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Prepaid Card Overdraft Fees Cost Consumers over \$50 Million
NCLC Advocates: CFPB's proposed rules are strong but need improvements

(WASHINGTON) Rules proposed by the Consumer Financial Protection Bureau (CFPB) will make prepaid cards safer for consumers, advocates at the National Consumer Law Center (NCLC) said in comments filed late yesterday, but the CFPB should ban overdraft fees completely. "The only major prepaid card that has overdraft fees is NetSpend, which made about \$50 million last year in overdraft fees paid out of the pockets of low-income families," said Lauren Saunders, associate director of the National Consumer Law Center.

NetSpend's biggest outlet for its cards is the payday lender ACE Cash Express, which was sued by the CFPB in 2014 for using illegal debt collection tactics to put consumers into a cycle of debt, as clearly seen in [ACE training materials](#) available on the CFPB's website. "NetSpend mostly sells prepaid cards through payday lenders who use the cards to make payday loans to unbanked consumers. Overdraft fees on prepaid cards just add to the misery of payday loans," Saunders said.

The proposed rules require overdraft features on prepaid cards to comply with credit card rules, including ability-to-pay rules. "The rules will make credit more honest and affordable. But consumers don't need so-called 'overdraft protection' on prepaid cards that don't have checks," Saunders said. "Consumers deserve better choices than the false choice of overdraft 'protection' that, instead of helping make ends meet, just leaves families with less money at the end of the month. Prepaid cardholders need an account that helps them control spending. Credit should be separate and affordable, and *not* lead to a cycle of debt," Saunders explained.

Overall, NCLC's comments, submitted on behalf of its low income clients, praised the proposed rules but urged other improvements. "The CFPB has issued a strong rule that will give consumers more confidence when they use prepaid cards," Saunders said, "but the CFPB needs to do more to stop employers and colleges from forcing consumers to use cards they do not want."

NCLC's comments supported better protection against theft and unauthorized charges, the new fee disclosures, and the requirement to post all prepaid and payroll card fee schedules on the CFPB's website. NCLC also urged the CFPB to require employers and colleges to give consumers the choice up-front of direct deposit to their own account; to require FDIC insurance on all prepaid cards; to simplify the deadline for disputing an unauthorized charge; to ban ATM balance inquiry, customer service, "research," denied transaction and other fees; and to require companies that violate the law to be accountable in court, not before a private arbitrator they choose.

Related Links

- CFPB's proposed rule: <http://www.regulations.gov/#!documentDetail;D=CFPB-2014-0031-0001truth-in-lending-act>
- A summary of the CFPB's proposed rule, NCLC's comments, and comments sent by a coalition of 46 national and state groups are available under Prepaid Cards at: <http://www.nclc.org/legislation-regulation/rulemakings.html>.
- CFPB press release re: 2014 action against Ace Cash Express including a link to its training materials that reinforce the cycle of debt: <http://www.consumerfinance.gov/newsroom/cfpb-takes-action-against-ace-cash-express-for-pushing-payday-borrowers-into-cycle-of-debt>.
- More information about prepaid cards is on NCLC's website at: <http://www.nclc.org/issues/prepaid-debit-cards.html>.

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