

General-purpose reloadable prepaid cards

Prepaid Cards

An alternative to credit and debit cards

When choosing how to pay for their purchases, consumers have many options.

Cash, check, debit and credit are common ways to pay, and each offers certain advantages.

Another way to pay is with a reloadable, reusable prepaid card – a plastic payment method with unique benefits.



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This publication covers general-purpose reloadable prepaid cards (not non-reloadable gift cards, government disbursement cards or rebate, incentive or promotional cards).

Like credit and debit cards, general-purpose reloadable prepaid cards can be a useful money management tool. But before you obtain or use a reloadable prepaid card, you need to know:

- *how the card works,*
- *its advantages and disadvantages,*
- *how to select the right card for you,*
- *how to manage your account successfully, and*
- *where you can find more information.*

What is a prepaid card?

In many ways, a reloadable prepaid card is similar to a credit or debit card. You can generally use the card for everyday purchases from gas to groceries, and to shop online, withdraw cash, pay for a rental car, airline ticket or hotel stay, and, depending on the functionality of the card, pay bills online or by phone. Like credit and debit cards, 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 will accept the cards.

TIP: You can reload anytime, and many cards allow you to schedule automatic reloads when you want them.

Prepaid cards also have important differences from credit and debit cards. Before you can use the prepaid card, you must “load” it with funds—in other words, you have to put money on to the card. The card cannot be used until funds are loaded on to it. As you use the card, the money

you spend is deducted and the balance goes down. When the balance gets low, you can “reload” (add more money) and keep using the card over and over. You can reload anytime, and many cards allow you to schedule automatic reloads when you want them. Depending on the card, you may be able to reload online, in person or automatically, using cash, a credit card, a wire transfer or direct deposit.

Advantages and disadvantages

Prepaid cards have pros and cons—but you can find the right prepaid card for you if you choose and manage the card wisely.

Pros

- Prepaid cards are safer than cash. In most cases, if you have registered the card with the issuer, you can recover your full balance when you report a case of loss or theft. Some companies charge a fee to replace the card.
- Prepaid cards are as convenient to use as credit cards but you don’t run up a balance. In most cases, you can only spend what you have loaded on the card.
- Depending on the prepaid card you choose, it may offer some of the same member benefits and consumer protections as a credit card, such as “zero liability” for fraud and unauthorized purchases, extended warranty purchase protection, and roadside or trip assistance.
- The money you load on most prepaid cards is either protected by FDIC insurance or by laws requiring consumers to have access to those funds.
- No credit check is required to get a prepaid card. You can qualify for a prepaid card even if you can’t get a credit card or debit card. (Most checking accounts come with a debit card.)
- A reloadable prepaid card that allows direct deposit and telephone or online bill payments may save you money on check cashing fees and money orders.
- Account activity does not impact your credit score—an advantage if you have trouble managing your money responsibly.
- A prepaid card may help teach young people how to use “plastic” responsibly and stick to a budget.

Cons

- The prepaid reloadable card industry has historically been laden with fees and confusing terms. Some card issuers charge a variety of different types of fees, thus making them an expensive payment option.
- Purchase and fraud protections and dispute resolution rights are not generally as strong for general-purpose reloadable prepaid cards as those offered on credit and debit cards. (By law, prepaid payroll cards and government-issued prepaid benefits cards offer stronger protections.)
- Since the amount you can spend on a prepaid card is limited to the amount funded on the card, you might find yourself unable to use the card to buy something you want or to handle an emergency expense.
- You do not have the option to spread the cost of your purchases over time the way you can with a credit card, or to take advantage of the grace period that credit cards provide (the interest-free period when you don't carry a balance).
- Because prepaid cards are not a form of credit, they generally cannot help you establish credit or build a good credit history.

Prepaid card fees

Prepaid card fees can eat away at your balance if you're not careful.

Not all prepaid cards are alike, and what fees will be charged on the card you choose is critical information. The best way to know which fees are reasonable is to compare a number of prepaid cards. Be sure to read the cardholder agreement on the card packaging or at the card issuer's website carefully: Fee disclosures can be difficult to see or hard to find in all the "fine print." Make note of the types of fees being charged and the amount of each fee, and consider whether you can easily avoid them or whether you should consider a different card with either fewer fees or lower fee amounts. Frequency, amount, and types of

fees are all important considerations. Here are examples of the types of fees you may encounter:

- **Purchase fee**—a one-time charge for buying the card, generally in a retail location
- **Activation fee**—a one-time charge also known as an opening fee, initial load fee or set-up fee; can range from free to \$30 or more; this is a fee that must be checked carefully, particularly if you also have to pay to buy the card (see purchase fee above)
- **Monthly “maintenance” fee**—a common fee that can vary widely, up to \$10/month; may be reduced or waived if monthly reload minimum is met or you set up direct deposit; some cards may also charge an annual fee
- **Reloading fee**—a fee for adding funds to the card, which can vary by type or source of funds (cash, for example); third-party fees for cash loads made at agents (such as a participating chain of stores) may also apply
- **Funds transfer fee**—may be charged on certain funds transfers, such as from one card to another or from a bank account to the card
- **Purchase transaction fee**—may be waived with a minimum number of transactions in the month or with direct deposit; may be charged on debit (personal identification number, or PIN) transactions and not on credit (signature) transactions, or vice versa
- **Denied transaction fee**—may be charged if you try to make a purchase or an ATM withdrawal that exceeds your account balance
- **Overdraft (or shortage) fee**—charged by the relatively few cards that will allow you to spend more than you have loaded on the card; typically ranges from \$10 to \$25 or more
- **Cashier withdrawal fee**—charged when cash is withdrawn at a bank or an agent location
- **ATM withdrawal fee**—charged for withdrawing money from an ATM (unless the card offers free withdrawals at participating ATM locations or a certain number of free ATM withdrawals per month); another, separate fee of \$1-\$3 is taken by most ATM owners/operators

that way. Ideally, you should research your options online before deciding on a card. There are a number of card comparison websites that make the process quicker and easier. For any card you're considering, visit the card's website and read the disclosures carefully.

Avoiding the cards with the highest frequency and types of fees should be your top priority. Other considerations include:

- **Will the card be accepted in the places you plan to use it?** Merchants don't always accept all cards or use all payment networks.
- **Is there a minimum balance or minimum reload requirement?** Avoid cards that have a minimum balance or reload requirement that will be difficult for you to meet.
- **Is reloading easy and convenient?** For example, if you plan to reload with cash, you may need to visit a store or branch that accepts cash reloads. Make sure there are locations near you.
- **Is there a balance or load limit?** There are cards that will allow balances as high as \$10,000 while others limit them to \$1,000. The number and amount of reloads you can make also varies from card to card.
- **Is there a daily spending or cash withdrawal limit?** Like credit and debit cards, prepaid cards typically limit the amount of cash that can be withdrawn from an ATM in a single day (typically a few hundred dollars). There also may be a limit on how much you can spend in a day, but that is likely to be \$1,000 or more.
- **Are there conveniently located network ATMs?** Some cards allow one or more free ATM withdrawals per month at machines within the network. If that is a feature of a card you're considering, make sure there's a network ATM nearby.
- **Is there an online or telephone bill payment system? Is there a fee?** If you want to pay bills from your prepaid card, choose a card that offers that feature, and make sure there are no (or low) fees for the service.
- **Is there a fee for replacing a lost or stolen card?** Will the funds that were on the card when it was

lost or stolen be replaced? Know if the funds will be restored and how much, if anything, a card replacement would cost you. When you get a card, be sure to register or activate it with the issuer, which may be required to get reimbursement.

- **What protections are provided against fraud, billing disputes and other problems?** The law that gives credit card customers the right to dispute unauthorized transactions and billing errors does not apply to prepaid cards. However, some prepaid card issuers do extend “zero liability” protection to their cardholders, meaning you would not be liable for unauthorized charges on your account. Avoid increased liability for unauthorized transactions by knowing where your card is at all times and reporting a missing or stolen card immediately.
- **What happens if you don’t use the card for an extended period?** Find out if there is an inactivity or dormancy fee that kicks in after a certain number of months. Also find out if you could forfeit, or lose, your remaining funds on the card after a period of inactivity.
- **What kind of budgeting and monitoring tools are available?** Ideally, you would be able to get live customer service 24/7, receive email and text alerts, access real-time transaction history online and see a summary of your spending—all for free.
- **Can you earn rewards for purchases or reloads?** While cash back, airline miles and points can be attractive, keep in mind that you may pay for them in higher fees.
- **Does the card entitle you to other benefits?** Things like free roadside assistance and extended purchase protection (warranty) can be attractive, but only factor them into your decision if they’ll save you money or you are reasonably sure you’ll use them.
- **Did the card’s design catch your eye?** Don’t be swayed by celebrity endorsements or a sleek design—choose a card based on more important factors such as cost, features, benefits and convenience.

There are some other things to consider if you are buying a prepaid card for another person. Many people purchase prepaid cards for use by a teen or college

student or an elderly parent, but want to be able to easily load funds and perhaps even monitor the account. You may want to look for a card that allows you to set up transaction or low funds alerts, enable and disable ATM access, suspend and reactivate the card, or authorize and reject certain types of online purchases. If you plan to make regular reloads (an allowance, for example), confirm that the card allows automatic reloads.

Monitoring and managing your account

Monitoring your account regularly is the most effective way to keep costs down and avoid surprises. If you check your balance and transaction history at least weekly, you can:

- address any spending issues (your own or, for example, your teen's) or adjust your budget;
- avoid declined transactions and "denied transaction" fees (because you will know your card balance);
- catch unauthorized use sooner rather than later; and
- change your habits to reduce card costs.

For example, if your card allows you to get cash back when making a purchase at a grocery store or other retailer, you could avoid ATM cash withdrawal fees. If checking your prepaid card balance online is free, don't check it at the ATM, where you may incur a fee. If the card issuer waives the monthly fee with a minimum balance, try to maintain a higher balance.

Before using your card the first time, confirm with the card issuer how it treats "debit" transactions (PIN-based) and "credit" transactions (signature-based). (Despite the word "credit," choosing this option at the point of sale does not involve borrowing money when you're using a prepaid or debit card.) Choosing the free or less expensive option when asked "debit or credit" could save you money. For example, if each debit transaction costs \$1 and you make just one transaction per day, you would pay \$30 in fees in one month.

Verify whether any zero liability protection on your card applies to all transactions or if it only covers credit (signature) transactions. Some rewards programs will award points only for signature transactions.

If you're given the option between debit and credit, choosing credit may be the safer option, but ask about the card issuer's policies before you use the card. (Choosing "credit" still results in a deduction from your prepaid card balance.)

Assistance and information

Try to resolve billing errors and other problems directly with the merchant. If you're not able to resolve a dispute, then contact your card issuer. If the problem still isn't resolved, you can file a complaint with a government authority.

The Consumer Financial Protection Bureau (CFPB)

www.consumerfinance.gov; 855-411-CFPB (2372)

Takes complaints about consumer financial services, guides consumers to the appropriate regulatory agencies and offers money management tools and information.

The Federal Trade Commission (FTC)

www.ftc.gov; 877-382-4357 (877-FTC-HELP)

Works for consumers to prevent fraudulent, deceptive and unfair business practices and to provide information to help spot, stop and avoid them.

Comptroller of the Currency

www.occ.treas.gov; 800-613-6743

Regulates banks (card issuers) with "National" in the name or N.A. after the name.

Federal Reserve System

www.federalreserve.gov; 888-851-1920

Investigates complaints against state-chartered banks that are members of the Federal Reserve System.

Federal Deposit Insurance Corporation (FDIC)

www.fdic.gov; 877-275-3342

Regulates state-chartered banks that are not members of the Federal Reserve System.

National Credit Union Administration (NCUA)

www.ncua.gov; 800-755-1030

Regulates federally chartered credit unions.



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Free information and advice on choosing and using prepaid cards. Counselors speak English, Spanish and Chinese. 415-777-9635 and 213-624-8327, TTY: 415-777-9456; e-mail: hotline@consumer-action.org. Connect with us on Facebook at facebook.com/consumeraction and Twitter at twitter.com/consumeraction

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