

The CFPB's Prepaid Card Rule Benefits Financial Institutions, Prepaid Card Companies, and Employers

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The Consumer Financial Protection Bureau (CFPB) has issued a rule that gives prepaid cards the same fraud protections that cover debit cards; improves fee transparency; limits unaffordable overdraft fees; and bolsters' employee choice about how to receive pay. But Congress may block the rule before it goes into effect. That would be a shame, not only for consumers, but also for responsible financial institutions, prepaid card companies, and employers.

How Does the Rule Benefit Financial Institutions and Prepaid Card Companies?

Prepaid cards are similar to debit cards, but no bank account or credit check is required. The cards are used as a bank account substitute by consumers who have lost their bank accounts due to overdrafts or who prefer to avoid overdraft fees. Employers use payroll cards to pay wages; government agencies and colleges use cards to pay government benefits and financial aid, respectively.

The prepaid card rule has several benefits for the prepaid card industry. The rule:

- **Legitimizes prepaid cards as a safe, mainstream financial product.** Today, prepaid cards have a reputation as a fringe product and do not have the same consistent protections as bank accounts do. By extending *full federal fraud protections* to all prepaid cards, the rule gives consumers more confidence to use prepaid cards.
- **Avoids confusion over fees.** Consumers have many choices of different fee models on prepaid cards. By ensuring that consumers are aware of the fees and can choose the card that works for them, the rule minimizes anger over hidden fees.
- **Levels the playing field for low fee cards.** Simple, *uniform fee comparison charts* help providers with low fee cards compete against those that disguise the cost in complicated fees.
- **Rewards transparent pricing and limits destructive competition through back-end overdraft fees.** Today, banks have difficulty charging honest monthly fees on bank accounts because they compete with deceptively named "free checking" that is subsidized through overdraft fees on the most vulnerable consumers. Overdraft fees are rare on prepaid cards today, as companies awaited the rule. The final rule caps and limits unaffordable overdraft fees, flags cards with overdraft features, and imposes a 30-day waiting period on overdraft features. Without the rule, price competition and investor revenue pressure would make it difficult to resist a back-end fee pricing model if competitors are charging lower up-front fees and raking in overdraft fees. For example, two payroll card vendors today earn 46% and 63% of their revenue from overdraft fees.
- **Helps credit unions and banks burdened by cashing other companies' payroll and unemployment benefits cards.** Today, many employees and recipients of unemployment compensation are coerced into receiving their pay or benefits on a card they do not want. They often flood the branch of the local credit union or bank (which receives no revenue from the cards) to cash cards at the teller window - at times misdirecting their anger at fees at the bank

or credit union. The rule makes it easier for workers and government benefits recipients to get their pay or benefits through direct deposit to the account they choose - relieving teller pressure and potentially encouraging accounts at the local credit union or bank.

How Does the Rule Benefit Employers and Payroll Card Providers?

Payroll cards have gotten a bad reputation when employers have coerced employees into using payroll cards and workers have incurred unwanted fees. Negative press has led regulators to crack down on payroll cards and has scared workers away from using payroll cards, even though well-designed payroll card programs can be safer, faster, more convenient and cheaper than a paper check for unbanked workers.

The prepaid card rule will benefit employers and payroll card providers by:

- **Making sure that employees know they have a choice of how to be paid.** No one benefits when employees end up with payroll cards they do not want. The rule ensures that employees are told the fees before they choose and are advised that they need not accept a payroll card.
- **Helping employees understand payroll cards and compare them to other options.** Simple, standardized fee charts enable employees to understand fees, avoid surprises, and compare the payroll card to other prepaid cards that can be used to accept pay by direct deposit.

Do Any Companies Support the Payroll Rule?

Yes. Green Dot, the largest prepaid card company, supports the CFPB's rule:

"Green Dot embraces the new rule as recognition that the industry we started more than 15 years ago continues to serve an increasingly significant role in the everyday financial lives of a growing number of American families. We fully support the CFPB's mission to ensure fairness, integrity and consumer protections for all participants in the financial system. For many years, Green Dot has voluntarily provided full checking account style consumer protections for its customers and has never charged overdraft or penalty fees on Green Dot Bank's prepaid and checking products. It's gratifying to know that prepaid can now move to a level playing field that can better serve consumers while allowing the entire industry to move past the period of regulatory uncertainty."

The effort to block the prepaid card rule has very little support. Major prepaid card issuers, trade associations, and payments providers that are **not** asking Congress to block the rule include the Network Branded Prepaid Card Association, JP Morgan Chase (Liquid Card), American Express (Bluebird Card), American Bankers Association, Credit Union National Association, Independent Community Bankers Association, Financial Innovation Now, Amazon, Apple, Google, Intuit and PayPal.

The *Center for Financial Services Innovation*, which works with industry leaders to shape the quality of prepaid product offerings and helps them innovate and build better consumer products and practices, supports the prepaid card rule.

The CFPB has expressed its commitment to well-tailored and effective regulations, is continuing its outreach to industry stakeholders, and will make adjustments as warranted.

Who Opposes the Rule?

NetSpend, the only major prepaid card company with overdraft fees, opposes the rule to preserve \$80-\$85 million a year in overdraft and other fees. NetSpend charges \$15 overdraft fees on its general use prepaid cards and \$25 fees on its payroll cards for those who opt in to overdraft "protection." NetSpend, which recently settled charges brought by the FTC, primarily sells cards through payday lenders. The Electronic Transactions Association, whose President-Elect is NetSpend's president, also opposes the rule.

For More Information:

Press Release, CFPB Finalizes Strong Federal Protections for Prepaid Account Consumers (Oct. 5, 2016)

National Consumer Law Center, Payday Lender Prepaid Cards (July 2015)

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