

📣 Press Release

CFPB Finalizes Strong Federal Protections for Prepaid Account Consumers

New Rule Includes 'Know Before You Owe' Prepaid Disclosures

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WASHINGTON, D.C. – The Consumer Financial Protection Bureau (CFPB) today finalized strong federal consumer protections for prepaid account users. The new rule requires financial institutions to limit consumers' losses when funds are stolen or cards are lost, investigate and resolve errors, and give consumers free and easy access to account information. The Bureau also finalized new "Know Before You Owe" disclosures for prepaid accounts to give consumers clear, upfront information about fees and other key details. Finally, prepaid companies must now generally offer protections similar to those for credit cards if consumers are allowed to use credit on their accounts to pay for transactions that they lack the money to cover.

"Many consumers rely on prepaid cards to make purchases and access funds, but until now they were not guaranteed strong consumer protections under federal law," said CFPB Director Richard Cordray. "This rule closes loopholes and protects prepaid consumers when they swipe their card, shop online, or scan their smartphone. And it backs up those protections with important new disclosures to let consumers know before they owe."

Prepaid accounts are among the fastest growing consumer financial products in the United States, usually purchased at retail outlets or online. The amount consumers put on "general purpose reloadable" prepaid cards grew from less than \$1 billion in 2003 to nearly \$65 billion in 2012. The total dollar value loaded onto these prepaid cards is expected to nearly double to \$112 billion by 2018. Prepaid accounts may be loaded with funds by a consumer or by a third party, such as an employer. Consumers generally can use these accounts to make payments, store funds, withdraw cash at ATMs, receive direct deposits, or send money to others.

The new rule applies specific federal consumer protections to broad swaths of the prepaid market for the first time. It covers traditional prepaid cards, including general purpose reloadable cards. It also applies to mobile wallets, person-to-person payment products, and other electronic prepaid accounts that can store funds. Other prepaid accounts covered by the new rule include: payroll cards; student financial aid disbursement cards; tax refund

cards; and certain federal, state, and local government benefit cards such as those used to distribute unemployment insurance and child support.

Prepaid Protections

For many consumers, prepaid accounts are an alternative to traditional checking accounts, but until now they had only limited federal protections. The new rule gives prepaid account consumers important protections under the Electronic Fund Transfer Act, which are similar to those for checking account consumers. They include:

- **Free and easy access to account information:** Financial institutions must make certain account information available for free by telephone, online, and in writing upon request, unless they provide periodic statements. Unlike checking account customers, prepaid consumers typically do not receive periodic statements by mail. The rule ensures that consumers have access to their account balances, their transaction history, and the fees they've been charged.
- **Error resolution rights:** Financial institutions must cooperate with consumers who find unauthorized or fraudulent charges, or other errors, on their accounts to investigate and resolve these incidents in a timely way, and where appropriate, restore missing funds. If the financial institution cannot do so within a certain period of time, it will generally be required to provisionally credit the disputed amount to the consumer while it finishes its investigation.
- **Protections for lost cards and unauthorized transactions:** The new rule protects consumers against withdrawals, purchases, or other unauthorized transactions if their prepaid cards are lost or stolen. The rule limits consumers' liability for unauthorized charges and creates a timely way for them to get their money back. As long as the consumer promptly notifies their financial institution, the consumer's responsibility for unauthorized charges will be limited to \$50.

Know Before You Owe: Prepaid Disclosures

The Bureau's new rule includes new "Know Before You Owe" prepaid disclosures which provide consumers with standard, easy-to-understand, upfront information about prepaid accounts. Consumers cannot always tell what fees apply to prepaid accounts before purchasing or signing up for them because the disclosures may be inside the packaging or hard to find online. This can make it difficult to comparison shop and make well-informed decisions. The new rule sets an industry-wide standard on fee disclosures for prepaid accounts. This follows the tradition of the Bureau's "Know Before You Owe" disclosure forms for mortgages and student financial aid offers. These disclosures simplify, organize, and present information in a way the consumer can easily understand and act upon. Under the new rule, prepaid consumers will have access to:

- **Standard, easy-to-understand, upfront information:** The CFPB rule requires two forms, one short and one long, with easy-to-understand disclosures. The short form concisely and clearly highlights key prepaid account information, including the fees the CFPB believes are most important to consumers shopping for a prepaid account. These include a periodic fee, per purchase fee, ATM withdrawal and balance inquiry fees, cash reload fee, customer service fees, and inactivity fee. The short form also must disclose certain information about additional types of fees that the consumer may be charged. Consumers will also get or be able to access the comprehensive long form disclosure containing a complete list of fees and certain other key information before acquiring the account.
- **Publicly available card agreements:** To make comparison shopping easier, the rule requires prepaid account issuers to post on their websites the prepaid account agreements they offer to the general public. Additionally, with a few exceptions, issuers must submit all agreements to the CFPB, which intends to post them on a public, Bureau-maintained website at a future date. Also, issuers must make any agreement not required to be posted on their website available to applicable consumers.

Examples of the disclosures can be found here:

http://files.consumerfinance.gov/f/documents/102016_cfpb_KBYO_PrepaidDisclosures.pdf



Credit Protections

The new rule includes strong protections for consumers using credit products that allow them the option of spending more money than they have deposited into the prepaid account. Under the rule, prepaid issuers must give consumers protections similar to those on credit cards if consumers are allowed to use certain linked credit products to pay transactions that their prepaid funds would not fully cover. These protections stem mainly from the Truth in Lending Act and the Credit Card Accountability Responsibility and Disclosure Act (CARD Act). Protections that apply to such prepaid credit products include:

- **Ability to pay:** Prepaid companies, like credit card issuers, must make sure consumers have the ability to repay the debt before offering credit. The new rule states that companies cannot open a credit card account or increase a credit line related to a prepaid card unless they consider the consumer's ability to make required payments. For consumers under 21, the companies will be required to assess these consumers' independent ability to repay.
- **Monthly credit billing statement:** Prepaid companies have to give consumers regular statements like those credit card consumers receive. This statement will detail fees, and if applicable, the interest rate, what they have borrowed, how much they owe, and other key information about repaying the debt.
- **Reasonable time to pay and limits on late fees:** Prepaid companies, like credit card issuers, will be required to give consumers at least 21 days to repay their debt before

they are charged a late fee. Late fees must also be “reasonable and proportional” to the violation of the account terms in question.

- **Limited fee and interest charges:** During the first year a credit account is open, total fees for credit features cannot exceed 25 percent of the credit limit. Generally, card issuers cannot hike the interest rate on an existing balance unless the cardholder has missed back-to-back payments. Card issuers may raise the interest rate in advance of new purchases, but generally must give the consumer 45 days advance notice, during which time the consumer may cancel the credit account.

The CFPB rule includes other protections to ensure that the prepaid account and the credit feature described above are distinct, such as a:

- **Thirty-day waiting period:** The CFPB rule requires companies to wait 30 days after a consumer registers the prepaid account before offering the credit feature to the consumer. This gives consumers time to gain experience with the basic prepaid account before deciding if they want to apply for the credit feature.
- **Wall between prepaid funds and credit repayment:** Prepaid companies cannot automatically seize a credit repayment the next time a prepaid account is loaded with funds. Further, prepaid companies cannot automatically take funds from the prepaid account to repay the credit when the bill is due unless the consumer consents. And even so, companies cannot automatically take funds more than once per month. Payment also cannot be required until 21 days after the statement is mailed.

The new rule will generally apply to prepaid accounts starting Oct. 1, 2017, though the requirement for submitting agreements to the Bureau takes effect in October 2018. The final rule includes other accommodations in certain situations.

For a copy of the rule:

http://files.consumerfinance.gov/f/documents/20161005_cfpb_Final_Rule_Prepaid_Accounts.pdf


For prepaid rule-related documents: <http://www.consumerfinance.gov/prepaid-rule>

To view a CFPB video with highlights of the rule: <https://youtu.be/JPTg8ZB3j5c> 

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The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit consumerfinance.gov.

Topics: