

CONSUMER ACTION NEWS

Consumer Action
221 Main Street, Suite 480
San Francisco, CA 94105

www.consumer-action.org • Spring 2012

Prepaid Card Survey Convenience at a cost

By Alegra Howard

Marketed as a convenient way for consumers to manage money and control spending, and as a checking account substitute, prepaid cards are the financial tool of the hour. Even big-name institutions and celebrities are getting in on the act.

Consumer Action took a look at the marketplace and collected our findings in a new Prepaid Card Survey that examines 28 cards from 11 issuers.

All surveyed cards are available nationwide, except American Express prepaid cards (not sold in Arkansas and Vermont) and Green Dot cards (not sold in Vermont).

Our surveyors compared the costs to buy, deposit funds (load) and use the cards.

Fees

Consumer Action found that cards come with many types of fees, for ATM cash withdrawal, balance inquiries, customer service calls, monthly maintenance, reloading funds, transactions and attempting to make a purchase without

adequate funds.

The fees for each card varied greatly. Some cards will waive a fee if you load a certain amount of money on the card each month or register for direct deposit of salary or income.

Among surveyed cards, American Express cards had some of the fewest fees but no card was free. (*To see an example of the impact of fees, see "Tale of Two Cards," page 3.*)

None of the surveyed cards required the cardholder to have a bank account or undergo a credit check.

The funds on all surveyed cards were FDIC insured for up to \$250,000 per account, except for those issued by American Express, which are covered by state transmitter laws. All surveyed cards offered voluntary fraud protection and error resolution coverage.

Most cards surveyed allow cardholders to monitor accounts online for free, view balances, set up email and text alerts, even pay bills and schedule balance transfers to the card. Fees generally apply for the bill payment feature.

See Survey, page 2

Fees at a glance

Here's a quick overview of our findings on some typical fees. Download our detailed chart containing all card costs, terms and contact information at http://bit.ly/prepaid_PDF. (Find this issue online at http://bit.ly/CANews_prepaid.)

Cards surveyed: 28	Fees
ATM withdrawal fees: * 28 cards	Up to \$2.50
Free in-network withdrawals: 6 cards	Green Dot, Modern Cash, OneWest, Regions, Univision, Walmart
One free withdrawal per month: 5 cards	American Express (all three cards) and Capital One; RushCard Monthly has two per month
Monthly maintenance fees: 20 cards	Up to \$14.95 (READYdebit Visa Prepaid Platinum)
Reload fees: 5 cards	Up to \$4.95
Purchase transaction fees (PIN and signature): 6 cards	Up to \$2 (NetSpend's \$2 PIN purchase transaction fee)
Activation fees: 3 cards	\$9.95 (READYdebit, all three cards)
Inactivity fees: 4 cards	Up to \$5.95 per month (H&R Block, NetSpend and Western Union)
Balance inquiry fees: 20 cards	Up to \$2 per balance inquiry (Regions Bank out-of-network; balance inquiries are free at in-network ATMs)

* Additional ATM fee may be charged by the owner of the ATM.

Prepaid cards: The latest plastic payment option

By Monica Steinisch

When it comes to paying with plastic, traditional credit and debit cards rule the roost. But another plastic payment option—the prepaid card—is gaining popularity at an astounding pace. Consumers loaded \$70.7 billion onto prepaid cards in 2011, and that amount is expected to top \$120 billion this year, according to Mercator Advisory Group.

There are a variety of prepaid cards, including non-reloadable gift cards, payroll cards and government benefits cards. But the card that's garnering the most attention is the general-purpose reloadable prepaid card.

A reloadable prepaid card requires you to "load" money on to it before it can be used, so there's no extension of credit as with a credit card. And while they're often referred to as prepaid "debit" cards, reloadable cards are not linked to a checking account like a traditional debit card.

Like credit and debit cards, however, many reloadable prepaid cards are branded with the logo of one of the four major electronic payment networks: American Express, Discover, MasterCard or Visa.

Businesses worldwide that are a part of the same network accept the cards.

In fact, you can generally use the cards to do the same things you can with credit and debit cards, including make everyday purchases, shop online, pay for travel expenses and withdraw cash—as long as there's a balance on the card.

That's where "reloadable" comes in: As you use the card, the money you spend is deducted and the card balance goes down. When the balance gets low, you can reload more money onto the card and keep using it (unlike a gift card, which is useless after the money is spent). Loading methods vary among cards, but may include cash at a participating business or via a third-party cash conversion service such as MoneyPak, transfer from a credit or debit card, PayPal, wire transfer and direct deposit.

Depending on the card and your sources of income, you also may be able to have your wages or government benefits deposited directly onto the card and, in many cases, pay bills online or by phone—which may appeal to anyone who doesn't have a checking account.

Reloadable prepaid cards are marketed

See Prepaid, page 3

Prepaid cards lack legal consumer protections

By Ruth Susswein

Prepaid cards offer the same conveniences as paying with credit or debit but they're missing the legal protections for error resolution and fraud liability that consumers expect when they pay with plastic.

If your credit or debit card were lost or stolen, and you reported the loss, your liability would be limited. Prepaid cards do not have the same guarantees, although there is pressure from consumer groups and lawmakers to extend liability limits to prepaid cards.

Plastic liability

Credit cards: Under the federal Truth in Lending Act, "Reg Z" establishes protections for credit cardholders that limit

cardholder liability to \$50 for unauthorized transactions that were made before the lost or stolen card was reported.

Debit cards: Under the federal Electronic Fund Transfer Act (EFTA), "Reg E" limits debit cardholder liability for unauthorized use to \$50 if you notify the bank within two days of discovering that your card is lost or stolen. Your liability can jump to \$500 if you take more than two days to report a missing card or unauthorized use. If you take longer than 60 days from the date of the card statement listing the unauthorized transactions, you could be liable for all unauthorized transactions.

Payroll cards: Most payroll cards are prepaid cards issued expressly for the

See Protections, page 4

Web Bonus

We have more online! Read these stories at: http://bit.ly/prepaid_web_bonus.

- **Navigate carefully when choosing a prepaid card:** Determine how you will use a prepaid card and hone in on fees and other 'gotchas'.
- **Read prepaid card privacy policies carefully:** Companies offering financial products and services, including prepaid cards, routinely collect and disclose customer information. Learn which disclosures you can opt out of.

Download a PDF with all of our findings: Go to http://bit.ly/prepaid_PDF.

Consumer Action

www.consumer-action.org

Consumer Action has been a champion of underrepresented consumers nationwide since 1971. A non-profit 501(c)3 organization, Consumer Action focuses on financial education that empowers low- to moderate-income and limited-English-speaking consumers to financially prosper.

By providing financial education materials in multiple languages, a free national hotline and ongoing financial services research, Consumer Action helps consumers assert their rights in the marketplace and make financially savvy choices.

Advice and referral hotline

Submit consumer complaints about consumer problems to our hotline:

hotline@consumer-action.org

(415) 777-9635 or (213) 624-8327

Chinese, English and Spanish spoken

San Francisco

221 Main St., Suite 480
San Francisco, CA 94105
(415) 777-9648

Email: info@consumer-action.org

Ken McEldowney
Executive Director

Michael Heffer
Business Manager

Kathy Li
Director, San Francisco (S.F.) Office

Nani Susanti Hansen
Associate Director, S.F. Office

Yamin Chai
Assistant Director, S.F. Office

Audrey Perrott
Associate Director, Training/Outreach

Monica Steinisch
Senior Associate, Editorial

Jamie Woo
Community Outreach Manager

Joseph Ridout
Consumer Services Manager

Angela Kwan
Web Manager

Hazel Kong
Office Manager

Kinny Li, Cui Yan Xie
Project Associates

Tasneem Pitalwala
Administrative Assistant / Consumer Advice Counselor

Ricardo Perez
Mail Room Operations

Rose Chan, Schelly Gartner, Vickie Tse
Consumer Advice Counselors

Loven Ko, Robert La
Support

Los Angeles

523 West Sixth St., Suite 1105
Los Angeles, CA 90014
(213) 624-4631

Nelson Santiago, Linda Williams
Community Outreach Managers

Guo Guang Zhuo
Support

Washington, DC

P.O. Box 70037
Washington, DC 20024
(202) 544-3088

Linda Sherry
Director, National Priorities
(Editor, Consumer Action News)

Ruth Susswein
Deputy Director, National Priorities

Michelle de Mooy
Senior Associate, National Priorities

Alegra Howard
Associate, National Priorities

Joe Orozco
Development & Fundraising Coordinator

Consumer Action News is printed by the Dakota Printing Company, using recycled paper and soy-based ink.

© Consumer Action 2012

Temporary vs. personalized cards

Temporary prepaid cards. You can buy prepaid cards at many stores and at some banks. In most cases, you won't need to show ID and you can begin using the card right away. Off-the-shelf cards are called "temporary" cards because you either use them up or convert the account into a permanent, personalized card that you can reload with funds again and again. Sometimes, you can't load more money onto a temporary card.

Typically, you will pay an upfront purchase price for a temporary card (plus the value of the card's preload) and when the money has been used up, the card is no longer useful. These temporary cards don't have your name on them, and they can't be used to withdraw funds with a personal identification number (PIN) at an ATM or make PIN purchases. In many cases, you can register temporary prepaid cards online so that you can get your money back if the card is lost or stolen.

Personalized prepaid cards. You can buy a "personalized" general-purpose reloadable prepaid card at certain stores and online, often for free. You fill out an application for the card, providing information about yourself, such as your name, address, Social Security number and birthdate. (Collecting this personal information helps issuers personalize the card and carry out their responsibility to the government under rules to prevent money laundering.)

Cards that have been ordered online must be loaded with money before they can be used for purchases. Once your identity has been verified, a personalized card will be mailed to you and you can load funds on it from the issuer's website or in some cases by phone. Your personalized card will have your name on it.

Depending on the issuer, funds can be loaded in various ways: with cash, by direct deposit or bank transfer, or with a third-party system like MoneyPak, MoneyGram or Western Union. These third-party services allow you to convert cash into electronic funds you can load on a prepaid card. Third-party services usually carry their own fees—up to \$4.95 per transaction. ■

Survey

Continued from page one

Reloading fees can often be avoided by using direct deposit or funds transferred from a bank account.

Steer clear of balance inquiry fees by checking your balance with a call to customer service, when free, or by checking your account online or scheduling email or text alerts.

Some card issuers offer the option to text for immediate free balance inquiries (but remember your cell phone carrier may charge you to receive text messages).

Avoid ATM withdrawal fees by getting cash back at a retailer when you make a purchase using your PIN.

Monthly maintenance fees. Of the 28 cards surveyed, 20 had monthly maintenance fees. The highest was READYdebit Visa Prepaid Platinum at \$14.95 a month. Eight cards had no monthly fee (cards from American Express, H&R Block, OneWest, Western Union, and RushCard Pay-As-You-Go). Some cards will waive their monthly maintenance fee when cardholders meet certain criteria. For example:

- Bank Freedom, Capital One, Mango and Regions Bank waive monthly fees when you load \$500 or more per month.
- Green Dot cards waive the \$5.95 fee if you make at least 30 purchases or load at least \$1,000 onto your account each month.
- READYdebit Visa Control waives the \$3.95 monthly fee when at least \$1,500 in direct deposits are loaded per month.

Reload fees. Many cards allow free reloads online, by phone or from a bank account, debit or credit card, or when you cash a check and have the cash placed on your card (although check cashing fees may apply).

Others charge reload fees in specific circumstances, such as in-store or when you use a teller at a bank branch. For example, Western Union storefronts charge \$4.95 for cash reloads on the company's Prepaid Visa and mun2 cards. On the American Express for Target Prepaid Card, you pay \$3 for cash, credit card and debit card reloads at Target

stores. Regions Now Visa Prepaid Card (Regions Bank) charges \$3 for in-branch reloads using a teller.

To reload cash on most cards, you have to pay the cash to a third party, which will charge you to convert your money into electronic funds that you can load on the card. (These are called third-party reload fees.)

Even many issuers with no online or phone reload fees allow you to reload money through a third-party cash conversion service like Green Dot's MoneyPak. For \$4.95 per cash reload, you can transfer the MoneyPak balance to many of the surveyed cards.

Many cards have daily reload restrictions as well as load caps. Load caps are the maximum amount that can be on the card at any one time.

Purchase transaction fees. Six of the 28 cards surveyed charge transaction fees when you use the card to make a purchase using your signature or PIN. (Like debit cards, many prepaid cards give you the option to sign for a purchase *or* enter your PIN.) In general, prepaid PIN transactions tend to cost more on cards that charge per-transaction fees and that allow you to choose between signature and PIN.

Fees ranged from 25¢ per transaction (Jackson Hewitt's Smartcard with PIN) to \$2 per transaction (NetSpend's Pay-As-You-Go plan, which charges \$1 per signature purchase and \$2 for PIN transactions). The RushCard Pay-As-You-Go charges \$1 for each PIN and signature purchase transaction, but caps transaction fees at \$10 a month. (Any transaction charges in excess of \$10 are refunded to your RushCard the following month.)

Some cards cap daily purchases. Examples include a \$2,000 daily purchase limit on the Bank Freedom Prepaid MasterCard, and AccountNow Prepaid Visa Classic's \$2,000 daily purchase limits on PIN and signature transactions.

ATM withdrawal fees. Many of the prepaid cards offer in-network ATMs where you can withdraw cash for free.

However, out-of-network ATM fees range from \$1.95 per withdrawal on many surveyed cards to \$3 (American Express for Target).

Modern Cash and Green Dot cards have a \$2.50 out-of-network ATM fee.

In addition, some ATMs owners will hit you with a second withdrawal fee.

Most cards have caps on how much cash you can withdraw at ATMs—these caps can be daily or weekly. For instance American Express Prepaid limits cash withdrawals to \$200 per week.

Surveyed cards that offered cash back at in-network ATMs include Green Dot, Modern Cash, OneWest, Regions Bank, Univision and Walmart. (But ATM owner fees may still apply.)

Many cards also offer the option of receiving cash back for free when you make purchases with a PIN at grocery stores, other retailers and post offices. But in this instance, beware of cards with PIN purchase transaction fees like the AccountNow Visa Classic, READYdebit Visa Control and RushCards.

Inactivity fees. H&R Block, after three consecutive months with no card activity, charges a fee of \$2.50 in each subsequent month the card is not used. Western Union prepaid and Western Union mun2 cards also charge a \$2.50 monthly inactivity fee, after 12 months of inactivity.

Decline fees. When you attempt to withdraw cash or make a purchase with insufficient funds on your card, you could get hit with a declined transaction fee. Seven surveyed cards had them: 40¢ for ATM declines (AccountNow), 45¢ (mun2), 50¢ (Bank Freedom) and \$1 (PayPal).

READYdebit's Control Prepaid card charges \$1.95 per declined purchase transaction (signature and PIN). Modern Cash charges a 50¢ ATM decline fee and a \$14.95 insufficient funds fee for each transaction that causes the available balance on your card to go into negative territory. Modern Cash also charges a \$9.95 overdraft fee if you ask the issuer to cover any transactions you make that exceed your current balance, up to \$100.

Customer service fees. Ten surveyed cards charged cardholders for speaking with a live agent over the phone. Fees started at 50¢ (NetSpend) with six cards charging \$2 per call (Jackson Hewitt, OneWest, READYdebit's Control and Select cards, Regions Bank, and Suze Orman's Approved Card).

Jackson Hewitt offers two free calls a month before it charges. OneWest, READYdebit's Select card, Regions Bank and the Approved Card all offer one free call per month. AccountNow will waive its \$1 fee with direct deposit.

AccountNow and NetSpend also charge 50¢ for automated customer service phone calls—even when there's no live representative.

Foreign transaction fees. Foreign transaction fees ranged from free (the Approved Card and American Express cards) to 3.5% of each international transaction (PIN and signature purchases) for NetSpend. That's \$3.50 for every \$100 you spend on overseas purchases.

RushCard Pay-As-You-Go charges a 2% foreign transaction fee, plus a \$2 convenience fee for each signature and PIN purchase transaction you make outside of the United States.

About the survey

Consumer Action's 2012 Prepaid Card Survey was conducted Jan. 16-March 22 by Alegra Howard. The survey was coordinated by Ruth Susswein. Find additional details about these cards in a PDF report that can be downloaded at http://bit.ly/prepaid_PDF.

Note: You are prohibited from using Consumer Action's name or any reference to its surveys in advertising or for any other commercial purpose.

Send any comments about this survey to editor@consumer-action.org. ■

Tale of two cards

This comparison of monthly costs on two cards from Consumer Action's Prepaid Card Survey is based on four cash reloads, four ATM withdrawals and four ATM balance inquiries. The two cards shown below had the lowest and highest results among the cards we surveyed. (See footnotes for ways to save money on these cards.)

	Bluebird	Walmart MoneyCard
Monthly fee ¹	\$0	\$3
Reload fee ^{2,4}	\$4	\$12
ATM withdrawal fee ³	\$6	\$8
Purchase transaction fee	\$0	\$0
Balance inquiry ⁵	\$0	\$4
Total	\$10	\$27

¹MoneyCard waives the next monthly fee when you load \$1,000 or more.

²Bluebird offers free direct deposit and bank transfer reloads.

³Bluebird has no fee for the first ATM withdrawal each month. After that, you will be charged \$2 per ATM withdrawal.

⁴MoneyCard offers free direct deposit and bank transfer reloads.

⁵MoneyCard offers free balance inquiries via an automated phone system.

Prepaid

Continued from page one

to parents as a way to pay their children's allowance or provide a plastic payment method for college kids without having to worry about them racking up debt. But the main reason reloadable prepaid cards have been gaining traction is because they provide a potential solution for anyone unable or unwilling to get a traditional credit card or checking account-linked debit card.

There are many reasons for not having a credit card or a checking account, including identification requirements, previous banking problems, distrust of mainstream financial institutions, desire to avoid high account fees, low credit score or no credit history. An estimated 60 million "unbanked" and "underbanked" consumers rely on alternative financial services, such as check cashers, payday lenders and money-wire services, and they often purchase money orders to pay their bills.

A reloadable prepaid card is easy to get since it requires no credit check or account verification. Wages or benefits can be directly deposited onto many of the cards, allowing users to avoid costly check cashing fees and the risk of carrying cash. Prepaid cards that offer a fully functional online or phone bill-pay system eliminate or reduce money order and mailing costs. (Not all businesses accept payments from prepaid cards.)

Shortcomings

How much could be saved by using a prepaid card rather than check cashers and money orders depends on the card. There are dozens of prepaid card options to choose from, with a wide range of fees and features. Prepaid card fees may include a fee to buy or activate the card, a reload fee, a balance inquiry fee, a customer service fee, an ATM cash withdrawal fee, an inactivity (dormancy) fee and more. Some cards are much more consumer-friendly than others, charging fewer and lower fees while still offering many useful features. (Consumer Action surveyed many available prepaid cards to gauge costs and determine how they work. Download our findings from http://bit.ly/prepaid_PDF.)

Consumers need to understand exactly what they'll pay for with a particular prepaid card based on the way they plan to use it. A recently launched online tool from NerdWallet (www.nerdwallet.com/prepaid) allows consumers to calculate and compare prepaid card costs accord-

ing to their individual usage habits.

It's also important to know that prepaid cards don't offer the same protections that debit and credit cards do. If fraudulent charges appear on your account or your card is lost or stolen, you might not be able to get your money back. While most prepaid card issuers offer "zero liability" guarantees against unauthorized transactions, the protection is voluntary. (For more on consumer protections with prepaid see "Prepaid cards lack legal consumer protections" on page 1.)

Prepaid cards have no impact on a user's credit score either. "That can be a disadvantage if you're trying to establish or improve your credit," points out Ruth Susswein, Consumer Action's deputy director of national priorities.

Consumer Action counsels against using a prepaid card product with "credit-enhancement" features, like a short-term payday-style loan that is reported to a credit bureau, or a promise to report bill payments made with a prepaid card to an alternative credit reporting agency (not Equifax, Experian or TransUnion).

Financial personality Suze Orman, who introduced the prepaid Approved Card in January, has partnered with the credit bureau TransUnion to analyze cardholders' purchases with the goal to develop a system for sizing up card users' creditworthiness. For now, prepaid transactions are not included in any of the credit reports provided by the three major national credit reporting bureaus.

Evolving industry

The reloadable prepaid card industry is the fastest growing segment of the payment card market. Green Dot and NetSpend, major prepaid financial services companies, both went public in 2010. Walmart has added three new prepaid products to its popular MoneyCard. American Express, too, recently expanded its prepaid card offerings. Even the federal government now requires new benefits applicants to receive payment via prepaid card if direct deposit is not an option. By 2013 checks for Social Security, SSI and other federal benefits will be phased out and recipients will be required to receive their payments electronically.

The Consumer Financial Protection Bureau (CFPB), which is charged with protecting consumers from deceptive practices, is expected to examine the prepaid market, particularly those cards carrying government benefits.

Consumer advocates have asked the CFPB to provide greater financial protections for prepaid card users. ■

Dos and don'ts

Choosing and using a prepaid card

Consumer Action discovered that many prepaid cards come with some drawbacks, such as hefty or hidden fees not detailed on the card's packaging at the time of purchase. With a little planning, some prepaid card fees, such as cash back, balance inquiry and monthly maintenance, can be avoided.

Consider using a prepaid card for some purchases but not for others where you want the added "chargeback" protection that only a credit card offers. Prepaid cards only have voluntary protections from the issuer—you may have to jump through hoops to get your money back for disputed purchases. With prepaid cards, the burden of proving unauthorized use or fraud may be more difficult than on debit and credit cards.

So what's the best way to be a savvy card user? Below are some practical tips for navigating the ever-changing world of prepaid cards. Get more information and details on specific card practices in Consumer Action's Prepaid Card Survey (http://bit.ly/prepaid_PDF).

DO

Check out your options

- Look for low-fee and full-disclosure cards
- Look for cards that limit fees or allow you to avoid some. Walmart's MoneyCard says it does not share consumers' personal information and gives customers a straightforward fee schedule.

Know your fees

- Some cards charge different fees based on where you reload the card with cash. Find out where you can reload for a low, or no, fee.

Track your balance for free

- Many cards will provide your balance at no fee when you check it online, by phone or by text alert.

Access cash for free

- Save money: Use a card with free cash withdrawals from in-network ATMs or get cash back at stores using a PIN.

DON'T

Tie up your funds

- Gas stations may put up to a \$75 hold on your prepaid balance. Avoid holds by paying the attendant instead. There's no hold when you pay inside before you pump, and sign the receipt rather than use your PIN.
- When you use the card to guarantee a room at a hotel, a hold may be placed on your balance that can take a few days to remove.
- Refunds on purchases may be delayed before your prepaid balance is credited.

Forget to read the fine print

- Be on the lookout for fees and other hidden items in the fine print of the cardholder agreement.
- Some cards have surprise fees for cancelling an account or checking your balance.
- There may be a fee depending on the type of transaction. For example, you could be charged extra for choosing "debit" rather than "credit" when making a purchase.

Expect to build credit

- Prepaid cards do not allow you to build a credit history because no money is being borrowed. If your goal is to build or re-build your credit record, consider getting a secured card instead.
- For tips and guidance on selecting a secured card, check out Consumer Action's Secured Card Survey at www.consumer-action.org/news/articles/2011_fall_issue_secured_credit_card_survey. ■

New tool for comparing prepaid cards

Looking for an easy way to compare the costs of different prepaid cards? NerdWallet's free prepaid card cost calculator (www.nerdwallet.com/prepaid) allows you to browse and compare around 60 cards. It also provides a personal ranking of the least costly cards based on information you provide about expected usage, such as cash withdrawals, purchases and "reloads" (deposits on the card).

Spending, withdrawal and reload limits on each card are provided. For example, one card may have a \$1,000 cap on cash reloads and restrict ATM withdrawals to \$500 per day. Click on *Show Fee Calculations* and you'll get even more detail on features and costs, including any fees for customer service, check cashing and inactivity. The site also shows card benefits, such as where you can go to load cash on

the card without paying a fee.

You also can browse the card listings without personalizing usage. NerdWallet ranks all cards based on general annual usage and any distinctive features. ■

Find more about surveyed cards online

Download a free PDF report containing detailed information about all the prepaid cards we surveyed. Go to http://bit.ly/prepaid_PDF.

To read articles about additional findings that are not included in this newsletter, see our Web Bonus coverage at http://bit.ly/prepaid_web_bonus.

Protections

Continued from page one

purpose of distributing salary payments electronically to employees. Prepaid payroll cards, as well as prepaid cards that accept federal direct deposits, such as tax refunds, Social Security, SSI and veterans benefits, are covered by Reg E.

Prepaid cards: General-purpose reloadable prepaid cards are not subject to any federal consumer protection laws, although financial institutions issuing the cards and the payment networks that brand the cards (such as American Express, Discover, Visa and MasterCard) typically offer voluntary “zero liability” protections for fraud.

“It’s hard to understand why reloadable prepaid cards aren’t covered by Reg E,” said Linda Sherry, Consumer Action’s director of national priorities. “After all, the primary purpose of Reg E is to protect consumers engaging in electronic fund transfers.”

Consumer groups have asked the Federal Reserve and the Consumer Financial Protection Bureau to extend Reg E protections to prepaid cards.

Voluntary protections

The payment networks American Express, Discover, MasterCard and Visa offer cardholders “zero liability” against unauthorized charges on transactions processed through their own networks.

But Visa and MasterCard “zero liability” policies come with some catches. For example:

- Visa says that its “zero liability policy does not apply to PIN transactions that are not processed by the Visa network or to ATM transactions.” It may not extend the protection if it determines “gross negligence,” which includes an “unreasonable delay in our judgment” in reporting unauthorized transactions.

- MasterCard says its “reduced liability does not apply if a PIN is used as the method of verification for a disputed transaction or you have reported two (2) or more incidents of unauthorized use in the immediately preceding twelve (12) month period.”

All cards examined by Consumer Action limit cardholder liability for unauthorized charges to either \$0 or up to \$50 on cards reported lost or stolen within two business days. After two business days, consumers could be held liable for up to \$500 in losses and, if they wait longer than 60 days after the unauthorized use is posted on their statements, they could lose everything. (This is essentially the same protection afforded to debit card users under Reg E, but this protection is voluntary, not law, and can be rescinded at any time.)

Most card issuers state that if you report the loss or theft within two business

days, your liability is limited to \$50, or even zero. But if the issuer “can prove we could have stopped someone from using your card if you had informed us,” then cardholder liability could be as high as \$500, sometimes unlimited.

However, individual prepaid card issuers may interpret your liability somewhat differently. For example, H&R Block’s Prepaid MasterCard provides zero liability protection if you take “reasonable care in safeguarding your card,” but goes on to state: “Failure to register certain cards will be considered not safeguarding your card.”

The terms for Walmart MoneyCard (Visa and MasterCard) state: “You will not lose any part of the money on your Walmart MoneyCard if you exercise reasonable care in safeguarding your card and PIN. If these conditions are not met you could lose \$50 or the amount of unauthorized use from your card...”

This means you could lose the entire balance on the card, even up to the maximum balance allowed on the card (in this case \$3,000, if you had it).

Liability with the Young Money Discover card ranges from zero all the way to “all the money in your account.” Same for Green Dot cards.

“Only legal protections can assure cardholders safety, security and reliability,” said Sherry. “Without them, it’s the Wild West.”

FDIC coverage

Card issuers can, but are not legally required to, have FDIC insurance to guarantee your prepaid balance if the card company were to go out of business.

On all but three of the 28 cards surveyed, deposits were protected by FDIC insurance. The three remaining cards are issued by American Express, which does not provide FDIC coverage on prepaid cards. American Express says that the funds on its prepaid cards are adequately protected under state transmitter laws, which allows it to keep fees low.

Billing errors

Prepaid cards are also not subject to federal billing error laws. If mistakes are made when you deposit or withdraw money from the card, you must follow the procedures outlined in your card terms. While most card issuers will help you resolve problems, cardholders who pay with a prepaid card have no law behind them when disputing merchant mistakes.

Billing disputes with a prepaid card can be more difficult to resolve because the bill has already been paid, whereas a credit card dispute allows for more leverage since the credit card company

can issue a “chargeback” to reverse the purchase. (Credit card dispute rights are defined under Regulation Z of the Truth in Lending Act).

All prepaid cards surveyed by Consumer Action provide customers with error resolution protection that mirror debit card rules. Consumers are required

to report errors within 60 (or 90) days of the transaction, or when they received or viewed an electronic statement of transactions on the account. Issuers said they would respond to

complaints within ten business days and would temporarily credit consumers for the disputed amount. Most would take 45 days to investigate and provide the consumer with a final determination on the dispute.

While all prepaid cards in Consumer Action’s survey offered reasonable voluntary protections, there is no guarantee they won’t change.

Reg E for prepaid

Consumer Action, along with many other consumer groups, supports extending debit card Regulation E and Electronic Fund Transfer Act legal protections to prepaid cards.

These laws require error resolution rights and fraud protection by limiting losses from theft or loss to \$50 if reported within two business days of learning of it, and \$500 when reported after two business days but before 60 days from the statement date on which the unauthorized use was posted.

“A consumer deposit should be given the same legal protections for loss, theft and fraud enjoyed by those with a traditional checking account,” said Suzanne Martindale, attorney for Consumers Union, the parent organization of Consumer Reports magazine. “We really ought to harmonize our payment systems and offer uniform protections to consumers.”

Senator Robert Menendez (D-NJ) introduced the Prepaid Card Consumer Protection Act in December 2011, to require Reg E protections if your card is lost or stolen, FDIC insurance to protect all money loaded on the card, ban some prepaid fees and strengthen cost disclosures. So far no action has been taken.

The Consumer Financial Protection Bureau, newly responsible for overseeing the prepaid card industry, is expected to consider new regulations for the rapidly growing prepaid market.

Consumer Action has created a petition on Change.org to urge the CFPB to extend Reg E protections to general-purpose reloadable prepaid cards at: <http://www.change.org/petitions/reg-e-for-prepaid-cards>. ■

While all surveyed prepaid cards offered reasonable voluntary protections, there is no guarantee they won’t change.

Governments adopt prepaid cards for benefits

By Monica Steinisch

By this time next year, all those who collect Social Security and other government benefits will receive payment by prepaid card or direct deposit. Over the past 15 years, federal and state government agencies have been moving steadily away from paper checks and toward electronic deposits, either into a bank account or onto a card. Social Security, veterans aid, unemployment compensation, disability income and food stamps are some of the benefits that currently are disbursed via direct deposit or prepaid card.

Consumers who receive benefits electronically have much quicker access to their funds, eliminate check-cashing fees, can make payments electronically and have greater security than carrying cash. It’s predicted that this will save taxpayers \$1 billion over 10 years.

But the cards can be costly to consumers. Fees for everything from ATM transactions to balance inquiries take crucial dollars out of the pockets of low-income families and put them into the coffers of banks and private companies. (Chase, U.S. Bancorp and Bank of America have contracts with various state governments.) Despite the fact that benefits are supposed to be made available without cost to the recipient, beneficiaries are bearing many administrative costs of the prepaid card system. Last year, card fees and ATM surcharges cost California welfare recipients over \$17 million.

How costly the card is to consumers depends on the deal each government agency negotiated with the card issuer. For example, the Direct Express card used by the federal government to disburse payments for Social Security, SSI (supplemental security income) and veterans aid charges very few fees. There are no purchase, monthly maintenance, inactivity or customer service fees. You can get up to one replacement card free per year. Direct Express does charge for ATM withdrawals (90¢ after one free withdrawal each month, plus there’s a \$1-\$3 ATM surcharge by the ATM owner). Depending on how you use the card you could be charged fees for paper statements, bill payments and more.

In contrast, some states’ disability and unemployment cards charge a lot of fees, including fees for in-network ATMs, PIN transactions, declined transactions, balance inquiries, inactivity, customer service and even “overdrafts”.

Last year, the National Consumer Law Center (NCLC) studied unemployment compensation prepaid cards programs in 40 states and concluded that state-issued prepaid cards may be cheaper for consumers than check cashing outlets but that direct deposit to a bank account is the most affordable option. (Six states did not offer direct deposit.) NCLC uncovered a slew of fees on many state cards that nickel and dime unemployed workers at a time when they can least afford it.

When available, direct deposit to a bank account is the most cost effective way to get government-issued benefits. You’ll incur the lowest fees, have the use of a debit or ATM card and benefit from legal protections against bank failure and fraudulent transactions.

Bank On programs make low-cost checking accounts accessible even to those who have had an account closed in the past. Find a local Bank On program online, at <http://joinbankon.org/programs>. ■

Join Consumer Action

Consumer Action depends on the financial support of individuals. Consumer Action members receive a subscription to *Consumer Action News*. New members also receive *How to Complain*. In addition, members have the satisfaction of supporting our advocacy efforts in California and nationally, a free hotline and the distribution of more than one million free educational brochures a year.

\$25, Regular Membership

\$15, Senior or Student Membership

\$_____ Donation to our Publications Fund, supporting the free distribution of Consumer Action materials to consumers

Name _____ Address _____

City _____ State _____ ZIP _____

Email address _____

Mail to: Consumer Action, 221 Main St., Suite 480, San Francisco, CA 94105. Donations are tax-deductible.

4/12

