

FOR IMMEDIATE RELEASE:

FEBRUARY 1, 2013

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Bank Halts Overdraft Fees on Payday Lender Prepaid Cards; Stops Use of Cards to Evade State Payday Laws

(WASHINGTON, DC) Under pressure from the federal banking regulator and consumer advocates, Urban Trust Bank (UTB) announced late yesterday that it has stopped permitting its prepaid cards to be used by the CheckSmart chain of payday stores to evade interest rate caps and payday laws in Arizona, Ohio, and other states. The prepaid cards provided by Insight Card Services carried optional overdraft “protection” that allowed purchases when the card was empty, at a cost of \$0.15 for every \$1 in negative balance. The fee equated to an APR of 390% despite interest rate caps of 28% in Ohio and 36% in Arizona.

“Urban Trust Bank did the right thing and rid its prepaid cards of overdraft fees,” said Lauren Saunders, managing attorney at the National Consumer Law Center. “Prepaid cards should be just that: prepaid and *not* vehicles for evading state interest rate caps and payday laws.”

“Overdraft fees on prepaid debit cards are essentially payday loans,” said David Rothstein, project director for asset building at Policy Matters Ohio. “Ohioans deserve safe and affordable financial products that comply with our strong rate cap on payday loans.” Kelly Griffith, co-executive director at the Center for Economic Integrity in Arizona, agreed. “Arizona voters upheld a 36% interest rate cap in 2010 and 390% prepaid card payday loans have been run out of town.”

In 2012, the National Consumer Law Center and several consumer groups asked the federal banking regulator, the Office of the Comptroller of the Currency (OCC), to stop Urban Trust Bank from partnering with Community Choice Financial, Inc. (CCFI) to offer prepaid cards with overdraft fees and credit features. CCFI operates a chain of check cashing and payday stores under the CheckSmart, Buckeye, and other brands in 14 states. The OCC announced a supervisory action against UTB in the fall, but it was not clear precisely what action it had taken.

Late yesterday, UTB announced that it had eliminated overdraft fees from all of its prepaid cards, and the bank has confirmed that none of its prepaid cards now carry credit features. Another UTB prepaid card with payday loan features, Tandem Money, folded last fall after the OCC action. CCFI had planned an initial public offering of stock last spring, but pulled it after the consumer groups’ letter to the OCC was released.

Last year, a broad coalition of consumer and civil rights groups also met with the CFPB and asked that the bureau ban overdraft fees and credit features on prepaid cards. “The Consumer Financial Protection Bureau needs to stop prepaid cards from being used to peddle overdraft fees and abusive loans,” said Tom Feltner, director of financial services at the Consumer Federation of America.

Supporting Documents

- **Urban Trust Bank press release, January 31, 2013**
<http://www.urbantrustbank.com/custom/fi/urbantrustbank/fb/disclosure/InsightJanuary2013PressRelease.pdf>
- **Consumer groups' legal letter to the OCC, May 3, 2012**
http://www.nclc.org/images/pdf/high_cost_small_loans/ltr-urban-trust-occ.pdf
- **OCC's reply letter to the consumer groups, August 23, 2012**
http://www.nclc.org/images/pdf/high_cost_small_loans/letter-occ-check-smart-urban-trust-bank.pdf
- **OCC-UTB Formal Agreement, July 25, 2012**
<http://www.occ.gov/static/enforcement-actions/ea2012-190.pdf>
- **NCLC's release about the UTB/CheckSmart prepaid cards, May 2112**
<http://www.nclc.org/images/pdf/pr-reports/pr-ccfi-ipo.pdf>
- **Issue Brief: Prepaid Card Payday Loans Evade State Rate Caps, May 2012**
http://www.nclc.org/images/pdf/high_cost_small_loans/ib-prepaid-payday-loans.pdf

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Since 1969, the nonprofit **National Consumer Law Center® (NCLC®)** has worked for consumer justice and economic security for low-income and other disadvantaged people, including older adults, in the U.S. through its expertise in policy analysis and advocacy, publications, litigation, expert witness services, and training.

The Center for Economic Integrity engages in research, education and advocacy to strengthen local economies by mobilizing and protecting marginalized people, holding corporations and industries accountable to communities and cultivating support for good business practices.

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

Policy Matters Ohio is a non-profit, nonpartisan policy research organization founded in January 2000 to broaden the debate about economic policy in Ohio. Our mission is to create a more prosperous, sustainable and inclusive Ohio, through research, media work and policy advocacy.