



Consumer Watch

A Monthly Newsletter from the Connecticut Department of Consumer Protection

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www.ct.gov/dcp

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Suggested Links

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Our website offers the latest and most comprehensive information that we have on dozens of consumer-related topics!

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Prepaid Cards: A Not-So-Simple Cash Alternative

Prepaid cards are making inroads in the "pay with plastic" market. Green Dot Money Pak, OneWest, AmEx, READYdebit Visa, NetSpend, RushCard – these are just a few of the dozens of prepaid cards and card issuers in existence today.

In many ways, a "reloadable" prepaid card is similar to a credit or debit card; you can generally use it for everyday purchases, shopping online, or paying for a hotel room. Just like a credit or debit card, many reloadable prepaid cards carry the logo of one of the four major electronic payment networks – American Express, Visa, MasterCard or Discover.

The major difference is, before using a prepaid card, you will "load" it with funds. In other words, you prepay -- or put money on the card. As you use the card, the amounts you spend are deducted, and the card's balance goes down. When the balance gets low, you can "reload" the card and keep reusing it. Some cards allow you to schedule automatic reloads.

Advantages

- In some ways, prepaid cards are safer than cash. Depending on the card you have, it may offer member benefits and consumer protections similar to 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. 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.
- Prepaid cards are as convenient to use as credit cards, but you don't run up debt to be paid later. In most cases, you can only spend what you have loaded on the card.
- A reloadable prepaid card that allows online bill payments may save you money on check fees and postage.
- Your prepaid account activity won't impact your credit score in any way.
- A prepaid card may help teach young people how to use "plastic" responsibly and stick to a budget.

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From Commissioner Rubenstein

Whether you've been a fan of prepaid cards from their earliest days, or you're just starting to notice their growing presence at checkout counters everywhere, take a few minutes to read our summary this month. While they offer convenience and may be a helpful way to send the kids off to camp or college with a little cash that they can manage, you have to choose a prepaid card carefully in order to get the features you need without a lot of unnecessary fees. The drought in the Midwest has been making the news all summer, and this is the month that we may begin to see the fallout at the checkout counter and the gasoline pump. We'll tell you what to watch for and how to get ready. Here's to cooler weather ahead!



William M. Rubenstein

Prepaid Cards, continued from page 1

Disadvantages

- Prepaid, reloadable cards can carry numerous fees and sometimes involve confusing terms.
- Fraud protection and dispute resolution rights are generally not as strong as those on credit and debit cards.
- You can't spread the cost of your purchases over time the way you can with a credit card, or take advantage of a grace period that a credit card provides.
- Prepaid cards generally do not help establish credit history.
- Gas stations that allow prepaid cards may put up to a \$75 hold on your prepaid balance. (However, no holds are placed when you pay inside before you pump, and sign the receipt rather than use your PIN.)
- When you use the card to guarantee a room at a hotel, a hold may be placed on your balance that can take a few days to remove.
- Refunds on purchases may be delayed before your prepaid balance is credited.

As with many new products, both buyers and sellers are trying various versions and options in order to find the right mix of features and fees that will meet consumer needs at a fair price. Before buying and using a prepaid card or supplying one to a family member, take some time to learn about them.

Proceed with Caution: Fees Ahead

As stated earlier, not all prepaid cards are alike, and fees vary greatly. To find out if fees are reasonable, compare several prepaid cards. (For help with this, see "Resources," page 3.) Carefully review the Cardholder Agreement on the card's packaging or on the card issuer's website – note the types of fees being charged and the amount of each fee. Here are examples of fees you may encounter; try to avoid as many as possible!

- **Purchase fee** – One-time charge for buying the card, generally in a retail location.
- **Activation fee** – One-time charge also known as an opening fee, initial load fee or set-up fee; can be as much as \$30 or more.
- **Monthly maintenance fee** -- Varies widely, as high as \$15 per month; may be reduced or waived if you meet a monthly balance or reload minimum
- **Reloading fee** – Cost for adding funds to the card, which can vary by type or source of funds.
- **Funds transfer fee** – May be charged on certain fund 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 per month or with direct deposit;
- **Denied transaction fee** – May be charged when insufficient funds are on your card for a purchase or ATM withdrawal
- **Overdraft (or shortage) fee** – Charged by the relatively few cards that will allow you to spend more than is loaded on the card; typically ranges from \$10 to \$25 or more.
- **Cashier withdrawal fee** – May be charged when cash is withdrawn at a bank or an agent location
- **ATM withdrawal fee** – May be charged for withdrawing money from an ATM
- **Balance inquiry fee** – May be charged for getting your balance statement at an ATM
- **Foreign currency conversion fee** – Often charged when using a card outside the US
- **Inactivity fee** – May be assessed if you don't make at least one transaction within a certain period
- **Card replacement fee** – For replacing a lost or stolen card
- **Statement fee** -- Some card issuers charge for a paper statement.
- **Customer service fee** -- Charged by some card issuers when you contact a live customer service representative.

Some cards may even charge a fee for closing the account!

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True or False?

The real estate agent who is helping me to sell my home told me that if we don't provide potential buyers with a Residential Property Disclosure Form, that I will have to credit the buyer \$500 at the closing. It used to be a \$300 credit, but now it's \$500.

True or False?

Answer, page 4

Resources to Help You Choose a Prepaid Card

Consumer Action, a San Francisco-based non-profit consumer advocacy organization conducted a survey of 28 prepaid cards from 11 issuers and released its findings earlier this year. They found that fees varied greatly among the surveyed cards, with ATM withdrawal fees of up to \$2.50, monthly maintenance fees ranging up to \$14.95, activation fees of up to \$9.95 and inactivity fees of up to \$5.95 per month. To read the entire survey report, visit this website: www.consumer-action.org/news/articles/2012_prepaid_card_survey/

While you can buy a prepaid card at many grocery stores, convenience stores and drug stores, you're not likely to get the best deal on an impulse purchase. Research your options before deciding on a card. For any card you are considering, visit the card's website and read the disclosures carefully. Two websites that can help in your search are:

- [NerdWallet](#) offers a free cost calculator that allows you to browse and compare around 60 prepaid cards. It also provides a ranking of the least costly cards based on information you provide about expected usage, such as cash withdrawals, purchases and "reloads"
- [Bankrate's](#) 2012 survey shows a cross section of what's available in the marketplace today and key provisions of each card

Finally, the new federal Consumer Finance Protection Bureau can answer your questions about prepaid cards on its [website](#).

The Drought of 2012 -- How will it affect you?

If you pay any attention to the news at all, you already know that the drought that experts are calling the worst in half a century has wreaked havoc on Midwestern farms, particularly this year's corn crop. While it's too early to predict all the consequences, it's reasonable to expect higher food and fuel prices this winter as a result. Corn is used in three-quarters of supermarket products. Everything from breakfast cereal to cooking oil and artificial sweeteners are likely to see at least a



small increase in price, although economists say it will take at least six months for the drought's impact to carry through to processed foods at the store.

Prices for dairy products and eggs, because of the relatively short time between when cows and chickens consume corn feed and those products go to market, will be affected by late summer/early fall.

Because corn is a major component of livestock feed, higher corn prices will boost meat costs as well.

However, some experts believe that meat prices could temporarily dip in the short term, as the high cost of feed forces producers to bring livestock to the market earlier than they normally would. When a rancher, poultry producer or dairy producer is faced with higher feed costs, they often bring their livestock to market before they reach full weight in order to prevent or reduce losses.

So while consumers will probably face higher meat prices four to six months from now, there may be a temporary price break soon. It might be wise to start collecting your coupons to help offset coming higher food prices and watch for lower meat and poultry prices in the short term, and stock up if possible.

The consumer pinch could be magnified by higher gasoline prices as a result of the drought. Ethanol, a fuel product derived from corn, makes up about 10 percent of the United States' gasoline supply. While the complexity of the fuel market makes it hard to predict exactly what this will mean for consumers, the drought's impact on ethanol prices could be as high as 10 to 15 cents a gallon, according to some industry analysts.

We just don't know the extent or duration of these anticipated price increases, but we do know that we've always been able to weather these instances by economizing. While we all enjoy the lower gasoline prices while they last, we suggest inflating your tires to the manufacturer's suggested level, combining trips, and getting vehicles tuned up for optimum efficiency.

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How to Shop for and Choose a Card

Each prepaid card on the market offers its own benefits and costs. Some cards are more consumer-friendly than others. To narrow your search, think about how you plan to use the card, since the fees you'll incur depend on how the card is used. Do you travel often outside the United States? If so, choose a card with low or no foreign currency conversion fees. Will you take ATM cash withdrawals frequently? Look for a card that offers access to a network of free or low-cost ATMs. Will you use the card only occasionally? If so, watch for inactivity and dormancy fees. (See Resources, page 3.)

Features to Look for and Questions to Ask:

Avoiding cards with the most and highest fees should be your top priority. Other things to consider:

- Is the card accepted in the places you shop? Not all merchants accept all cards or payment networks.
- Is there a minimum balance or reload requirement? Steer clear of cards with requirements that would be difficult for you to sustain.
- Is reloading easy and convenient? If you want to reload with cash, you may need to visit a store or branch that accepts cash reloads, so make sure reload locations are convenient for you.
- Is there a balance or load limit? Some cards allow balances as high as \$10,000 while others have much lower limits. The number and amount of reloads allowed also varies among cards.
- What are the daily spending and cash limits?
- Are the network ATM machines located conveniently for you?
- Is there an online or telephone system for reloads, and is there a fee to use it?
- How much does it cost to replace a lost or stolen card? When you get a card, be sure to register or activate it with the issuer.
- What fraud protections are included and how are billing disputes handled? While the law permits credit card customers to dispute unauthorized transactions, that law doesn't apply to prepaid cards. However, some cards do extend "zero liability" protection to cardholders.
- Are there dormancy and inactivity fees? Would I forfeit my remaining funds after a period of inactivity?
- What kind of budgeting and monitoring tools are available?
- Ideally, you'd want live customer service, email or text alerts, real-time online transaction history, and a spending summary – all at no cost.
- Does the card provide other benefits that you can use? Free roadside assistance or discounts can be helpful, but only if you will actually use them.
- When buying a card for a student or elderly relative, you will want to be able to easily reload funds and perhaps monitor the account, enable and disable ATM access, suspend and reactivate service, and authorize certain types of online purchases.

Managing your account

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

- Address any spending issues or adjust your budget;
- Avoid declined transactions (and fees);
- Catch unauthorized use quickly.

True or False?

Answer

The answer is "True." Effective July 1, 2012, [Public Act 12-122](#) increases from \$300 to \$500 the credit that the seller must give to the purchaser at closing if he or she does not furnish the written Residential Property Condition Disclosure report.

"On or after January 1, 1996, every agreement to purchase residential real estate, for which a written residential condition report is required pursuant to section 20-327b, as amended by this act, shall include a requirement that the seller credit the purchaser with the sum of [three] five hundred dollars at closing should the seller fail to furnish the written residential condition report as required by sections 20-327b to 20-327e, inclusive, as amended by this act."