

Consumer Reports Rates Best & Worst Prepaid Cards

Report Issued on Eve of CFPB Field Hearing on Prepaid Cards; Consumers Union Calls for Reforms to Better Protect Consumers

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YONKERS, N.Y., Nov. 12, 2014 /PRNewswire-USNewswire/ -- Prepaid cards have become an increasingly popular payment option but it can be challenging for consumers to determine which cards are the most affordable and easiest to use. That's the conclusion of a new Consumer Reports investigation which offers tips to help consumers make smarter choices and rates prepaid cards based on value, convenience, safety, and how well fees are disclosed.

The report was released on the eve of a field hearing in Delaware on prepaid cards organized by the Consumer Financial Protection Bureau, which is expected to issue proposed rules covering the cards very soon. Consumers Union, the policy and advocacy division of Consumer Reports, has called on the CFPB to improve prepaid card fee disclosure and adopt other reforms to better protect consumers who use them.

"Competition has helped bring down fees and many prepaid cards offer an attractive option for managing your money," said Christina Tetreault, staff attorney for Consumers Union. "But some cards come with costly fees that aren't always disclosed clearly and prepaid cards still lack the same legal protections consumers get with debit cards."

General purpose reloadable prepaid cards can be used much like a traditional debit card linked to a bank account and are used by an estimated one in four U.S. households. Unlike traditional debit and credit cards, prepaid cards don't enjoy the same legal protections that limit the financial liability consumers face in the event of fraud or merchant mistakes, although most card issuers provide these safeguards voluntarily. However, those voluntary protections can be changed or rescinded at any time.

Consumer Reports reviewed 23 different prepaid cards based on four different factors: value (how much they cost to use); convenience (availability of in-network ATMs, bill pay features, and how widely the card network brand is accepted); safety (whether funds are protected with FDIC insurance); and how well fees are disclosed. In general, the highest rated cards have fewer fees and make it easier to avoid them; carry FDIC

insurance for each cardholder; offer features comparable to traditional checking accounts; and do an excellent job of disclosing fees. By contrast, the worst cards reviewed by Consumer Reports came up short in at least one, and usually multiple categories.

Because some consumers rely on prepaid cards as bank account substitutes while others use them in addition to bank accounts, Consumer Reports evaluated each card based on these different usage patterns. Research shows that consumers who use prepaid cards as a bank account substitutes load their cards more often, make more ATM withdrawals, and use the card's bill pay feature. Consumers who use prepaid cards in addition to bank accounts use their card primarily to make purchases and are less likely to withdraw cash from their card or use the bill pay feature.

Consumer Reports Ratings for Prepaid Cards Used As Bank Account Substitutes

Best Cards: Topping the list is the Bluebird card (by American Express and Walmart), which comes without a monthly fee, no inactivity fees or fees for calling customer service, along with a bill paying feature and no-overdraft paper checks. Chase Liquid (Visa) is the second highest rated card with low fees and many of the features provided by bank accounts, although no bill pay. The American Express Serve was ranked third with low fees and convenient features, followed by the Prepaid Visa RushCard, Rush Unlimited Plan, a good value that comes with convenient features like bill pay.

Worst Cards: At the bottom of the ratings are the NetSpend Fee Advantage Plan, NetSpend Pay-As-you-Go Plan (both issued by Metabank), and the AccountNow Gold Visa Prepaid Card. None of these cards offer free in-network ATM access and consumers may incur high fees. The lowest rated prepaid card is the American Express for Target, which cannot be recommended because it lacks FDIC insurance for individual cardholders.

Consumer Reports Ratings for Prepaid Cards Used in Addition to Bank Accounts

Best Cards: The Bluebird card (by American Express and Walmart) was the top rated card, with a low monthly fee and few other fees along with improved disclosure. H&R Block's Emerald Prepaid MasterCard is the second highest rated card with no purchase fees or monthly fees. Chase Liquid (Visa) card is third and offers clear fee disclosure and features consumers with bank accounts are likely to appreciate, such as free ATM access. Rounding out the top four is American Express Serve, with low fees, convenient access to in-network ATMs and a bill pay feature.

Worst Cards: Among the cards rated lowest were the NetSpend Prepaid Visa Fee Advantage Plan, NetSpend Prepaid Visa, Pay-As-You-Go Plan, and the AccountNow Gold Visa Prepaid Card. These cards would be expensive for users who rely on their cards primarily for purchases and budgeting, with relatively high monthly fees, or in the case of NetSpend's Pay As You Go Plan, a one or two dollar fee every time you make a retail purchase. The lowest rated card, American Express for Target, doesn't come with FDIC insurance.

Consumers Union has called on regulators and lawmakers to adopt a number of reforms that would help protect consumers using prepaid cards, including:

- The Consumer Financial Protection Bureau (CFPB) should require that all prepaid card issuers display their fees in a simple, comprehensive chart with clear definitions of each fee that is available to consumers before they purchase their card.
- The CFPB should clarify that the Electronic Funds Transfer Act (EFTA) covers prepaid cards, giving

cardholders the same dispute and error resolution rights they have with debit cards.

- The CFPB should require prepaid card issuing banks to set up their prepaid programs so that each cardholder is covered by deposit insurance.
- Congress should amend the EFTA to limit a consumer's financial liability from fraudulent debit transactions to the current liability limit for credit cards – no more than \$50. The EFTA should also be amended to include a "chargeback" provision for both bank account-linked debit cards and prepaid cards.

"Consumers still lack the protections they need with this fast growing new way to pay," said Pamela Banks senior counsel for Consumers Union. "The CFPB should require clear disclosure of all prepaid card fees and enact strong safeguards that protect consumers."

SOURCE Consumers Union
