

## Are prepaid credit cards helping or hurting consumers?

Written by Charlene Crowell  
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Amid the still-unfolding effects of the deepest recession since that of the 1930s, one area of financial services is in a skyrocketing growth mode: prepaid credit cards. Initially appealing to consumers who lacked bank accounts to conduct personal financial transactions, this form of plastic is now commonplace. In fact, some governmental benefits are issued on prepaid cards.

In 2006, Consumers Union, the nonprofit publisher of Consumer Reports found that 312 million transactions were made with prepaid cards at a dollar value of \$13.3 billion. By 2011, prepaid card users loaded \$70.7 billion, and that figure is expected to grow to \$120.2 billion this year. Usage is now so widespread that many leading banks who shunned this form of plastic convenience years ago, are now offering their own prepaid cards.

For consumers, prepaid cards are convenient and usually safer than carrying large amounts of cash. But as with any financial service, there are seldom-mentioned issues that affect usage. For example, lost or stolen prepaid cards often lack the protections afforded credit or debit cards. The card issuer may also encourage purchasers to use a number of add-on services such as overdraft. In many cases, add-on charges wind up costing far more than they are actually worth.

Most importantly, prepaid card usage can also incur multiple and hidden fees that drain the actual amount of money available. Although exact fees and related charges will vary by issuer, several of the most common are:

- Activation – Just getting a prepaid card can range from a low of \$3 to as much as \$39.95;
- ATM transactions – Card users seeking cash at these machines incur a charge per withdrawal.
- Balance inquiry – Finding out how much remaining money is available incurs a charge
- Customer service – Free with some cards; but fee-based with other issuers to speak with someone about an account.
- Inactivity – If the card is not used within a designated time period, a dormancy fee applies and can cost up to \$9.95 each month.
- Monthly fee – This one applies when the card is used frequently ranging from \$2.95 to as high as \$9.95. Some issuers waive the monthly fee when large balances are maintained.
- Paper statements – As online statements are generally available without charge, consumers preferring a paper statement with itemized transactions will typically incur fees ranging from \$1 to \$5.95.

If you think that prepaid card users are nickel and dimed to death, the Consumer Financial Protection Bureau is wondering as well. This week the CFPB held a public hearing in Durham, North Carolina. Featuring two panel discussions – one from the prepaid card industry; the other representing consumer perspectives, CFPB came to Durham to listen and learn. Created through the Dodd-Frank Financial Reform Act, CFPB authority includes regulating the prepaid industry and other non-bank entities. A portion of the two-hour session was an open microphone that enabled consumers to share their experiences and/or concerns.

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Martin Eakes, representing the Center for Responsible Lending on the consumer panel, urged that CFPB exercise its authority with protections as needed. He also offered three specific consumer-focused hopes for the future of prepaid cards: No tie-in to debt products; no penalty fees; and no mandatory arbitration.

“The very label ‘prepaid card’ connotes a promise that the account cannot be overdrawn”, observed Eakes. “It is also the single-most cited reason for customer choice of this product. Banning overdraft and non-sufficient fund fees are the most important steps for CFPB to take at this time.”

For additional information on prepaid cards, visit CRL’s web: [www.responsiblelending.org](http://www.responsiblelending.org).

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