

# NetSpend Plans Evasions of CFPB Prepaid Rules to Preserve \$80 Million in Overdraft Fees

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## **“Small business” cards, prepaid cards with “checks” would have overdraft fees**

(WASHINGTON) The prepaid card provider NetSpend, a division of Total System Services (TSYS), is planning changes to its prepaid card problems to evade new rules by the Consumer Financial Protection Bureau (CFPB) and avoid losing \$80 million in overdraft fee revenues. “The CFPB just adopted rules to limit harmful overdraft fees on prepaid cards, and it is outrageous that NetSpend is already plotting ways to circumvent rules meant to rein in overdraft abuses,” said Lauren Saunders, associate director of the National Consumer Law Center (NCLC).

Earlier this month, the CFPB issued final rules protecting prepaid cards. The rules, which go into effect on October 1, 2017, do not prohibit overdraft fees, but prepaid cards would need to comply with ability to repay rules and could not charge fees in the first year that exceed 25% of the credit extended, among other protections.

NetSpend is the only major provider of prepaid cards that has overdraft fees. NetSpend’s cards are primarily sold through payday lenders and check cashers, and NetSpend has even higher overdraft fees on payroll cards it offers through the states of Kansas and Missouri, fast food chains, and retail stores. Overdraft fees are charged to consumers who opt in to overdraft “protection.” On its quarterly earnings call, as reported by American Banker, NetSpend announced that it expects to lose \$80 to \$85 million a year in overdraft fees — 10% to 12% of its current revenue — as a result of the new rules. “We now know that NetSpend was taking \$80 million a year out of the pockets of the low-income consumers and workers who use prepaid and payroll cards,” Saunders stated. “Consumers turn to prepaid card to protect themselves from overdraft fees, and prepaid cards should be just that: ‘prepaid.’”

NetSpend explained that, to make up its revenue loss, it would launch several new products, including a prepaid card for small businesses and a deposit account that allows customers to write checks. Checking accounts are not covered by the new prepaid card rules, and small business cards are completely outside the protections for prepaid cards or bank account debit cards. NetSpend has said that it would offer overdraft fees on the new accounts that have checks, and it appears likely that they would be available on the small business cards as well.

“Small businesses are hurt by overdraft fees just as consumers are,” said Michelle Sternthal, deputy director of policy and government affairs for Main Street Alliance, which works to provide small businesses a voice on public policy issues. “NetSpend’s scheme exposes the need to expand our consumer protection laws to protect small business owners, which can be as small as a single person,” Sternthal explained. Advocacy groups have warned the CFPB that payday lenders are also planning on evading payday loan rules by claiming the loans are small business loans.

“We call on the CFPB to address overdraft fee abuses on all accounts, and on Congress to enact protections for our nation’s small business owners,” Saunders added.

Related National Consumer Law Center reports:

- Rating State Government Payroll Cards, November 2015
- Payday Lender Prepaid Cards: Overdraft and Junk Fees Hit Cash-Strapped Families Coming and Going, July 2015

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