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**Prepared Remarks of Richard Cordray
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Prepaid Products Field Hearing

**Wilmington, Delaware
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Thank you so much for joining us today. It is our pleasure to be here in “the first state.” At the Consumer Financial Protection Bureau, we try to get out and talk with consumers across the country on a regular basis. Today, we are here in Delaware to discuss a market that has seen rapid growth in recent years, which is the market for prepaid cards and other prepaid products.

Prepaid products are relatively new and they are growing exponentially. Their most tangible form is the prepaid card product used to store funds and carry out transactions. The most common format of the card product is known as “general purpose reloadable” or GPR cards. Consumers can load money onto GPR cards and use them for everyday purchases, just like they would use a bank account with a debit card. Consumers can purchase the cards in any number of stores or online, which makes them easily accessible to a wide range of people.

Some prefer to use prepaid cards for online shopping or bill payment. Others may receive their wages, benefits, or other disbursements on a prepaid card. Still others turn to prepaid cards as a budgeting tool, as is true, for example, of parents who send their children off to college with a prepaid card that can be used to cover expenses. The number of all prepaid card transactions is growing rapidly, jumping from 1.3 billion in 2009 to 3.3 billion in 2013 – an increase of more than 150 percent in only four years.

Prepaid products, however, are more than just cards. As the prepaid card market has grown, so has the use of mobile or electronic prepaid accounts. Products like PayPal or Google Wallet can be loaded with and store funds from the consumer or from third parties, and they also can be used for a wide range of transactions, without reliance on a card.

The Federal Deposit Insurance Corporation reports that prepaid card users are

disproportionately unbanked and under-banked households. Unbanked consumers do not have any type of bank account. Under-banked consumers typically have a bank account, but also use nonbank products to meet some of their financial needs. These consumers either have to, or choose to, operate outside of the traditional brick-and-mortar banking system. More than one out of every five unbanked consumers has used a prepaid card, and this number is growing.

Many of these prepaid consumers are living paycheck to paycheck, and are engaged in a constant battle to make ends meet. They are some of the most economically vulnerable among us, and most of them have no idea that the prepaid cards they choose to purchase are largely unregulated at the federal level and carry few if any protections under federal consumer financial law.

Technology and innovation can be powerful forces to improve human life. They can create new products like prepaid accounts that could serve the needs of consumers who are left out of or opt out of the banking system. In growing numbers, people are finding that these products are helping to meet their needs, which is a good thing. But with this expanded access to financial services, it is also crucial that consumers have strong protections under the law. Our goal as a financial regulator is to implement rules of the road that protect consumers across different products and services, both in today's marketplace and in the markets of the future.

Today, we are proposing a new rule to bring strong consumer protections to the prepaid market. Consumers need and deserve to be able to use sustainable products whose costs and risks are clear upfront, and where their money is protected. The proposed rule covers prepaid cards as well as mobile and electronic prepaid accounts that can store funds. In addition to general purpose reloadable prepaid cards, our rule would also apply to prepaid cards that are used to distribute payroll wages, certain government payments, child support payments, and government benefits that are not needs-tested such as unemployment insurance and public pensions.

Under our proposal, consumers would have some new protections if their prepaid card is lost or stolen. The new disclosures we are proposing for prepaid accounts would give consumers clear information about the costs and risks before they agree to open the account. And if they choose to connect a credit product to their prepaid account, they would receive the same protections that credit card consumers have. As described more fully below, the proposed rule will help the prepaid market work better both for consumers and for responsible providers.

The new prepaid account protections we are proposing today are important because they fill key gaps for consumers. People use prepaid accounts as a convenient way to store and access their funds, and many consumers see them as effective alternatives to checking accounts. But these products are still fairly new and most have not yet been brought within the coverage of federal consumer financial laws. By bringing prepaid accounts under the Electronic Fund Transfer Act, we are proposing to give consumers the basic protections – including safety of the funds – they have come to expect when they pull a debit card out of their wallet or shop online with it. All prepaid consumers would receive the same basic protections as long as they register the card

with the institution that provided it.

The first thing consumers should be able to count on is easy access to their account information. Unlike checking account customers, prepaid users typically do not automatically receive periodic statements. Under our proposal, financial institutions must either provide periodic statements or make account information easily accessible online and for free. We want consumers to be able to see their account balances and a history of their transactions and fees. This helps them keep track of their affairs and exert more control over their financial decisions.

Second, our proposed rule would require financial institutions to work with consumers who encounter errors with their account. Right now, if someone is double-charged for a transaction or a merchant enters an incorrect amount, the consumer may not be guaranteed any way of fixing the problem. Under our proposed rule, institutions would be required to investigate errors on registered cards that consumers report to them and work to resolve those errors in a timely manner.

Third, if consumers lose their card, our proposed rule would protect their funds; and if their card or their password is stolen, our rule would protect them against fraud. If consumers lose their card or find erroneous or fraudulent charges on their account, our rule would limit their responsibility for transactions they did not authorize and create a prompt method for them to get their money back. As long as consumers notify their financial institution in a timely manner about their lost card or an unauthorized charge on their prepaid account, they can limit their responsibility if any harm occurs.

Clear and understandable disclosures are another important element in safeguarding consumers. The new protections would make sure that consumers have upfront information about prepaid accounts so they can shop for the best deal. This is part of our “Know Before You Owe” initiative to empower consumers to make informed choices about financial products. We have done similar projects on mortgage disclosures, student financial aid shopping sheets, and credit card agreements. We want to make sure that people know about the costs, risks, and terms of the deal before they sign up and begin to pay fees.

Unfortunately, consumers often do not have this type of information about a prepaid card until after they have purchased it. Most cards list major fees on the exterior packaging, but the fee information is not in any way standardized, making it difficult for consumers to comparison shop among prepaid products. Further, some fees may be tucked away in the fine print inside the packaging or buried in some obscure place on a website. Thus people may not know the fees that would be charged until after the prepaid card has been purchased or the prepaid account has been opened. But that is clearly insufficient. We want consumers to know about the costs and fees before they buy a prepaid product so that they can compare prices and terms to decide on the best deal to meet their particular needs.

So we are proposing “Know Before You Owe” prepaid disclosures that would provide people with clear information upfront. Our proposal includes a model form with easy-to-understand disclosures designed to help consumers. We also took care to validate these disclosures through consumer testing. This form would clearly and concisely

highlight key information about a prepaid account such as common costs like the monthly fee, fee per purchase, ATM withdrawal cost, and the fee to reload cash onto the card.

For those providers who use the model form, the information will be presented in the same format for easy comparison to allow more informed consumer shopping. In addition, under our proposal consumers must be able to access a full set of the fees and related information before acquiring an account, purchasing a card, or receiving a card from an employer or most other sources.

Our proposal requires companies to make their prepaid account agreements publicly available. Because consumers do not often see the full agreement until after they have purchased a prepaid card, today's proposal would make card issuers post their account agreements on their websites. Prepaid card issuers would also have to submit their agreements periodically to the Bureau for posting on a public website that we would maintain. We are determined to make it easier for consumers to be able to shop and compare the terms of different prepaid cards.

As with all of our "Know Before You Owe" efforts, we have been careful and deliberate in creating these model disclosures. Yet we recognize that these forms are only useful if they work for consumers. For that reason, we took pains to test these forms and we welcome your thoughts on them and the broader proposal. Through our collaboration, we will be better able to serve consumers in this important and growing market.

Finally, some prepaid cards extend credit to consumers in connection with their prepaid account by allowing them to spend more money than they have deposited onto the card. This can pose certain risks. In light of this, we are also proposing strong new credit protections for these scenarios. Most prepaid cards do not currently have credit features, which makes sense because they are marketed as "prepaid" for a reason.

Consumers often use these cards because they want to avoid credit features that can cause them to rack up fees and fall into debt. In fact, some of them have previously lost bank accounts for this very reason. Under the proposal we are issuing today, when a prepaid card issuer offers credit features in connection with a prepaid account, it would be treated the same as a credit card under the law. This approach would ensure that consumers who use credit on prepaid accounts will be just as protected as those who use credit cards.

Many protections conferred on credit cardholders stem from the Truth in Lending Act; others stem from the Credit Card Accountability Responsibility and Disclosure Act of 2009, otherwise known as the CARD Act, which made sweeping changes in the credit card market to protect consumers. Our proposal would guarantee key credit card protections to prepaid consumers when the accounts offer credit features. We recognize this may make certain credit features impractical for prepaid cards, but these protections are very important in this context.

First, like credit card issuers, prepaid companies would be required to make sure at the outset that the consumer has the ability to repay the debt before offering credit. They could not open a credit card account or increase a credit line on a card account unless

the card issuer first assesses the consumer's ability to make the required payments under the terms of the account.

Second, prepaid companies would be required to give consumers the same monthly credit statement that credit cardholders now receive. This statement would detail their interest rate, any fees, what they have borrowed, how much they owe, and other key information about repaying the debt.

Third, 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. Late fees and other penalty fees must also be "reasonable and proportional" to the way in which the account terms were violated.

Fourth, as with credit cards, the total fees for prepaid credit products during the first year would not be allowed to exceed 25 percent of the initial 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 notice to the consumer 45 days in advance – during which time the consumer may cancel the credit feature.

Our proposal also includes some important additional protections to ensure that the prepaid product is distinct from the credit product. It is critical that prepaid consumers fully understand the costs and risks of any credit product that is offered to them before they sign up. For this reason, our proposal requires a thirty-day waiting period before prepaid companies can offer credit. Consumers should have the chance to decide whether the basic prepaid product is a good fit for them before they add any credit features.

If prepaid consumers choose to sign up for a credit product, our proposal would keep their prepaid funds walled off from credit repayment. Issuers could not automatically demand and take repayment whenever a card is reloaded. Further, issuers could not sweep funds from the prepaid account to repay the credit unless the consumer has affirmatively authorized such a repayment plan, and they cannot take funds more frequently than once per calendar month. This keeps prepaid consumers in control of their funds.

Certainly it would be easier for financial institutions to extend credit without complying with these basic requirements. But these important safeguards are already required for credit cards, and we believe they should apply equally to credit features offered on prepaid cards and prepaid accounts.

Fairness and transparency are important hallmarks of all consumer financial products and services. Today's proposal would help us achieve these goals for prepaid account consumers. Our first-ever comprehensive federal protections in this market would give people easy and free access to account information, require companies to investigate and resolve errors, limit consumer losses on lost cards or where funds are erroneously removed or stolen, and mandate adherence to credit card protections if the account offers credit features. Our new disclosures would further allow consumers to "vote with

their feet” because they would be better informed with clear information about the costs and risks of different prepaid products upfront.

Just because consumers may not be able to afford or qualify for a bank account, or just because they do not want to be a part of the brick-and-mortar banking system, this does not mean they deserve to be treated as second-class citizens. Like anyone else, they deserve to have a safe place to store their money and a practical means of carrying out financial transactions. And though many prepaid companies already have opted to offer some of these basic, common-sense protections, it is important to ensure that they are not simply optional but instead are cemented as the standard for the industry and enshrined in law.

Consumers deserve that from us. As Helen Keller once noted, “Alone we can do so little; together we can do so much.” We agree wholeheartedly. By working together, we can build a more fair and transparent marketplace for all consumers, whether they are banked, unbanked, or under-banked. And so we look forward to a vigorous discussion of our proposed prepaid rule here today, just as we look forward to the instructive comments that we expect to receive from the public. Thank you.

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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.