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MEMORANDUM

February 1, 2018

To Our Clients and Friends

Re: CFPB Finalizes Changes and Extends Effective Date for Prepaid Accounts Rule

The Consumer Financial Protection Bureau (CFPB) has finalized updates to its 2016 rule governing prepaid accounts. The changes adjust error resolution requirements, provide greater flexibility for credit cards linked to digital wallets, and extend the effective date of the rule to April 1, 2019.

Adjustment of Error Resolution Requirement. The changes allow for the error resolution and liability limitations to apply prospectively, after a consumer's identity has been verified. In other words, for accounts where the consumer's identity is later verified, financial institutions are not required to limit liability and resolve errors with regard to disputed transactions that occurred prior to verification. The CFPB's goal is to encourage prompt registration, streamline compliance for financial institutions, and ensure continued availability of prepaid accounts for customers.

Greater Flexibility for Credit Cards Linked to Digital Wallets. The changes reduce potential unnecessary complications and expense to consumers who link credit cards to digital wallets by providing an exception to the credit-related provisions of the rule in Regulation Z for certain business arrangements between prepaid account issuers and traditional credit card issuers. The changes expand the situations in which prepaid account issuers are permitted to run negative balances on prepaid accounts, provided certain conditions are met. The changes also ensure that consumers continue to receive full federal credit card protections on their traditional credit card accounts while making it easier for them to link the traditional accounts to digital wallets that can store funds.

Extension of Effective Date. The CFPB extended the overall effective date of the rule by an additional year, to April 1, 2019 to provide more time for financial institutions to make the necessary changes, in particular changes to packaging for prepaid cards sold in stores.

A copy of the CFPB's finalized changes to the prepaid accounts rule is available on our website at <http://www.schwartzandballen.com/news.html>

If you have any questions, please call Gilbert Schwartz, Robert Ballen, Tom Fox, Heidi Wicker, or Magda Gathani at (202) 776-0700.