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Advocates Urge CFPB to Ban Overdraft Fees and Payday Loans on Prepaid Cards

Stronger Consumer Protections Are Needed on Largely Unregulated Cards

WASHINGTON, DC— Consumer advocates, civil rights groups, and community organizations across the country urged the Consumer Financial Protection Bureau to ban overdraft fees and payday loans on prepaid cards in numerous comments filed with the Bureau yesterday. “Prepaid cards with overdraft fees and payday loan features are inherently deceptive,” says Lauren Saunders, managing attorney of the National Consumer Law Center. “People turn to prepaid cards when they have had trouble with overdraft fees on bank accounts or want controls on their spending, and they do not need to be lured into another dangerous cycle of debt.”

The CFPB has announced that it will write rules to govern prepaid cards, a rapidly growing and largely unregulated market targeted at unbanked consumers and people who have credit problems.

“Payday lenders are already using prepaid cards to circumvent state laws that protect people from loans with dangerous triple-digit interest rates,” said Jean Ann Fox, director of financial services at Consumer Federation of America. “The CFPB needs to put a stop to prepaid card payday loans or interest rate caps across the country will be wiped out.”

Though prepaid cards claim to be “prepaid,” some permit purchases that exceed the balance or are used to deliver costly loans. The lender then typically takes the loan and fees out of the next deposit of wages or benefits, leaving a hole that the consumer needs to fill with another loan or overdraft. Examples include:

- **CheckSmart Insight Card** 401% payday loans, **in partnership with Urban Trust Bank**, are used to evade Arizona’s 36% rate cap and Ohio’s 28% rate cap.
- **TandemMoney** prepaid card payday loans, **in partnership with Insight Card Services** (part owned by CheckSmart’s parent company), **Urban Trust Bank** and **Premier Bank**, cost 292% to 365%. TandemMoney has a savings feature but a \$5 inactivity fee if the consumer does not continue to borrow or save after 4 months can deplete any savings.

- **SureCashXtra** tribal prepaid card overdraft-style loans, **in partnership with prepaid card payment processors**, cost 584% nationwide.
- **NetSpend's ACE Elite™ Visa® Prepaid Debit Card** permits overdrafts up to \$100 (including any \$15 overdraft fees incurred) but will not cover bill pay transactions.

The consumer comments also urged the CFPB to extend fraud and loss protection to all cards, give consumers free access to balances and account information, require FDIC insurance, improve fee disclosures, and require a choice of direct deposit to the consumer's own account for government payments and financial aid, among other suggestions.

The comments filed by Americans for Financial Reform coalition and 23 other groups, as well as the more detailed comments of NCLC, the Center for Responsible Lending, and Consumer Federation of America, are available on NCLC's website at www.nclc.org. Comments of other groups are at www.Regulations.gov.

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Since 1969, the nonprofit National Consumer Law Center® (NCLC®) has used its expertise in consumer law and energy policy to work for consumer justice and economic security for low-income and other disadvantaged people, including older adults, in the United States. NCLC's expertise includes policy analysis and advocacy; consumer law and energy publications; litigation; expert witness services, and training and advice for advocates. NCLC works with nonprofit and legal services organizations, private attorneys, policymakers, and federal and state government and courts across the nation to stop exploitive practices, help financially stressed families build and retain wealth, and advance economic fairness.

The Consumer Federation of America is an association of nearly 300 nonprofit consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy, and education.