

THE RISKS OF PRE-PAID DEBIT CARDS

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The Consumer Financial Protection Bureau (CFPB) recently announced the agency is working on regulations to better protect consumers who use prepaid cards. Sometimes these cards are referred to as General Purpose Reloadable Cards. They are usually marketed to those individuals who struggle to obtain a regular credit card due to poor credit histories. The cards may also be geared at individuals who do not want to deal with high-fee checking accounts. While these seem like possible benefits to having a prepaid card, it is important to consider all of the risks associated with these cards before buying or using one. Because so many consumers seem unaware of these risks, the CFPB would like to adopt stricter and clearer rules for those who provide prepaid cards.

Many federal consumer protection laws designed for credit/debit cards do not extend to prepaid cards. For example, if you lose your card or someone steals it or uses it fraudulently, you may still be on the hook for all the money they spend! You must read the fine print of each contract to determine what protections the prepaid card will provide. Funds deposited into prepaid cards may not be protected by the FDIC. That means if the company or bank fails, you could lose all the money you put on the card.

Some cards suggest they can help you improve your credit. But many cards can't and don't report to the credit agencies. The CFPB is investigating these claims to find out exactly how and if these cards can improve your credit.

Another big promise made by prepaid card companies is not having to pay interest charges as you would with a normal credit card. Although the prepaid cards may not charge interest, they do charge fees. Some offer a flat fee per month to use the card. Other cards charge for many transactions like checking your balance or even calling to speak with customer service. Consumers could avoid interest charges and many of the fees by using a traditional credit card and paying the balance off in full every month. If your credit is not good enough for a traditional credit card, consider a secured card that will actually help build your credit. You could also consider a free checking account through a credit union or a bank; many offer debit cards along with the account.

Regardless of your decision, it is important to do a lot of research on the cards you are considering. You should be aware of all of the fees, protections, and benefits before using any type of card, especially a prepaid card. You can find more information at <http://www.consumerfinance.gov/>

If you have questions, please contact the XVIII Airborne Corps and Fort Bragg Legal Assistance Office.