fees. But cash advance and overdraft features on some cards make "prepaid" a misnomer.

of the Currency, shut down the iAdvance line of credit on MetaBank prepaid cards and ordered \$4.8 million in restitution to borrowers, requiring the bank to adopt policies to ensure ability to repay, reasonable loan maturity terms, amortization periods, and loan renewal policies. MetaBank does not currently issue cards with cash advance features, though some of their cards issued for NetSpend have overdraft fees.

***Where are prepaid card payday loans offered?*** CheckSmart currently operates in 14 states: Alabama, Arizona, California, Florida, Illinois, Indiana, Kansas, Kentucky, Michigan, Missouri, Ohio, Oregon, Utah and Virginia. Checkpoint's parent company, Community Choice Financial, Inc., is going public (an initial public offering of stock is scheduled for May 8, 2012) to raise funds to expand to other states.

*Other payday lenders are watching and will adopt prepaid card payday loans if CheckSmart is successful in using them to operate in states where the loans are illegal. This is why it is imperative that these predatory practices that attempt to evade state consumer protection laws be stopped.*

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