

NetSpend Stealthily Settles FTC Charges Ahead of Fight Over CFPB Prepaid Card Rules

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(WASHINGTON) In an announcement released late Friday night by the Federal Trade Commission (FTC), the prepaid card company NetSpend settled charges that the company deceptively claimed that people would have “instant access” to deposited funds loaded onto its prepaid cards while blocking many from accessing their money for weeks or longer. The company agreed to reimburse \$53 million of funds that consumers were never able to access and to ensure that it did not deceive consumers about access to funds or registration requirements.

The quiet settlement comes two days after a move to advance a vote in Congress, supported by NetSpend, to stop the Consumer Financial Protection Bureau’s prepaid card rule from going into effect.

“The people who use prepaid cards like NetSpend’s are often living paycheck to paycheck, and need their money immediately. That’s why it’s especially outrageous that NetSpend advertised ‘guaranteed approval’ and ‘immediate access’ to funds with ‘no waiting’ when many could not get their money for weeks and some were never approved at all after loading money onto the cards,” said Lauren Saunders, associate director of the National Consumer Law Center in Washington, DC. The stipulated order prohibits NetSpend from misrepresenting how to activate prepaid cards or access funds and requires NetSpend to refund \$53 million to consumers who loaded funds onto NetSpend cards but never had access to their money.

“Even more outrageous is that NetSpend is trying to block all prepaid card users from getting basic protection against fraud and hidden fees so that it can preserve the \$80 million in overdraft and other fees that it charges to struggling families,” Saunders added. “The Consumer Financial Protection Bureau’s prepaid card rule is a common sense rule that gives prepaid cards the same protections against fraud, unauthorized charges, and errors that debit cards already have,” she explained.

Resolutions have been filed in the U.S. House of Representatives and U.S. Senate to use an obscure law to block the CFPB’s prepaid card rule. Last Wednesday, a petition was filed in the Senate to make the resolution eligible for a floor vote. If Congress overturns the prepaid card rule, the CFPB is forever barred from enacting a substantially similar rule unless Congress gives it permission to do so.

The vast majority of prepaid cards (98 percent) are truly prepaid. NetSpend is the only major prepaid card company with opt-in overdraft “protection” that can trigger \$15 to \$25 overdraft fees. NetSpend primarily sells its cards through payday lenders and alternative financial service providers. The payday lender ACE Cash Express is its largest distributor. NetSpend cards are also unusual in permitting payday lenders to debit the account on payday (potentially incurring an overdraft fee), which most prepaid cards do not allow. The CFPB rule limits but does not prohibit overdraft features.

“Prepaid cards should be just that: prepaid. Congress must not block common sense protections against hidden fees and unauthorized charges on prepaid cards just so that one company can keep gouging cash-strapped families with overdraft fees,” Saunders urged.

The CFPB’s prepaid card rule is scheduled to go into effect on October 1, 2017, although the CFPB has proposed to extend the effective date to April 1, 2018, to allow companies more time to plan for the rule.

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