

CONSUMER ACTION NEWS

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Celebrating consumer advocacy and activism

By Michelle De Mooy

Consumer Action held a fund-raising event in June to celebrate its close to 40 years of tireless work on behalf of consumers. Held at the Mandarin Oriental Hotel in San Francisco, the party raised \$54,805, a new level of support for the event. (See page 2 for a list of 2009 donors and educational partners.)

Consumer Action's supporters and members spent the evening mingling with long-time activists, consumer reporters, staff members and award recipients.

In accordance with tradition, Consumer Action presented its yearly Consumer Excellence Award in three categories: Community, Advocacy, and Media.

The awards pay tribute to community-based activists or organizations, media outlets, and lawmakers who have demonstrated a strong commitment to important consumer issues.

In a year that saw the collapse of the U.S. economy, these individuals and organizations waged crucial battles on

behalf of consumers.

Consumer Action believes this year's award recipients showed exceptional energy and focus in their work.

Awardees

The 2009 Consumer Excellence Award for Outstanding Advocacy was awarded to the Center for Responsible Lending (CRL), a nonprofit, nonpartisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. In the last year, CRL has worked to protect consumers from unfair subprime mortgage loans, payday loans, tax refund loans, and other lending scams. The organization investigates and reports on all aspects of predatory lending, and is regularly called upon to testify before Congress. Its Oakland, California, office is involved in advocacy at the state level.

Consumer Action gave out two awards for Outstanding Community Service this year. One was given to San Francisco's Chinatown Service Center for its longstanding efforts to



Matthew Hines and Emily Talley of Capital One attended Consumer Action's anniversary celebration in San Francisco in June. Capital One and Consumer Action have been partners in the financial literacy project MoneyWi\$e since 2001.

provide education, health and human services to Asian and other immigrant and refugee communities. The mission of the organization is to enhance this population's ability to contribute to the social, economic and cultural fabric of the United States.

The second award went to Healthy

San Francisco, a unique program designed to make health care services accessible and affordable to uninsured residents of the city. The program, born from San Francisco Mayor Gavin Newsom's pledge to provide universal health care to all city

See "Celebration," page 4

Prepaid debit cards not good alternative to bank accounts

By Linda Sherry

Many companies tout prepaid plastic payment cards as a great way for people who do not have credit cards or bank accounts to have the convenience of paying with plastic. You can "deposit" money on the cards. You can "reload" the cards with more money at any time. You can use them almost anywhere. These kind of cards have a "re-load" feature, which distinguishes them from general use gift cards.

Prepaid cards, which carry Visa, Mastercard or American Express logos, appear identical to credit cards and can be used anywhere that credit cards are accepted. Like standard bank account debit cards, transactions may be processed using a signature or personal identification number (PIN).

But despite the hype, prepaid cards are full of fees and do not have the same legal consumer protections as traditional debit cards, according to an August study by Consumers Union (CU). The report reviewed the terms and conditions of 18 prepaid cards and found multiple fees and other costly traps.

"Consumers using prepaid cards end up paying a mountain of costly fees that can add up quickly and undermine their finances," said the study's author, CU staff attorney Michelle Jun. "Prepaid cards are being marketed aggressively, so it's important for consumers to understand the hidden costs and how these cards might leave them vulnerable if lost or stolen."

When prepaid cards are lost or

See "Prepaid," page 2

Understanding gift cards

By Ruth Susswein

Consumers spent an estimated \$88 billion on gift cards last year, according to the research firm the Tower Group. It's no wonder, as gift cards can swiftly solve the nagging holiday question: *What should I get?*

By some estimates, 40% of gifts that go to teens are gift cards. The cards give recipients the freedom to choose their own gifts, but as their popularity grows so do the complexities.

If you buy a general bank-issued gift card, with a Visa, Mastercard, American Express, or Discover logo on it, you can use the card in any store that accepts those credit/debit cards. Store, or retail, gift cards generally can only be used at a store, although they may also be used to purchase items at stores owned by the same parent company. For example, Gap gift cards

are also redeemable at Banana Republic and Old Navy as well as associated online merchants.

Gift cards can vary widely when comparing fees, expiration dates, and replacement cards. Before you start your holiday shopping this season, you'll want to know all card costs and conditions for you and the recipient.

Costs

You may not realize that fees can vary greatly, particularly on general purpose gift cards issued by banks. In Maryland, the Montgomery County Office of Consumer Protection surveyed 20 gift cards in 2007 and found that all of them charged both a purchase/processing fee (from \$2 to \$10.90) and monthly maintenance fees (\$1.25 to \$4.95).

Bank-issued gift cards are versatile but can be very costly. When

See "Gift cards," page 3

Consumer Action

www.consumer-action.org

Consumer Action is a non-profit 501(c)(3) advocacy and education organization founded in 1971. We publish surveys and distribute multilingual educational materials in printed form and on the Internet.

Consumer Action provides nonlegal advice and referrals on consumer problems. Chinese, English and Spanish are spoken. Call or write:

(415) 777-9635 • (213) 624-8327

hotline@consumer-action.org

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

Mikael Wagner

Director of Training/Outreach

Nani Susanti Hansen

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Cui Yan Xie

Project Associate

Kinny Li, Tasneem Pitalwala

Administrative Assistants

Ricardo Perez

Mail Room Operations

Ruth Gilbert, Schelly Gartner

Consumer Advice Counselors

Loven Ko, Robert La, Vickie Tse,

Dennis Wong

Support

Los Angeles

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

Nelson Santiago, Linda Williams

Community Outreach Managers
(Training/Outreach Department)

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

Jannislert 'Joe' Orozco

Development & Fundraising
Coordinator

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Boehr v. American Express

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Providian Credit Card Cases

Slayton v. Citibank

UCAN v. Bank of America

UCAN v. Capital One

Van Etta v. Capital One Auto Finance

Ventura v. Providian National Bank

Community Network

Many thanks to our educational network of more than 12,000 community-based organizational contacts nationwide. We appreciate the work you do and respect your commitment to excellence.

Prepaid

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stolen, the legal safeguards for debit card users do not apply. Prepaid cards may offer no coverage, or at best voluntary protections (such as Visa and MasterCard "zero liability" policies) that could be revised or rescinded at any time for any reason. These voluntary protections do not cover all transactions. For example, transactions using a PIN are excluded from "zero liability" coverage.

Compare standard debit card coverage (linked to a checking account) with a prepaid card: A checking account will come with a debit card, a monthly statement, and full consumer protections. If a card is lost or stolen, checking account owners limit their liability to a \$50 loss, if they contact the bank within two business days, (and up to \$500 if the loss is reported after two business days). Many banks offer free checking accounts, especially if you have direct deposit of paychecks or benefits.

One caution: When selecting a checking account, don't accept one with "courtesy overdraft protection." This allows you, in return for large fees, to spend more than you have in your account. Many free checking accounts come with this feature; be sure you decline (or "opt out" of) automatic overdraft coverage.

The money you keep in a checking or savings account is FDIC-insured, meaning you can get your money back if the bank fails. The money you deposit on a prepaid debit card typically is not FDIC-insured.

In its report, Consumers Union concludes that federal regulations, under the Electronic Fund Transfer Act, must be updated to protect prepaid cardholders when cards are lost or stolen or when funds go missing.

Tips for using prepaid cards

- Know the fees. Fees range from inactivity fees to fees for checking your balance! Determine the fees *before* you buy the card.
- If you plan to use the card for direct deposits, ask if there is a minimum deposit. You might be charged a fee if your deposit falls short of the required minimum.
- Keep track of your balance—you might face high fees for attempting to spend more than you have on the card.
- Sign up to receive a statement so you can check your balance.
- You can use most prepaid cards with your PIN (online, or "debit") or by signing a receipt (offline, or "credit"). Your card may carry a higher fee for choosing one option over the other, and providing a signature instead of a PIN might open you up to "shortage" fees if you don't have enough money loaded on the card to cover the transaction.
- You cannot build a credit history by using a prepaid card.

Prepaid card costs vary widely. On the 18 prepaid cards it surveyed, Consumers Union found an array of fees:

Activation fees: Seventeen prepaid card issuers charged a fee for card activation. The fees ranged from a low of \$3 (Walmart Money Card) to a whopping \$99.95 (Millennium Advantage).

Monthly fees: Fifteen issuers charged monthly fees ranging from

\$2.95 (FinanSe) to \$10 per month (Rush Card). Consumers Union found that many prepaid card issuers would waive the monthly fee with direct deposit or if the consumer chooses an automatic reload option.

Fees for cash: All surveyed cards charged fees to withdraw cash from an ATM. U.S. fees ranged from \$1.50 (FinanSe, SVC Revel, and Espree) to \$2.50 (NetSpend Visa) with higher fees for international withdrawals.

(ATM owners usually charge another fee on top of these.)

Balance inquiry fees: Seventeen cards had fees for checking the balance at ATMs (50¢ to \$1).

Customer service fees: While customer service fees were rare on surveyed cards, Millennium Advantage cardholders face a charge of \$1 per minute when they call customer service, while users of the Espree card pay \$3 for each customer service call.

Inactivity fees: Eight issuers charged monthly fees when cards were not used after a certain period of time, ranging from \$1.95 (Rush Card) to

\$9.95 (Exact) per month.

Shortage fees: Ten cards disclosed "shortage" fees, ranging from \$24.90 (Espree) to \$29 (Eufora, Account-Now). Overdrafts (or shortages) may occur when a card is processed using a signature rather than a PIN. Prepaid cardholders owe money and must repay it if they spend more money than they have placed in the card account.

See "Prepaid," page 3



New gift card rules next year

By Ruth Susswein

Gift cards can relieve gift givers of the dilemma of what to get, and allow recipients to buy something they really want. But gift cards' monthly maintenance fees and expiration dates have often caught users unaware. Recently, these practices prompted Congress to act on behalf of cardholders.

When Congress enacted the Credit CARD Act in early 2009, a portion of the law was devoted to providing consumers with stronger disclosures on gift cards. But gift cards purchased this holiday season will not be eligible for the new protections.

Coming August 2010

The new law, which takes effect in August 2010, applies to both bank-issued and retail gift cards. It does not cover loyalty cards, phone cards, or reloadable general-purpose pre-paid cards. (That means a Walmart prepaid card is exempt from the law, while an American Express gift card is covered.) The new law will:

- Prohibit all gift cards from expiring before five years.
- Prohibit inactivity/dormancy fees for the first year.
- Limit inactivity/dormancy fees to one a month thereafter.
- Allow stronger state laws to continue to apply.

In addition, the new federal law gives the Federal Reserve the authority to write rules that could cap gift card fees, provide fraud protection, and more. Proposed rules, expected by year's end, will explain what fees are allowed and when, and if gift cards will be eligible for billing error dispute rights and other protections under the Electronic Funds Transfer Act.

State consumer protections

More than 30 states have passed laws regulating gift cards. To learn if your state has protections that go beyond the new national law, check out Consumers Union's state-by-state summary of gift card laws. Find the document at www.consumersunion.org by searching for "gift card laws."

For example, California has a retail gift card law that bans expiration dates and fees, except when your balance falls below \$5 and the card has not been used for 24 months. At that point, a retailer can charge a \$1 monthly fee. The law also allows you to redeem up to a \$10 balance for cash.

Connecticut and Rhode Island also prohibit expiration dates and fees.

Like California, Florida, Maine, Montana, and New Mexico have bans on fees and expiration dates. However, these laws don't apply to bank-issued gift cards. ■

Prepaid

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Prepaid debit cards do not help you build a credit record. Avoid using cards with a "credit" feature as Consumers Union found that such offers carried a high rate of interest. Information on cardholders' use of credit is not provided to the three major national credit bureaus and was found to be of dubious value in building a credit history.

Some employers are depositing workers' salaries on prepaid cards when employees do not have a traditional bank account. It saves employers money on the cost of issuing paper checks. While such payroll cards may be FDIC-insured and come with better loss protections than mass-market prepaid cards, they can be just as laden with costly fees.

Before buying a prepaid debit card, read the fine print to make sure you won't encounter costly "gotchas." ■

Gift cards

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you purchase a gift card you may be surprised to learn how many different fees can be attached. Cards may carry purchase fees, activation fees, maintenance/monthly fees, reloading fees, transaction fee, balance inquiry fees, inactivity/dormancy fees and replacement card fees.

These extra charges can eat up your gift before you realize it. Even cards with no expiration dates will expire if fees eventually consume the card's value.

The bank that issues the gift card sets the fees. For instance, Chase sells a prepaid Visa debit card for \$3.50, plus a \$4.95 shipping fee if you buy it online (\$15.95 for rush orders). It also carries a \$2.50 monthly fee after the first year, and a \$12 cancellation fee if you'd like the balance returned to you. If registered, a lost card can be replaced for \$12.

Wells Fargo also charges \$2.50 per

When using a gift card

- Register the card, when required, so you can recoup lost balances.
- Store the card number and receipt safely. Keep the card issuer's customer service number with these other important numbers so you can report a problem quickly.
- Know the gift card balance in advance. With a bank-issued card, you may not have access to balance information in a store. You can usually check in advance, online or by phone, often at no charge. If you don't have enough money left on the gift card to buy an item, your purchase may be declined. Some stores will not allow you to split the transaction (split-tender) between a gift card and another form of payment—even cash.
- Spend the balance before the card expires or begins to accrue fees.
- Report a lost or stolen card to the bank or store where purchased as soon as you can.

month after 12 months for its prepaid gift card, and a \$15 "balance transfer fee" if the card expires and you want to cash out. Wells also warns customers that an extra 20% of the purchase price may be put on "hold" when used at gas stations, restaurants and hotels to cover routine blocks and extra charges like tips, etc. (These holds are placed on credit cards as well).

The Montgomery County survey found that the fee to replace expired cards (or receive a refund) ranged from \$5 to \$25. American Express, the only company in the survey that didn't charge this fee, still replaces expired cards for free.

In September, American Express eliminated its monthly fees, which formerly applied after 12 months. It now charges only an upfront fee (\$2.95 to \$6.95 depending on denomination) to purchase its cards.

Fees are usually disclosed on the card wrappers or on websites that sell cards. But the information may be inconsistent or incomplete. Some cards don't disclose when the card expires, while others

claim there's no expiration date yet carry a monthly maintenance fee that will ultimately render the card useless.

Retailers' gift cards typically offer the simplest cost structure. Most charge nothing to buy the card and typically carry no monthly fees. Some stores have eliminated gift card inactivity fees and expiration dates (as is required in some states, such as California). But it is worth checking to be sure that there are no unanticipated charges or costly expiration dates.

In the Montgomery County survey, all surveyed bank-issued gift cards carried an expiration date. Some expired after 24 months, but several lasted only one year. As of August 2010, all gift cards will be required to last at least five years before expiring. As part of the new Credit CARD Act, gift card users were given some protections and new disclosures. The Federal Reserve will release rules related to the new gift card law by year's end. (See "New gift card rules," above left.)

Use it or lose it?

Consumer Reports surveyed 1,000 gift cardholders in late 2007. About a quarter (27%) had not used a gift card they received the previous holiday season. The Tower Group estimates that

consumers lost about \$8 billion in unused gift card balances in 2006. Some of those cards will have expired, others will have only small sums remaining. In some cases the unused money goes to states' abandoned or unclaimed funds departments. The law may call the unclaimed funds "escheats."

Contact the National Conference of State Legislatures to see if your state has a law that entitles you to collect unclaimed gift card funds. Visit www.ncsl.org and enter "gift cards" in the search box.

Problems?

If the gift card you counted on turns up missing, some issuers will replace the card as long as you registered it before the card was lost or stolen. Some cards use a PIN system for security. If you can supply a gift card receipt and a PIN number, the card will be replaced—as long as the funds have not been spent already.

So contact the issuer as soon as possible. Also be aware that Visa and Mastercard "zero liability" policies do not extend

to all PIN transactions on gift cards. Gift card losses may mean you're out of luck — and money.

If there's a mistake with a card transaction or if you want to return the merchandise, your rights depend on store policy. You will have to take up your complaint with the merchant and/or gift card issuer. In some cases, stores will need the card in order to refund your money on returns, so don't throw it away until you are sure it won't be needed.

The Federal Reserve is considering whether gift cards will have any legal protections if a card is lost or stolen, or if there is a billing dispute. For now, any protections are purely at the card company's discretion and can disappear at any time.

Even without full legal protection, if you have a gift card problem there is some help available:

- For store gift cards, contact the Federal Trade Commission at www.ftc.gov or 877-FTC-HELP.
- For bank-issued gift cards, file a complaint with your state Attorney General's office (www.naag.org) and the Comptroller of the Currency (OCC) at customer.assistance@occ.treas.gov or call 800-613-6743. ■

When giving gift cards

- Include the receipt and wrapper
- Consider fees associated with the card
- Does the card expire?
- Can it be replaced?
- Is it convenient for the recipient?

Celebrating Consumer Action's 38th anniversary



Kinny Li of Consumer Action (right) with Peggy Lee of Copy Copies of Redwood City, California, printer of Consumer Action's educational materials.



Consumer Action's Kathy Li (right) is seen with Ruth Chu and Lawrence Lue, directors of the Chinatown Service Center, recipient of a 2009 Consumer Excellence Award from Consumer Action.



Longtime staff member and supporter Neil Gendel (left), founder of the Healthy Children Organizing Project at Consumer Action, with Jannislert "Joe" Orozco, Consumer Action's new DC-based development and fundraising coordinator.



Gail Hillebrand (left) of Consumers Union's San Francisco office, with Paul Leonard of the Center for Responsible Lending, who received a Consumer Excellence Award from Consumer Action for his mortgage advocacy.

Celebration

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residents, offers a primary source for medical care and a primary physician for participants. Healthy San Francisco is operated by the San Francisco Department of Public Health.

David Lazarus, columnist for the Los Angeles Times, was honored with Consumer Action's Outstanding Consumer Journalism award. Lazarus is a long-time champion for consumer rights, and is currently a business and consumer columnist for the Los

Angeles Times. Lazarus consistently challenges businesses to do right by consumers, writing provocative and compelling pieces that bring unfair practices to the public eye. Before joining the paper in 2007, he was a columnist for the San Francisco Chronicle and a nightly talk radio host for San Francisco KGO Radio.

Accomplishments

Executive Director Ken McEldowney discussed Consumer Action's continued success this year, remarking, "We just get better and better at what we do." He told guests at the

gala that in the past year Consumer Action had distributed an unprecedented 1,188,137 publications to a large and growing network of community-based organizations (CBOs).

The organization was able to train 677 staffers from 482 CBOs, across the country on issues such as senior scams, credit card loss protection, medical privacy, home repair fraud, homeowner's insurance, avoiding online and offline identity theft, building and keeping good credit, purchasing and keeping a home, and other key money management skills. In addition, Consumer Action provided

a total of 58 stipends to CBOs across the U.S. Stipend funds were made available through MoneyWi\$e, Consumer Action's ongoing partnership with Capital One, to extend Consumer Action's outreach and education, as well as through our Privacy Information Project to aid community efforts on consumer privacy issues.

The DC office continued its strong advocacy for consumers this year, helping pass critical legislation, including the Credit CARD Act, and testifying on key consumer issues before Congress. The DC office has been working through each step of the legislative process with Congressional staff to help them clearly understand the consumer perspective on key elements of the new credit card law. Consumer Action attended the signing of the credit card bill into law at the White House earlier this year. DC staff also testified before Congress this fall encouraging lawmakers to put the new law into practice before any more cardholders are hurt by card issuers' rush to hike rates before the law takes effect in February 2010.

The DC office also welcomed a new team member, Joe Orozco, who joined the organization in June 2009 as Development and Fundraising Coordinator. Orozco was employed by Youth Service America before coming to work at Consumer Action. ■

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.

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