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Bureau of Consumer Financial Protection

Washington, DC 20552

Re: Reloadable Prepaid Cards

Docket No. CFPB-20120019, RIN 3170-AA22

July 23, 2012

Dear Director Cordray:

Consumer Action¹ files these comments to request that the Bureau use its authority to protect users of prepaid cards and prevent issuers of general-purpose reloadable prepaid cards from offering prepaid products with predatory terms. Prepaid cards should enjoy all legal consumer safeguards offered by debit cards and checking accounts, and be prohibited from charging overdraft fees or offering lines of credit.

Prepaid cards are marketed to consumers with poor or no credit histories, such as students, and those who are traditionally unbanked or underbanked. Prepaid regulation and rules must prevent card issuers from exploiting inexperienced and vulnerable populations for who prepaid is the sole form of plastic payment card available.

Prepaid cards can be a convenient, useful product with features that allow consumers to shop on and offline with ease. Some consumers—even those with bank accounts—use these cards as a money management tool to avoid debt. Consumer Action recommends that the Bureau review the myriad of fees that are often associated with prepaid cards and apply a standard to assure that issuers have reasonable fee structures and that deceptive and misleading additional costs are eradicated from the marketplace.

¹ Consumer Action has been a champion of underrepresented consumers since 1971. A national, nonprofit 501(c)3 organization, Consumer Action focuses on financial education that empowers low to moderate income and limited-English-speaking consumers to financially prosper. It also advocates for consumers in the media and before lawmakers to advance consumer rights and promote industry-wide change particularly in the fields of credit, banking, housing, privacy, insurance and utilities. www.consumer-action.org

Costs

Consumer Action's Prepaid Card survey² (April 2012) found that some prepaid issuers were charging customers costly, bogus fees such as inactivity fees, ATM declination fees, declined transaction fees, activation fees, balance inquiry fees, purchase transaction fees, ATM withdrawal fees (by owner and issuer), automated customer service fees and more.

Fee Limitations

Consumers should have access to their account balance without being charged a fee for that information. Consumer Action recommends a

1. Ban on all balance inquiry fees (online, via customer service calls, ATM, text, or in- store) and
2. Requirement that store and ATM receipts include a cardholder's balance on each receipt whenever the card is used.
3. Consumers should have free online access to their account transaction history for the previous 24 months.
4. Two or more free customer service calls per month
5. All fees should be posted on or in the prepaid card's packaging and online on the home page for consumers to compare pricing prior to purchase, including mandatory fees by third parties.
6. The Bureau should create a standardized fee and terms disclosure box for easy comparison.
7. When fees are charged by a third party and are required to be paid to use the card as expected, such as re-loading fees, issuers should be prohibited from listing such fees as "free".
8. The Bureau should allow a linked savings account option for prepaid cards that is prohibited from charging any fees. Interest should be earned.

Consumer protections

We have attached a Consumer Action petition, signed by 379 individuals, which calls on the CFPB to extend Electronic Funds Transfer Act (EFTA) and Regulation E (Reg E) protections to all general-purpose reloadable prepaid cards.

This would ensure that prepaid card users would have

- Dispute rights if errors occur
- Protection against liability due to loss, theft, and unauthorized charges
- A right to account information, including transaction history and balances
- Fees and terms & conditions disclosures
- Protection from overdraft programs without consumer consent

² http://www.consumer-action.org/news/articles/2012_prepaid_card_survey/

Reg E protections should apply to *all* types of prepaid cards including university cards, health spending account cards, needs tested benefits cards etc. Mobile payments that operate as virtual prepaid cards should also be covered by Reg E.

When a consumer disputes an error the clock to file a dispute should start when a consumer *has accessed* his transaction information. Prepaid card issuers should make it convenient for accountholders to access their account information. For accounts that were never accessed, consumers should have one calendar year from the date of disclosure to dispute charges.

The CFPB should require that reloadable prepaid cards that accept any direct deposit payments or carry balances of more than \$200 also carry FDIC insurance for those funds.

Choice

Consumer should have the choice as to whether they receive payments on a prepaid card. Employers, schools, government agencies and others should be required to offer a recipients the option of direct deposit payments into a consumer's account.

We also call on the CFPB to ensure that consumers who use prepaid cards are not forced into one-sided, binding arbitration agreements as a means to resolve disputes. We suggest that companies offer this choice to consumers but that it should not be mandatory.

Consumers should also have the choice - up front - as to whether they are willing to allow a prepaid card issuer to share the cardholder's personal information (SSN, financial, transaction history, etc.) with anyone else. The CFPB should require prepaid card issuers to get a customer's opt-in before sharing their personal information with others.

Thank you for working to make the growing prepaid card market a more fair and safe environment for consumers.

Sincerely,

Ruth Susswein

Deputy Director, National Priorities

Consumer Action