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Reinvestment Partners Applauds CFPB for Strong Prepaid Card Rule, But Regrets that Some Consumers May Still Pay Overdraft Fees

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(Durham, NC) - Reinvestment Partners applauds the CFPB for writing a final rule for prepaid debit cards, as it will greatly enhance the protections afforded to the millions of consumers who use these cards as their main banking account. Nonetheless, there are areas where the rule could have been stronger, as it still leaves open the possibility that some consumers will pay overdraft fees.

“The CFPB is making sure that consumers with prepaid debit cards receive the same protections as do those individuals that use a checking account,” said Adam Rust, Director of Research at Reinvestment Partners. “In some aspects, the scope of protections for prepaid cards may be even stronger than what currently exists for a traditional bank account.”

The rule has the effect of putting fraud and error resolution protections for prepaid cards on the same level as those that already exist for a traditional checking account. Because of the rule, prepaid card account holders will have stronger protections if funds are stolen from their accounts. Similarly, if a consumer wants to contest a charge, the process will be the same as it would be for a checking account.

Prepaid debit protections:

- Uniform long and short form disclosures with specific data points for the most common fees.
- Error resolution rights and fraud protection rights that are consistent with standard checking accounts.

Credit protections on overdraft services:

- Companies will have to wait 30 days before offering an overdraft service to a new prepaid card account holder.
- Full CARD Act protections for billing and late fees; the rule established limitations on late fees and gives consumers the right to a periodic statements.
- Interest and fee charges may not exceed one-fourth of the credit line in the first year that account is open.
- Banks need authorization from the consumer to pull funds from a prepaid account in order to satisfy an overdraft obligation.

“The rule falls short by failing to require deposit insurance on every account,” adds Rust. “Issuers only have to disclose whether or not consumer’s deposits are protected. Still, the industry has been moving in the right direction, and most issuers offer FDIC or NCUA pass-through insurance.”

Much of the rule focuses on issues related to how overdraft and credit will be applied to the standard prepaid debit platform. Specifically, the Bureau's rule establishes a regulatory framework designed to protect consumers and prevent future evasions - for example, any future iterations of a hybrid form of a prepaid card and a credit card that are abusive.

"This forward-thinking portion of the rule insures that if prepaid card issuers do offer credit card in connection with the prepaid card in the future, then consumers will receive full CARD Act protections," said Rust. "The CFPB is creating a firewall, where prepaid is prepaid and credit is credit."

The CFPB's action today is very important because millions of American households, and most often those that have less wealth, are currently using prepaid debit cards as their main transaction account. Prepaid cards can save people money, as the decision to receive funds on a card allows a person to avoid the cost of check cashing fees.

The rule covers general-purpose reloadable prepaid debit cards, payroll cards, student cards, mobile wallets, P2P payment services, tax refund cards, and some government benefit cards.

In 2014, Reinvestment Partners published "8 Principles for the Reform of the Prepaid Debit Card," (available at <http://bit.ly/2dGU4bj>) a first-of-its-kind paper that outlined the ideal approach for regulation of this product. Most of those protections are included in this rule. Our comment on the proposed final rule, published March 23rd, 2015: <http://bit.ly/2cPUKy7>

Reinvestment Partners is a 501(c)(3) organization based in Durham, North Carolina with a mission to create pathways for economic justice. We realize our mission through a "people, places, and policy" approach. Reinvestment Partners provides direct homeownership and tax preparation services, develops a local real estate portfolio, and engages in public policy on financial services.

For more about Reinvestment Partners' policy and advocacy on prepaid debit cards: <http://www.reinvestmentpartners.org/prepaid-debit-cards/>

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