



Insight

A Mixed Message from CFPB

MEGHAN MILLOY | FEBRUARY 4, 2016

Yesterday the Bureau of Consumer Financial Protection (CFPB) sent a letter to 25 of the largest banks asking them to offer checking accounts free from overdraft charges along with prepaid card products. (You can read the letter [here](#).) In it, the Director of CFPB, Richard Cordray, explains the need of the unbanked and underbanked population to have access to traditional banking services. He states his belief that individuals should be able to “choose a product that best fits their individual needs and circumstances” but mourns the fact that “unfortunately, consumers may not be able to choose an account that is right for them because of the limited availability.”

These are all noble concerns, and it is true that many Americans are unable to access any sort of account, much less an account that is “right” for them. What Mr. Cordray fails to realize is that this problem is not caused by banks deviously limiting banking services. Rather, this is a result of the banks being wholly unable to offer these products because of over-reaching regulations from none other than the CFPB and agencies implementing the Dodd-Frank reform.

In 2009 76 percent of all bank accounts were free to the consumer. Fast forward to 2013 and [only 38 percent of bank accounts were offered free of charge](#). That’s a steep drop that was a result of a number of factors. In addition to bank accounts that were no longer free, banks began requiring higher minimum balances on their free or low-fee accounts as well as charging higher card replacement and other administrative fees in response to the banks’ increased regulatory compliance costs. [JPMorgan Chase](#) estimated that these increased minimum balances and fees would result in as many as five percent of its banking customers being pushed out of the banking system.

The most internally inconsistent aspect of Mr. Cordray’s letter is that even as he asks banks to offer prepaid card services, the [CFPB is in the process of proposing new regulations](#) that would significantly diminish the availability of prepaid cards. In its 870 page proposal (including 156 pages of actual rules) CFPB seeks to mandate new disclosures on behalf of the card companies, new error resolution procedures, consumer liability limits for unauthorized transactions, fee limits, and added requirements for cards with overdraft or credit features. In its very own proposal, CFPB admits that these regulations on prepaid cards would have one-time compliance costs of \$1,168,134 and an annual compliance cost per bank or company offering the prepaid card services of \$342,408. The proposal also estimates costs of \$17 million simply to dispose of and replace the old cards that would no longer be in compliance.

Excessive government intervention has already [pushed millions of Americans](#) from traditional banking services into alternative financial services like prepaid cards and payday lenders. If Mr. Cordray and the CFPB really want to help consumers gain access to banking services, or even to make prepaid cards more available, they would devote more time to removing crippling regulations and less time writing letters to banks. In the end, writing new regulations will eventually roll back any expansion of services those banks would have been able to provide.