

The Consumer Financial Protection Bureau (“CFPB”) recently announced that it will issue rules to govern prepaid cards, a largely unregulated market targeted at unbanked consumers and those with spotty credit. Although prepaid cards claim to be “prepaid,” some permit purchases that exceed the balance or are used to deliver costly loans. The lender then will take the loan and fees out of the next deposit of wages or benefits, leaving a shortfall that the consumer needs to fill with another loan or overdraft.

Consumer advocates argue that consumer abuse is rampant and that the payday loans and high fees are inherently unfair. Consumer advocates have urged the CFPB to ban overdraft fees and payday loans on prepaid cards. They argue that lenders are using prepaid cards as a means to circumvent state interest rate and loan limits. In comments filed with CFPB, consumer advocates have also urged the agency to extend fraud and loss protection to all cards, to give consumers free access to balances and account information, to require FDIC insurance, to improve fee disclosures, and to require a choice of direct deposit to the consumer’s own account for government payments and financial aid. Comments filed by consumer advocates and others can be accessed at www.regulations.gov.

Consumer advocates cited a number of examples of consumer abuse. They included the CheckSmart Insight Card 401% payday loans, in partnership with Urban Trust Bank, used to evade Arizona’s 36% interest rate cap and Ohio’s 28% interest rate cap. Additionally, SureCashXtra Tribal prepaid card overdraft-style loans cost 584% nationwide. Tandem Money prepaid card payday loans cost 295% to 365%. Tandem Money has a savings feature but a \$5 inactivity fee if a consumer does not continue to borrow or save after four months can deplete any savings.

The National Consumer Law Center (“NCLC”) was among the consumer advocates urging the CFPB to impose limits on overdraft fees, interest rates, and payday loans in conjunction with prepaid cards. The comments of NCLC and a coalition of other consumer advocacy groups can be found at NCLC’s website at www.nclc.org.