

## **RushCards Deny Funds to the Unbanked**

November 2015

In the middle of October 2015, hundreds of thousands of Americans were left without cash for more than ten days. They were not able to buy food or medicine, to pay rents, or to put gas into their cars. How could this happen? They all depended upon RushCards for their money.



RushCards are prepaid debit cards used by people who typically do not have bank accounts. The debit cards are periodically loaded with payroll money and government benefits. A technical glitch prevented access to these funds by the cardholders. Without bank accounts or other financial resources to which they could turn, these members of the unbanked or underbanked class faced significant financial stress.

### **What Is a RushCard?**

#### ***Prepaid Debit Cards***

Prepaid debit cards are used to distribute money to millions of people around the world. It is their only source of cash, as they typically do not have bank accounts. In 2012, American prepaid debit cards held a total of \$65 billion; and twelve million Americans depended upon them for their financial well-being. This was a doubling of the number of prepaid debit cardholders in just three years. That explosive growth continues today.

Prepaid debit cards are specifically aimed at the unbanked and underbanked. These people are not tied to a bank account. Getting prepaid debit cards does not involve a credit check. They can be purchased online and loaded with money electronically. Employers can direct-deposit payroll checks to the cards. The cards are more convenient than cash or checks. They can be used at stores, online, or anywhere that a normal debit card can be used. Best of all, in the U.S., they are insured by the FDIC (the Federal Deposit Insurance Corporation) so that deposits are protected. This is accomplished via the FDIC insurance carried by the banks that issue the cards.

There are some shortfalls to prepaid debit cards. They do not fall under the same regulations as bank cards. In fact, the regulations that are applied to prepaid debit cards are less stringent than those that are applied to normal debit cards or credit cards. They are not backed up by a traditional bank account, leaving cardholders with no way to access their money if there is a technical glitch.

#### ***The Unbanked and Underbanked***

Prepaid debit cards are typically used by the impoverished. Nearly a quarter of cardholders earn less than \$15,000 per year. They typically lack the standing to get a credit card, and they are unable or unwilling to open a traditional bank account. They have little wealth and no emergency cash. They constitute the unbanked and underbanked class.

The unbanked are adults who do not have their own bank accounts. Nearly half have had checking accounts forcibly closed, or they have closed accounts themselves due to overdraft fees.

The underbanked are a distinct group from the unbanked. They have bank accounts but are unsatisfied with the current services they receive from their banks. Many of the underbanked find that their current account overdraft facilities have been reduced or removed all together.

In 2013, the FDIC estimated that there were over 10 million people in the U.S. who had no bank account (the unbanked) and that 58 million Americans were underbanked. These numbers have been exacerbated by many banks that are shedding lower-income customers in order to reduce their regulatory burdens.

There are many other reasons why people may be unbanked or underbanked:

- They have been blacklisted by the banks because of a record of financial mistakes, such as bounced checks or overdrafts.
- They are young consumers – half the people between 18 and 24 are unbanked or underbanked.
- They want to escape debt collectors who can levy bank accounts
- They are fed up with banking fees (though alternative financial services typically have higher fees).
- They are out of a job.
- They have had poor customer-service experiences.

Along with the underbanked, the unbanked rely on alternative services for their financial needs. These services include the use of prepaid debit cards, paycheck cashing services, and payroll lending services.

### **RushCards**

To fill the needs of the unbanked and underbanked, prepaid debit cards came into use. Predominant among these cards is the RushCard.

The RushCard was introduced in 2003 by Russell Simmons, a self-made multimillionaire. Born in 1957, Russell Simmons is a major figure in the Hip-Hop world. In fact, he is the third richest figure in Hip Hop with an estimated net worth of \$340 million. He aimed his marketing messages at a very specific crowd, the black and hispanic Americans that make up a disproportionate amount of the country's poor.



The issuing bank for RushCards is MetaBank. Metabank operates ten retail branches in Iowa and South Dakota. It offers traditional banking services designed to serve the needs of individual, agricultural, and business depositors and borrowers.

The purpose of RushCards, Simmons says, is to help the millions of Americans who are unable or unwilling to participate in the country's traditional banking system. The RushCard website states:

“There are 68 million Americans who cannot or choose not to establish a traditional banking relationship. We believe that every American should have access to an affordable place to keep their hard-earned money – one that is safe and convenient.”

Hundreds of thousands of cardholders use RushCards, and cardholders do not have to pay to cash their paychecks. However, fees are associated with some uses of RushCards:

- There is a one-time charge ranging from \$3.95 to \$9.95 for the first time that money is put on the card.

- There is a transaction fee of \$1 for each transaction (up to \$10/month) or \$7.95 per month for unlimited transactions.
- There are fees for ATM withdrawals and balance queries.

## **The RushCard Glitch**

The RushCard problems started over the 2015 Columbus Day weekend as RushCard was changing from one technology provider to another. During the conversion, on October 11<sup>th</sup>, thousands of accounts were wrongly deactivated. The account information of thousands of others was erroneously changed. RushCard users discovered that their balances were zero even though they knew that they had money on their cards.

RushCard users couldn't get through to customer service because of the volume of complaints. Direct deposits were returned to company payroll departments or to government benefits administrators because the accounts didn't exist.

Without other financial resources, RushCard cardholders were left without money to pay rent, buy groceries, or put gas in their cars. Without gas, many cardholders couldn't get to work and faced loss of their jobs. Their only recourse in many cases was to turn to the loans of last resort – payroll loans that charged usurious interest rates.

A woman in Philadelphia was turned away at McDonald's to her embarrassment. A woman in Decatur, Georgia, could not pay for her husband's heart medication. An autoworker in Detroit accepted food from colleagues because she had no money to buy her own food. Across the country, hundreds of thousands of poor people faced challenges similar to these.

It took over ten days for RushCard to correct its technical problems. For well over a week, hundreds of thousands of Americans had no access to cash to lead their lives.

After ten days had passed, RushCard chief executive Rick Slavard issued a statement saying:

"The vast majority of customers have had their issues resolved. There are a handful of customers who still can't access account information. Their funds are there, but their information is still inaccurate. We are working to contact them individually to assist them with their needs."

RushCard emphasized that its customers' money was protected by FDIC insurance. Therefore, no customer had to fear that his money was lost (assuming RushCard was able to restore all of the deactivated accounts, which it evidently was successful in doing). As an apology, RushCard waived card fees for its cardholders for several months. In addition, it created a multi-million dollar fund to compensate customers for their losses. Russell Simmons acknowledged that, though this fund would cost him a lot of money, it was just one way of regaining the trust of his loyal base.

## **The Movement toward Better Consumer Protection**

The Consumer Financial Protection Bureau (CFPB) strongly noted that the RushCard situation was outrageous and announced that it would launch an investigation into the mishap.

Coincidentally, in November 2014, the CFPB had issued proposed guidelines to tighten regulations on prepaid debit cards. Upon the issuance of these proposals, it stated:

"Consumers are increasingly relying on prepaid products to make purchases and access funds, but they are not guaranteed the same protections or disclosures as traditional bank accounts. Our

proposal would close the loopholes in this market and ensure prepaid consumers are protected whether they are swiping a card, scanning their smartphone, or sending a payment.”

The proposed CFPB regulations would:

- Require prepaid companies to limit consumer losses when cards are lost or stolen or when fraudulent purchases are made.
- Provide free access to account information such as balances.
- Improve error-resolution procedures, and credit consumers if card issues cannot be immediately resolved.

## Summary

Prepaid debit cards are the only financial means that hundreds of thousands of the unbanked and underbanked have to finance their livelihoods. As the CFPB has realized, these cards should come under the same protective regulations by which normal debit cards and credit cards must abide. This is still a process in progress, but it is important to protect the interests of the poor who depend upon these cards.

## Acknowledgements

Material for this article was taken from the following sources:

[The Computer Glitch That's Keeping Poor People From Their Money](#), *The Atlantic*; October 20, 2015.

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