

CFPB Issues Strong Rule to Protect Prepaid Cards

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Overdraft fees on payday lender prepaid cards still permitted but hopefully on the way out

(WASHINGTON) The final rules released by the Consumer Financial Protection Bureau (CFPB) today will vastly increase protections for prepaid cards, according to advocates at the National Consumer Law Center (NCLC). While the rules do not go as far as many wished, advocates expressed hope that the prepaid industry would completely eliminate overdraft fees so that all cards would truly be “prepaid.”

“The rules bring prepaid cards out of the shadows, with protections that in many ways are stronger than those for traditional bank accounts,” said Lauren Saunders, associate director of the National Consumer Law Center. “Consumers will have protection from fraud, costs will be more transparent, and dangerous overdraft fees will be curtailed, but unfortunately not eliminated,” she explained.

Only 2% of prepaid cards have optional overdraft “protection” that allows small purchases to trigger overdraft fees, primarily cards issued by NetSpend and sold by payday lenders or through employers. Payday lender prepaid cards are specially designed to enable payday loans and to add fees triggered by unaffordable loans, as revealed in an NCLC report last year. NetSpend also permits up to \$125 per month in overdraft fees on payroll cards that it issues for the States of Missouri and Kansas and many fast food and retail chains, as described in another NCLC report on state government prepaid payroll cards.

“The CFPB should ban overdraft fees entirely, and we call on NetSpend to eliminate all overdraft fees on prepaid cards and employee payroll cards so that these cards will be truly safe and ‘prepaid,’” Saunders stated.

The final rules improve fee transparency but do not generally regulate other fees. The rules do require free access to account balances and transaction histories by telephone and online but do not prohibit fees for balance inquiries at ATMs or for customer service generally. “Consumers should not have to pay fees to get information about their accounts, and we hope that prepaid card companies will eliminate fees for calling customer service and checking the balance at an ATM,” Saunders added.

Employers also will not be allowed to automatically enroll employees in payroll cards and require the employees to opt out. “Payroll cards can be a convenient way of receiving pay, but employers need to ensure that employees understand their choices and can avoid fees that bleed thin wages,” Saunders said.

The prepaid card market is growing rapidly. “Banks must do more to make traditional bank accounts safer and the CFPB needs to rein in overdraft fee abuses. But in the meantime, prepaid cards can be safer, cheaper, and more convenient than relying on cash or paying check cashing fees,” Saunders explained.

Related National Consumer Law Center Links

Fact Sheet: CFPB's Proposed Prepaid Card Rule (summary and National Consumer Law Center recommendations), March 2015

Payday Lender Prepaid Cards Report, July 2015

State Government [Prepaid] Payroll Cards, Nov. 2015

National Consumer Law Center comments to CFPB on proposed prepaid card rules, March 23, 2015: Full comments, comments only, exhibits only