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Advancing Economic Security and Community Prosperity

CFPB Prepaid Card Field Hearing:

Testimony of Tom Feltner

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I would like to thank the Consumer Financial Protection Bureau for the opportunity this afternoon to discuss Woodstock Institute's position on the issue of consumer protections for prepaid cards. My name is Tom Feltner, vice president of Woodstock Institute, a leading nonprofit research and policy organization in the areas of fair lending, wealth creation, and financial systems reform. This afternoon, I would like to focus my comments on the similarities between general purpose reloadable (GPR) cards and basic checking accounts and urge the CFPB to consider the oversight of these products in a manner that facilitates security and access, regardless of whether consumers are using this product as a transactional product to reduce the cost of accessing payment networks, or a transitional product that serves as a stepping stone to a checking account.

GPR cards are similar to checking accounts

Most GPR cards offer a consumer transaction experience that is very similar to a basic checking account. GPR cards provide low-cost access to payment networks, the ability to see a record of transactions, and a secure cash alternative. The similarity to checking accounts is present on both sides of the financial relationship. Consumers choose GPR cards because they value the features of checking accounts but choose not to, or are unable to, open a checking account. Financial institutions offer GPR cards because they recognize the value of establishing new customer relationships, even if a customer's risk profile means they are not eligible for checking accounts.

For both consumers and financial institutions, these products serve as a checking account substitute. As a result, much of the innovation in the field has been devoted to reducing transaction risk and replicating features already present in checking accounts. There has been relatively little innovation in processes that integrate GPR cards into the broader financial mainstream.

As a result, the GPR card market is covered by inconsistent consumer protections, and silos GPR card consumers into a second-class banking relationship. To address this concern, we believe that there are three main areas of consumer protection that the Consumer Financial Protection Bureau should address as part of its rulemaking process: security and liability protection, better access to the financial mainstream, and a prohibition on high-cost credit.

Deposit insurance, funds availability, and fraud protection

Deposit insurance, clear funds availability policies, and limited liability in cases of fraud should be universal when consumers access funds through established payment channels, whether the consumers use credit, debit, or GPR cards. For credit and debit cards, these consumer protections are well understood. For GPR cards, there is still considerably uncertainty. We support the Consumer Financial Protection Bureau's proposal to extend consumer protections commonly associated with checking accounts to GPR cards and encourage the Bureau to extend deposit insurance and Regulation E protections to all GPR cards.

Transactional and transitional products should improve access

GPR cards should facilitate a consumer's access to the broader financial system, not limit it. Most GPR cards have limited functionality. Some have bill pay functions but most do not. Most lack savings features or even outbound ACH transfers to savings accounts.

We believe that consumers are best served when they have access to a broad array of safe financial products. For some consumers, a transactional product that drives down the cost of access to payment networks and allows basic budgeting is appropriate. Other consumers currently seek a higher functioning product (with bill pay or transfer to savings options, for example), but are unable to access it because they have a risk profile that excludes them from a checking account.

We believe that whenever GPR cards are offered, they should be offered alongside any other product for which a consumer qualifies. And if a consumer does not currently qualify for a full-fledged checking account, then there must be a clear "refer-up" process in place to ensure that consumers seeking a checking account in the future are not excluded from them based on past product choice.

Much of this "refer-up" process will be driven by the technology platform on which the GPR card program operates. For GPR programs that are offered directly by banks, presenting consumers with a suite of product offerings will be relatively easy so long as the GPR product is integrated into the existing customer portal. For example, when consumers accesses their GPR account online, they should be able to view their GPR card transaction record, along with potential checking and debit options, savings options, and credit card options, just as any other customer would.

For GPR card programs that are operated by banks or credit unions, this process should be relatively easy, assuming that the financial institution is willing to develop the appropriate technology platform. For program managers that operate stand-alone GPR card programs, it is critical that they develop referral relationships with banks or credit unions that can provide additional products if and when consumers feel that their financial needs have expanded. When GPR consumers are relegated to a second-class product, we believe the value proposition of the GPR card is significantly diminished.

Credit products undermine the GPR value proposition

Offering high-cost, non-productive forms of credit through GPR cards undermines the value proposition of the card as a payment mechanism and threatens existing state consumer protections for high-cost consumer credit products.

GPR card customers may already have a credit card with a financial institution, they may have chosen to not open a credit card account, or they may have a risk profile that excludes them from the credit card market. In any case, there are existing products available to meet the current or future needs of most consumers. If a consumer has chosen to not use credit products or does not qualify for them, offering high-cost credit changes the "pay first" nature of the GPR card product into a riskier "pay later" product.

Offering credit products through GPR cards also allows card providers to use federal banking preemption to circumvent the strong consumer protections established by many states to cap consumer credit rates and eliminate products features that contribute to a cycle of debt. In Illinois, the Monsignor John Egan Campaign for Payday Loan Reform spent nearly a decade working to eliminate many of the worst practices of the state payday lending industry. The campaign had some success in reducing rates and restricting the debt cycle, and establishing a rate cap for all forms of unsecured credit was a critical part of this reform effort. Credit offered through GPR cards would allow issuers to ignore these rate caps and restrictions on features that contribute to a long-term cycle of debt. We urge the Consumer Financial Protection Bureau to establish a blanket prohibition on credit products offered through GPR cards.

Conclusion

A checking account at a financial institution remains the product of choice for the vast majority of consumers, and is likely to remain so in the near future. Consumers and financial institutions will continue to demand and develop products that facilitate access to payment networks in the most efficient manner possible. As we consider consumer protections and issues of access, it is important to keep in mind that the GPR card is a collection of features already widely available to most consumers. With this in mind, we hope that we can establish a set of consumer protections that integrates GPR cards into the existing regulatory structure, rather than creating a second-class product governed by a weaker regulatory structure. From the consumer perspective, after all, swiping a debit, credit or GPR card looks and feels the same regardless of what rules apply.