



## PROMOTING SAFETY AND TRANSPARENCY IN PREPAID

The Consumer Financial Protection Bureau (CFPB) is taking steps to protect consumers in the prepaid market by launching a rulemaking process aimed at promoting safety and transparency.

### Prepaid by the Numbers

- **\$57 Billion:** estimated amount loaded onto prepaid cards in 2011
- **42 percent:** growth rate per year of prepaid market from 2010-2014
- **\$167 Billion:** projected total dollars loaded onto prepaid cards by 2014

### Overview

- **Prepaid cards aren't just gift cards anymore.** Certain prepaid cards -- known in the industry as General Purpose Reloadable, or GPR cards and referred to here simply as "prepaid cards" -- allow consumers to load their own money onto the cards repeatedly and use the cards wherever their network brand (Visa, MasterCard, Discover and American Express) is accepted.
- **Prepaid cards are growing quickly.** Consumers loaded approximately \$57 billion onto prepaid cards in 2011. The dollar load onto prepaid cards is expected to grow by 42 percent per year from 2010-2014 according to Mercator Advisory Group<sup>1</sup>. It is projected to reach approximately \$82 billion in 2012, \$117 billion in 2013 and \$167 billion in 2014. According to 2009 FDIC data, 9.7 percent of all households have used prepaid cards.
- **Consumers may be using prepaid cards as alternatives to checking accounts.** Many cards have the option to receive direct deposit, withdraw cash at ATMs, and access account information online. Whether because some consumers cannot get a checking account or because they prefer to use a prepaid card, prepaid card users are increasingly choosing the direct deposit option. The second largest prepaid card program manager in the country reported that nearly 42 percent of its cardholders had direct deposit as of December 31, 2011. In December 2007, that number was only 14 percent.<sup>2</sup>
- **The CFPB launched a rulemaking process aimed at adopting the first-ever federal consumer protections for prepaid cards.** Currently, prepaid cards do not enjoy the same protection under federal law as debit cards linked to a checking account. Through an Advance Notice of Proposed Rulemaking, the Bureau is seeking input on ways to help ensure that consumers' funds on prepaid cards are safe and that card terms and fees are transparent. To help consumers better understand prepaid cards, the Bureau is also launching *Ask CFPB: Prepaid Cards* – a searchable database with easy-to-understand answers to more than 80 consumer questions.

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<sup>1</sup> Mercator Advisory Group, Prepaid Card Market Forecast, November 2011.

<sup>2</sup> NetSpend Holdings, Inc. Form 10-K, filed February 4, 2012 for the period ending December 31, 2011, *available at* <http://files.shareholder.com/downloads/ABEA-56BIQV/1684506713x0xS1047469-12-1472/1496623/filing.pdf>; NetSpend Holdings, Inc. Form 10-K, filed March 2, 2011 for the period ending December 31, 2010, *available at* <http://files.shareholder.com/downloads/ABEA-56BIQV/1684506713x0xS1047469-11-1638/1496623/filing.pdf>.

## Areas of Focus for the CFPB

Given the rapid growth of the prepaid market and projections for continued growth, the Bureau intends to evaluate and eventually address the potential risks to consumers.

- **Disclosure**
  - **Fees and Terms Disclosure:** The lack of an industry-wide standard on prepaid card fee disclosure may make it difficult for consumers to understand the cost of the product or to compare fees. Often, consumers do not know what protections or fees come along with their prepaid card prior to purchase because such disclosures are contained inside the packaging. Consumers need to be able to comparison shop in order to make a well-informed decision. The Bureau will evaluate the best way to balance the need for disclosure with the fact that many cards are purchased at retail locations and space for disclosures is limited.
  - **FDIC Insurance:** When consumers place their money into a bank account, they take the safety of their funds for granted because of federal insurance. But prepaid cardholders are not necessarily guaranteed this protection. The Bureau plans to evaluate how prepaid card issuers should disclose the insurance status of cardholders' funds.
- **Unauthorized Transactions:** Federal regulations require that credit and debit card issuers limit consumers' liability when their cards are used without their authorization. These regulations do not extend to prepaid cards. Many prepaid cards do offer this protection, but it is not standard across the industry. The Bureau will evaluate the costs and benefits of card issuers providing limited liability protection from unauthorized transactions.
- **Features**
  - **Credit:** Most prepaid cards do not offer any credit features. In general, cardholders may not be able to withdraw or spend more than the funds loaded on their cards. However, some prepaid cards allow their cardholders to overdraw their accounts, and some offer small-dollar loans or a line of credit. The CFPB is looking for public input on the costs, benefits, and consumer protection issues related to credit features.
  - **Savings:** Few prepaid cards have a savings account. Even though such savings accounts typically pay interest, consumers do not seem to take advantage of the opportunity to save. The CFPB is looking for public input on the costs, benefits, and consumer protection issues related to savings features.
  - **Credit Repair:** Some prepaid cards include a feature that claims to offer consumers the opportunity to improve or build credit. Consumers generally need to opt in to this feature, which involves the reporting of certain information to credit reporting agencies. The Bureau is interested in learning more about this feature.