Will Prepaid Card Rules Cause Problems? Not if History Is Any Guide

More than 40 Republican lawmakers have set out to overturn the new prepaid-card rules adopted by the Consumer Financial Protection Bureau. Those rules protect consumers against loss, theft, and unauthorized charges -- protections that already apply to debit cards. They also require prepaid cards to be truly prepaid, not rigged with hidden fees or triggers that could turn them into high-cost credit products.

Opponents describe the rules as a “disaster for consumers” (Arkansas Senator Tom Cotton), because people will lose the ability “to select the type of payment systems that work best for them” (Oklahoma Senator James Lankford). The new safeguards, we are told, will make cards more expensive by “saddling this industry with $1.53 billion in unnecessary compliance costs” (Utah Senator Mike Lee), and will “cripple the electronic payment marketplace which Georgians and millions of consumers across the country depend on” (Georgia Senator David Perdue).

It is easy to ridicule all this alarmism. We are talking about a set of rules that many prepaid card companies have accepted as reasonable; and the big corporate exception, the Georgia-based NetSpend, has made no particular effort to hide its main source of concern -- the potential loss of *$80 million a year* in overdraft fees.

Nevertheless, let’s try to take the warnings seriously. Could the CFPB’s rules make cards more expensive? Could they damage consumers in some other way?

Such claims are reminiscent of those made nearly a decade ago against legislation establishing new protections for credit and debit cards. So it may be informative to revisit that history. What did opponents say about the CARD Act of 2009? And what actually happened to the credit card market after the law passed?

The predictions:

- **[I]t will have a dramatic impact on the ability of consumers, small businesses, students, and others to get credit at a time when our economy can least afford such constraints.** - American Bankers Association
- **This bill will take us back to a previous era -- a bygone era where everybody paid higher interest rates, where a third fewer people had access to credit, and we had all of these dreaded annual card fees.** Rep. Jeb Hensarling (R-Texas)

- **While perhaps well intentioned, this bill will make credit less available to hard-working families, small businesses, and consumers who are already struggling.** Representative Eric Cantor (R-Va.)
- **[We are] very concerned about the direction this legislation is headed and we are concerned over the impact it will have on the ability of consumers, students and small businesses to get credit cards. -** Ken Clayton, ABA senior vice president of card policy at the American Bankers Association
- **[This bill] will discourage lending. This comes at a particularly bad time when consumers and our economy have already had enough stress to deal with. It's not wise policy to create a consumer credit crunch at the same time that our economy is experiencing a commercial credit crunch.** Rep. Pete Sessions (R-TX)

The results:

Four years later, a team of researchers undertook a massive evaluation of the CARD Act's effects, based on an analysis of more than 150 million accounts. "I went into the project with this sort of conventional wisdom that well-intentioned regulators would force down fees and that other fees and charges would increase in response," the lead researcher, Neal Mahoney of the University of Chicago's Booth School of Business, told the New York Times.

The data showed otherwise. Many of the old credit card gotcha clauses and hidden fees had been eliminated; over-limit fees, for example, had declined from 3.3% of industry revenues to nearly zero. Nevertheless, the study found "no evidence of an increase in interest charges or a reduction to access to credit." All told, American credit cardholders had saved nearly $21 billion a year in borrowing costs. As the Times noted, "The regulation worked. It cut down the costs of credit cards, particularly for borrowers with poor credit."

It worked for the industry as well. Credit card profit margins were down from their peak levels, but the business was prospering. It turned out that, as the Times noted, "with profits that high, banks could still do well even with lower fees."