

Prepaid Cards- Read the Fine Print!

Prepaid cards are reloadable cards that can be used for making payments, and they may seem like a good alternative to debit card for the “unbanked” population, those who are not connected to a financial institution through a savings or checking account. A recent Consumers Union report revealed hidden fees and a lack of consumer protection that can make these prepaid cards dangerous for unknowing consumers. Despite their dangers, they continue to grow in popularity. In 2008, consumers deposited \$8.7 billion onto prepaid cards, a 125 percent increase from 2007.¹ The Consumers Union report explains what to look if you decide to choose a prepaid card:²

Activation Fee: The majority of cards have activation fees; the fees of the cards studied ranged from \$3 for the Wal-Mart Money Card to \$99.95 to activate the Millennium Advantage card.

Monthly Fee: Most prepaid card companies will eliminate the monthly fee if the customer sets up a direct deposit, but the cards with monthly fees ranged from \$2.95 per month to \$9.95 per month.

Withdrawal Fee: All of the cards studied charged fees when the customer used the card to get cash from ATMs in the United States. These fees are generally higher for withdrawals outside of the U.S.

Balance Inquiry/ Statement Fees: These fees are in addition to the fees charged by the ATM for withdrawing money when using prepaid cards.

Customer Service Fee: Some card issuers charged customers to access customer service, charging either per minute or per call. Others have a limited number of free customer service calls, after which they begin charging for any customer service.

Inactivity Fee: The inactivity fee is a fee that is charged if the card has not been used after a certain period of time. The inactivity period varied among cards, so be sure to check the length of each card.

Overdraft Fee: Although many claim they do not have fees when customers charge more than the amount on their cards, more than half of the cards studied did have “shortage” fees that ranged from \$24.90 to \$29.00.

No Protection: When prepaid cards are stolen or lost by the customer, they do not receive the same protection that customers of financial institutions receive. Prepaid cards are NOT regulated by the federal Electronic Funds Transfer Act which governs debit cards, or the Fair Credit Billing Act, which governs credit cards. In other words, if prepaid card customers lose their cards, they lose their money.

¹ Martin, Andrew, “Dangers of Prepaid Debit Cards: Fees, Charges Pile Up for Consumers,”

<<http://www.elpasoinc.com/readArticle.aspx?issueid=255&xrec=4566>>.

² “Consumers Union Report Finds Prepaid Cards Come with High Fees and Weak Protections for Consumers,”

<http://www.consumersunion.org/pub/core_financial_services/014300.html>.