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CFPB Prepaid Card Rule Again Targets a Product Popular With the Masses

Whenever innovation produces a new technology or product that benefits the masses, government bureaucrats inevitably try to smother it with excessive regulation. They often even have the gall to claim they are doing so for public benefit. Such is the case with the Consumer Financial Protection Bureau's rules on prepaid debit cards.



One of the many regulations released in the waning days of the Obama administration was a 1,689-page rule issued by the CFPB on "general purpose reloadable cards." The CFPB wants to force prepaid cards to come with many of the same features and protections as credit cards by dictating how account information must be provided and what it must contain, imposing liability limits on lost or stolen cards and mandating excessive disclosures. Limiting the overdraft features of prepaid cards would also force prepaid cards to function more like credit cards than debit or ATM cards. According to American Action Forum calculations, total compliance costs of the rule for prepaid card companies will most likely reach into the hundreds of millions of dollars and may surpass \$1 billion.

For many, prepaid cards serve the same function as a traditional bank account. Individuals can receive their paychecks on the cards through direct deposit and spend the same way someone using a debit card linked to a checking account would. According to a 2014 report by The Pew Charitable Trusts, some 23 million Americans were regularly using prepaid cards. Also, a quarter of the accounts were being used by low-income Americans (a third of whom had annual income below \$15,000) with no bank account, allowing them to perform basic tasks such as paying bills online and getting cash out of ATMs. As the report notes, the system is popular because it allows users — especially unbanked ones — to control their budget, stay out of debt and avoid overdraft fees. The amount put onto prepaid cards has grown exponentially, from \$1 billion in 2003 to an expected \$112 billion in 2018, suggesting that the existing system is quite popular with consumers.

Those who use prepaid cards generally prefer them because they are cheaper than other cards, and sometimes they're the only alternative financial services the poorest Americans can afford. But after the CFPB's rule is implemented, that will most likely no longer be the case. The CFPB-mandated features



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may or may not be desirable to consumers, but they certainly will come with a price as compliance costs are passed on to consumers. Mandating these features will thus undermine the primary benefit — the low cost — that attracts so many low-income Americans to prepaid cards in the first place.

Government bureaucrats are taking away the right of individuals to choose the set of product features that best fits their individual circumstances with a one-size-fits-all regulation.

Not surprisingly, the government is a driving force behind rising banking costs and the reason so many people are turning to prepaid cards. Red tape and regulations that have made banking ever more expensive include the Durbin amendment price controls on debit card swipe fees, which have led to a decline in the availability of free checking accounts and reductions in card benefits. The extreme scope and high cost of regulations under Dodd-Frank are why more and more Americans are now considered “unbanked.” If members of Congress allow the prepaid card rule to stand, they will yet again deny the poor a useful financial instrument.

To make matters worse, the rule is expansive enough to encompass digital services such as PayPal and Google Wallet, providing an unnecessary barrier to an emerging technology and limiting its potential to revolutionize the payment industry. Who knows how many innovations won’t occur because of this overregulation?

The CFPB has, in particular, made it a habit of pursuing policies that harm the very individuals whose interests it claims to be protecting. It has long targeted for destruction the small-dollar loan industry, without which many low-income Americans would have nowhere to turn to cover an unexpected bill. Now it wants to make it more difficult for these same people to use what little income their hard work earns. The poor can’t afford any more of the CFPB’s “protections.”

Congress still has the option to roll back the rule using the Congressional Review Act, which has been used to undo several other costly Obama-era regulations. It would truly protect consumers if Congress were to do so again in this case.

Veronique de Rugy is a senior research fellow at the Mercatus Center at George Mason University. To find out more about Veronique de Rugy and read features by other Creators Syndicate writers and cartoonists, visit the Creators Syndicate webpage at www.creators.com.

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