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# CFPB Proposes Strong Federal Protections for Prepaid Products

## *Bureau's Proposal Includes New 'Know Before You Owe' Prepaid Disclosures*

**WASHINGTON, D.C.** – Today the Consumer Financial Protection Bureau (CFPB) is proposing strong, new federal consumer protections for the prepaid market. The proposal would require prepaid companies to limit consumers' losses when funds are stolen or cards are lost, investigate and resolve errors, provide easy and free access to account information, and adhere to credit card protections if a credit product is offered in connection with a prepaid account. The Bureau is also proposing new "Know Before You Owe" prepaid disclosures that would provide consumers with clear information about the costs and risks of prepaid products upfront.

"Consumers are increasingly relying on prepaid products to make purchases and access funds, but they are not guaranteed the same protections or disclosures as traditional bank accounts," said CFPB Director Richard Cordray. "Our proposal would close the loopholes in this market and ensure prepaid consumers are protected whether they are swiping a card, scanning their smartphone, or sending a payment."

Prepaid products are consumer accounts typically loaded with funds by a consumer or by a third party, such as an employer. Consumers can use these products to make payments, store funds, get cash at ATMs, receive direct deposits, and send funds to other consumers. Prepaid products are often bought at retail stores or online. Prepaid products are amongst the fastest growing types of consumer financial products in the United States. For example, the amount of money consumers loaded onto "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 general purpose reloadable cards is expected to continue to grow to nearly \$100 billion through 2014.

This proposal would apply a number of specific federal consumer protections to broad swaths of the prepaid market for the first time. The proposal would cover traditional plastic prepaid cards, many of which are general purpose reloadable cards. In addition, the proposal would cover mobile and other electronic prepaid accounts that can store funds. The prepaid products covered by the proposal also include: payroll cards; certain federal, state, and local government benefit cards such as those used to distribute unemployment insurance, child support, and pension payments; student financial aid disbursement cards; tax refund cards; and peer-to-peer payment products.

## Prepaid Protections

Many consumers use prepaid products as an alternative to traditional checking accounts. Currently, however, there are limited federal consumer protections for most prepaid accounts. The proposal would ensure that most prepaid account consumers would have important protections under the Electronic Fund Transfer Act after registering their account. The protections are generally similar to those checking account consumers already receive and include:

- **Easy and free access to account information:** Under the CFPB proposal, financial institutions would be required to either provide periodic statements or make account information easily accessible online and for free. Unlike checking account customers, prepaid users typically do not automatically receive periodic statements. The proposal would ensure that consumers are able see their account balances and a history of their transactions and fees.
- **Error resolution rights:** The proposed rule would require financial institutions to work with consumers who encounter errors with their account. Currently, prepaid customers who are double-charged for a transaction or charged an incorrect amount may not be guaranteed a practical way to fix the problem. This proposal would require financial institutions to investigate errors that consumers report on registered accounts and to resolve those errors in a timely manner. If the financial institution cannot resolve an alleged error within a certain period of time,

it would be required to temporarily credit the disputed amount to the consumer to use while the institution finishes its investigation.

- **Fraud and lost-card protection:** The proposal would protect consumers against unauthorized, erroneous, or fraudulent withdrawals or purchases, including when registered cards are lost or stolen. Consumers receive this protection on their credit and debit cards, but it is not guaranteed on prepaid products. If consumers lose their prepaid card or find erroneous or fraudulent charges on their prepaid account, the rule would limit their responsibility for transactions they did not authorize and create a timely method for them to get their money back. As long as the consumer promptly notifies their financial institution, the consumer's responsibility for unauthorized charges would be limited to \$50.

## Know Before You Owe: Prepaid Fees

The Bureau's proposal also includes new "Know Before You Owe" prepaid disclosures that would provide consumers with standard, easy-to-understand information about the prepaid account. Consumers cannot always tell what fees apply to their prepaid cards before purchasing them because such disclosures are inside the packaging or hard to find online. The current lack of an industry-wide standard on prepaid-card fee disclosures can make it difficult for consumers to comparison shop and make well-informed decisions. Under the proposal, prepaid consumers would have access to:

- **Standard, easy-to-understand information upfront:** The CFPB's proposal includes two required forms, one short and one long, with easy-to-understand disclosures. The short form would concisely and clearly highlight key prepaid account information, including common costs like the monthly fee, fee per purchase, ATM withdrawal cost, and fee to reload cash onto the account. In addition, under the CFPB's proposal, consumers would have to receive or have access to a full set of the account's fees and related information before acquiring the account. The long form would contain all of the fees on the short form, plus any other potential fees that could be imposed in connection with the account.

- **Publicly available card agreements:** To facilitate comparison shopping, this proposal would require that prepaid account issuers post their account agreements on their websites. Additionally, issuers would be required to submit those agreements to the Bureau for posting on a public, Bureau-maintained website.

The proposed disclosures are available

at:[http://files.consumerfinance.gov/f/201411\\_cfpb\\_prepaid-model-sample-disclosure-forms.pdf](http://files.consumerfinance.gov/f/201411_cfpb_prepaid-model-sample-disclosure-forms.pdf)

## Credit Protections

The proposal also includes strong protections in connection with credit products that allow consumers to pay to spend more money than they have deposited into the prepaid account. Under the proposed rule, if consumers choose to use a credit product related to their prepaid account, they would be entitled to the same protections that credit card consumers receive today. These protections largely stem from the Truth in Lending Act and the Credit Card Accountability Responsibility and Disclosure Act of 2009. The protections that would also apply to prepaid credit products include:

- **Ability to pay:** Like credit card issuers, prepaid companies would be required to first make sure consumers have the ability to repay the debt before offering credit. Under the proposal, 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 the required payments. For consumers under 21, the companies would be required to assess these consumers' independent ability to repay the credit.
- **Monthly credit billing statement:** Prepaid companies would be required to give consumers the same monthly periodic statement that credit card consumers receive. This statement would detail consumers' fees, and if applicable, 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, would be required to give consumers at least 21

days to repay their debt before they are charged a late fee. Additionally, late fees must 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, the total fees for prepaid credit products would not be allowed to exceed 25 percent of the credit limit. Card issuers generally are prohibited from increasing the interest rate on an existing balance unless the cardholder has missed two consecutive payments. Card issuers may increase the interest rate prospectively on new purchases, but must generally give the consumer 45 days advance notice – during which time the consumer may cancel the credit account.

The CFPB’s proposal also includes some additional protections to ensure that the prepaid account and the credit product are distinct, such as:

- **Thirty-day waiting period:** The CFPB’s proposal would require companies to wait thirty days after a consumer registers the prepaid account before they could formally offer credit to the consumer. This would allow consumers to get experience with the basic prepaid account before deciding whether they want to apply for a credit product.
- **Wall between prepaid funds and credit repayment:** Prepaid companies could not automatically demand and take credit repayment whenever a prepaid account is next loaded with funds. Further, prepaid companies could not take funds loaded into the prepaid account to repay the credit when the bill is due unless the consumer has affirmatively opted in to allow such a repayment. Even then, companies cannot take funds more frequently than once per calendar month. Payment also cannot be required sooner than 21 days after the mailing of the periodic statement.

In May 2012, the CFPB issued an [Advance Notice of Proposed Rulemaking](#) on prepaid cards. The Bureau carefully reviewed all of the comments received and conducted outreach in the development of this proposal.

The proposed rule and disclosures will be open for public comment for 90 days after its publication in the Federal Register. A copy of the proposed rule, which

includes information on how to submit comments, will be available Thursday  
at:<http://www.consumerfinance.gov/regulations/>

A CFPB study of the prepaid market can be found

at:[http://files.consumerfinance.gov/f/201411\\_cfpb\\_study-of-prepaid-account-agreements.pdf](http://files.consumerfinance.gov/f/201411_cfpb_study-of-prepaid-account-agreements.pdf)

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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](http://ConsumerFinance.gov).*