

Skip to: [Navigation](#) | [Content](#) | [Footer](#)



- [Contact Us](#)
- [Blog](#)
- [Our Team](#)
- [Home](#)

Consumer 101: Reading the Fine Print on Prepaid Cards



Like

Be the first of your friends to like this.

[Share](#)



2

Tweet



0



[Post a comment](#)

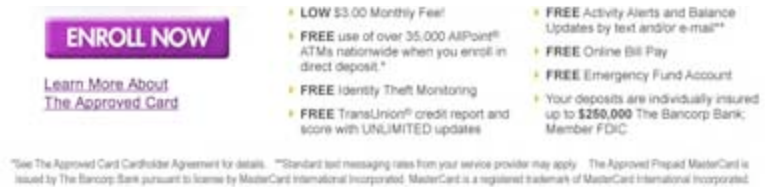
[February 17, 2012](#)

Ever since Suze Orman introduced her Approved Card last month, much attention has been brought to the prepaid card market. Orman's currently isn't the first — variations of the prepaid card have been around for more than a decade. At first, they were exclusively in the gift card market, but now they have become increasingly popular thanks to the housing market crash.

"The second coming of the prepaid card was during the last recession," said Ken Lin, CEO of [Credit Karma](#), which reviews prepaid cards. "There was a heavy migration away from credit because it was seen as an evil which



help caused the bubble. Secondly, many near-prime and subprime consumers could no longer be approved for traditional credit."



The market's bigger than ever these days, with cards from major players like American Express, Walmart, and Green Dot, as well as "celebrity-approved" cards, like Orman's own self-branded card and cards endorsed by the likes of Lil Wayne and Alex Rodriguez. But there aren't just more cards — there are also more people are using them. The prepaid card market shows the largest growth among all electronic payment types, according to a [2010 Federal Reserve study](#). But despite their growth in popularity, these cards are often criticized for their heavy fee structure, which can make them far more harmful to own than not. Here's what you need to know if you're considering getting in the prepaid card market.

Debit or credit — which is it?

In articles and marketing materials, these cards are interchangeably called prepaid debit or prepaid credit cards when really, they're neither. "Debit" would imply a prepaid card is linked to a checking account, which it's not, and "credit" would mean it's a line of credit, which it's also not. Instead, prepaid cards work more like gift cards — you can purchase one and put an amount of money on it. Your spending is limited to this amount, but unlike gift cards, you can reload them as you use them, either by direct deposit or by using MoneyPak, as well as use them anywhere the brand, such as Visa or MasterCard, is accepted. In addition, you can often use them to pay bills online. And, unlike credit or debit cards, you don't have to worry about interest or banking fees.

"The primary benefit of these cards is that they allow the convenience an electronic payment system that is widely accepted," said Lin. "Purchasing online and not needing to carry cash are the upsides for the product."

As a result, prepaid cards are attractive to people who for whatever reason don't have debit or credit cards, such as consumers who are wary of banks and simply don't want to open a bank account, can't open a bank account because they've bounced checks, are tired of banking fees, or have poor credit and can't get a credit card. They also attract people who already have bank accounts, but may be enticed by some of the features on a prepaid card, such as a signup bonus or a prescription discount program.

"These [features] change all the time," said Beverly Harzog, a credit card expert with [Credit.com](#). "This is a constantly evolving industry."

Read the fine print — more than once

Read any article about prepaid cards and the biggest criticism is the fee structure. Fees are the card issuers' bread and butter, and these cards are loaded with them — activation fees, cancellation fees, paper statement fees, ATM use fees, monthly maintenance fees, inactivity fees, customer service fees, a fee for making PIN purchases, a fee to check your balance, a fee if you don't keep enough money on the card — to name just a few that a card may have. NerdWallet.com looked at 40 popular prepaid cards and [found that the average card cost](#) was nearly \$300 a year — and this wasn't even including

basic fees like activation or cancellation.

"It's one of those things that's often hard to follow, but you really need to read the terms and conditions," said Anisha Sekar, vice president of credit and debit products for NerdWallet.com. "Know what you're getting into before getting a card. There's nuance upon nuance."

Harzog suggests reading the fine print two or three times so that you understand the fee structure, as well as shopping around and comparing fee structures among different prepaid cards to find ones that offer perks like waiving a monthly maintenance fee if you do direct deposit.

Don't get married to one

If you plan on getting a prepaid card, or are already using one, don't commit to it for the long term. Your ultimate goal should be getting back into the banking system and having a line of credit.

"Prepaid cards do serve a purpose — you need to put your money somewhere — but they serve a short-term purpose," said Harzog. "Over the long haul, you pay a lot of fees."

At the same time, Sekar recommends using the card long enough so that it justifies the initial start-up costs.

"If you're paying a \$15 activation fee and spreading that cost out over a year, it's a lower cost-per-month than if only holding the card for a month," said Sekar, who's noticed a "one and done" mentality among users that may prevent them from getting the most out of prepaid cards. "Given the cost of acquisition, the monthly fees, ATM fees, and so on, the cost of a prepaid card goes down if you only have one and you use it for a long time."

Know your options

Prepaid cards do serve a purpose, but not everyone who gets one may necessarily need it or get it for the right reasons. For people who are looking to improve their credit score, for instance, there's a common misunderstanding that a prepaid card will help, but that's just not possible — it's not a credit card. And while a card like Orman's Approved card submits its reports to a credit bureau — one of its main marketing points — they aren't credit reports and therefore can't affect your score.

"You cannot rebuild your credit with a prepaid card, not the way the current system is," said Harzog. "That's not going to change drastically anytime soon. That's just a bunch of marketing stuff."

Also, a prepaid card is often seen as a last resort for consumers with poor credit or who are in the ChexSystems or Telecheck systems as bad-check risks, when there are other alternatives available. Second-chance checking accounts through credit unions are an option for those who can't open a checking account, and those with bad credit may still be eligible for a secured credit card, which operates much like prepaid card, but with a credit component.

Additionally, people who choose prepaid cards because they're fed up with banking fees may find more reasonable alternatives with online banking. And if overdraft fees are a concern, recent legislation gives consumers the option to opt out of them, so that shouldn't be a selling point when it

comes to prepaid cards, said Harzog.

"It's hard for consumers to keep up with legislation," said Harzog. "It's not presented in a consumer-friendly format, and some people might not be aware of this."

Prepaid card market may improve

As prepaid cards becomes more popular, fees may go down and become more reasonable for customers as companies vie to compete. But to really help the consumer, credit card experts would like to see greater transparency in the market, with various fees and terms clearly outlined, similar to what credit card companies are mandated to do under federal regulation.

"Prepaid card issuers could possibly adopt some of the standardized disclosure along the lines of the consumer box that will make it easier for consumers to understand the products and what these fees really mean," said Sekar. "Disclosure and greater transparency is one of the best ways of regulating an industry. If you're empowering people to make their own decisions and make them wisely, you're allowing the market to work and enabling the market to function better, which helps everyone."

Sekar isn't the only one who thinks so. Late last year, U.S. Senator Robert Menendez (D-NJ) introduced the Prepaid Card Consumer Protection Act, which, if passed, would curb hidden fees and enlarge the fine print on these cards.

Harzog would also like to see guidelines established for this growing industry.

"I think it's too early to tell to get a long-term view of this, but as the market gets bigger and bigger, I would like to see the Consumer Finance Protection Bureau get involved and put in some parameters that prepaid card issues have to follow," said Harzog. "Someone needs to look at this and make sure people aren't being taken advantage of."

Finding the card that's right for you

Until regulation actually happens, you have to do your own homework to find the card that's right for you. Remember, because the fee structure widely varies, no card is one size fits all.

"Choosing a card is highly dependent on your usage patterns," said Sekar. "Some are a better option if you don't use ATMs that much, and others if you use direct deposit. It really depends on the user."

NerdWallet.com recently launched a [prepaid card comparison tool](#) that looks at 62 prepaid cards and their usage info so you can get an idea about what a particular card is going to cost you personally, as opposed to a general consumer profile.

One fee in particular to look out for is the monthly maintenance fee. Harzog recommends finding a card that doesn't have this fee, or provides a way for you to get out of it.

"The key to a lot of them is if you can use direct deposit, you can avoid a monthly maintenance fee," said Harzog, who recommends the Green Dot and Mango prepaid cards for that. The Mango card also has a savings account option, which she likes.

Another card without a monthly maintenance fee is the American Express prepaid card, which Lin recommends because it generally has lower fees. The downside, he notes, is that it may not be as widely accepted as Visa- or Mastercard-branded cards. It also doesn't have a direct deposit option, so you could wind up spending money reloading it.

– Meredith Deliso, CMN Staff Writer

This entry was posted in [Blog](#), [Consumer 101](#), [Consumer Debt](#), [Credit Cards](#), [Personal Finance](#). Bookmark the [permalink](#).

Leave a comment

Name *

Email *

Website

Comment

© Copyright 2012 [Consumer Media Network](#)

- [Contact Us](#)
- [Blog](#)
- [Our Team](#)
- [Home](#)