
Consumers Union Report: Prepaid Cards Come With Long List of Fees and Weak Consumer Protections

(September 15, 2010) SAN FRANCISCO, CA – Prepaid cards continue to grow in popularity but this new form of plastic payment comes with high fees and weaker protections than those offered by traditional debit or credit cards, according to a new report by Consumers Union, the nonprofit publisher of Consumer Reports. Prepaid cards are reloadable cards that can be used to make payments similar to debit cards and are becoming the foundation of a second tier banking system used by a growing number of low income consumers.

“Prepaid cards come with a long list of fees that are often hidden deep in the fine print,” said Michelle Jun, Staff Attorney for Consumers Union. “Consumers considering prepaid cards should be aware that those fees can add up quickly and that they may be vulnerable to losing their money if their card is lost or stolen.”

Prepaid cards are a growing business and usually bear a network logo such as Visa or MasterCard and often have the word “debit” printed prominently on the front of the cards. The Federal Reserve estimated that 312 million transactions were made with prepaid cards in 2006 for a total value of \$13.3 billion. These numbers have undoubtedly continued to rise as the prepaid card industry has worked to enroll the millions of unbanked and underbanked consumers.

Consumers Union reviewed the terms and conditions of 19 different prepaid cards and found that consumers face multiple fees and other costly “gotchas”:

- **Activation Fees:** 12 of the 19 prepaid cards reviewed charged consumers a fee for activating their cards. These activation fees ranged from a low of \$3 for the Walmart Money card and the nFinanSe card to a whopping \$39.95 for the First Vineyard card.

- **Monthly Fee:** 16 of the 19 prepaid cards charged monthly fees ranging from \$2.95 per month for the nFinanSe card to \$9.95 per month for the NetSpend VISA card, Rush card, and AccountNow card. Most prepaid card issuers will waive the monthly fee if a direct deposit is set up. Some card issuers will waive the monthly fee if the consumer chooses the “pay as you go” option. The Green Dot card charges a \$5.95 monthly fee unless the consumer maintains a \$1,000 balance or has 30 posted transactions.

- **Fees to Get Cash:** All 19 prepaid cards reviewed charged fees for withdrawing cash from ATMs in the U.S. On the low end, consumers using the nFinanSe card are charged 99 cents per withdrawal. Consumers using the NetSpend Visa card, AccountNow card, and Bank Freedom card are charged \$2.50 for each withdrawal. In one case (Rush card), consumers were given two free withdrawals but then charged \$2.50 for each additional withdrawal. Consumers using the Green Dot card get free withdrawals at in-network ATMs, but are otherwise charged \$2.50 per withdrawal. Fees were even higher for international withdrawals.



- **Balance Inquiry Fees:** 18 of the 19 prepaid cards charged fees for checking balances at ATMs, ranging from 45 cents to \$1. This does not include any additional fee charged by the ATM owner.
- **Paper Statement Fees:** 15 of the 19 prepaid cards charged fees for providing consumers with a paper statement detailing transactions on their account. Paper statement fees ranged from \$1 to \$5.95. All 19 prepaid card issuers provide free access to account statement online.
- **Customer Service:** Most pre-paid card issuers provide free customer service, but consumers using the BuyRight card will be charged \$1 to speak to a customer service representative, while users of the Exact card will pay \$3.95 for doing so. Some prepaid card issuers charge customer service fees after a limited number of free calls.
- **Fees for Inactivity:** 9 of the 19 prepaid cards charged fees when cards are not used after a certain period of time. These dormancy fees range from \$1.95 per month for the Rush Card (after 90 days of inactivity) to \$9.95 per month for the Exact card.
- **Overdraft Fees:** A number of prepaid card issuers claim that they do not charge fees when users spend more than the available amount on their cards. However, Consumers Union found that 13 of the 19 cards it reviewed included overdraft or “shortage” fees. Most of the card issuers that charge an overdraft fee do not specify the amount of the fee. Instead, the card agreement indicates that consumers will be charge “applicable fees” for the shortage.

When prepaid cards are lost or stolen and used by others to make fraudulent transactions, consumers are not protected by the same regulatory and statutory safeguards that enable other debit card users to recover their money. If a consumer contacts a card issuer about a lost or stolen debit card within two business days, the consumer’s liability is limited to up to \$50 (or up to \$500 if the consumer reports the debit card lost or stolen after two business days). By contrast, prepaid cards may only have voluntary protections that could be revised or rescinded at any time for any reason.

Some prepaid cards claim to provide consumers a way to build a credit record or include a credit line feature. However, Consumers Union found that the prepaid card issuers may report “credit building” activity to an alternative, less used credit reporting agency or may report only the payment of the card’s high monthly fees. The credit line feature may provide credit which is as expensive as costly overdraft loans and payday loans.

Finally, consumers with traditional bank accounts have peace of mind that their money will not be lost as long as their bank is FDIC insured. But consumers who use prepaid cards have no guarantee that they will be able to recover all their money in the event of a bank failure because the funds may not be insured by the FDIC.