

Section 4: Prepaid Cards

We will discuss how prepaid cards work, common features of prepaid cards, and how to use them effectively.



Key Takeaway



Prepaid cards allow you to spend or access money loaded onto them. They usually aren't linked to a checking or savings account. Before you use one, review its features and fees.

How Prepaid Cards Work

A prepaid card is different from a debit card. A prepaid card is not linked to an account at a financial institution. Instead, you are using money that is loaded onto the prepaid card in advance.

Kinds of Prepaid Cards

There are different kinds of prepaid cards:

- Reloadable prepaid cards
- Payroll cards
- Electronic benefit transfer (EBT) cards
- College or university identification cards
- Prepaid cards for specific stores or public transportation systems



Try It: Features of Most Reloadable Prepaid Cards

Check Yes or No for each item.

| Is This a Feature of Most Reloadable Prepaid Cards? | Yes | No |
|--|--------------------------|--------------------------|
| You can use it in a restaurant to purchase a meal. | <input type="checkbox"/> | <input type="checkbox"/> |
| You can get money out of an ATM with it. | <input type="checkbox"/> | <input type="checkbox"/> |
| You can use it to build your credit. | <input type="checkbox"/> | <input type="checkbox"/> |
| You can make a hotel reservation with it. | <input type="checkbox"/> | <input type="checkbox"/> |
| You can buy your groceries with it. | <input type="checkbox"/> | <input type="checkbox"/> |
| You can only load money on it where the card was purchased. | <input type="checkbox"/> | <input type="checkbox"/> |
| You can have funds directly deposited onto it. | <input type="checkbox"/> | <input type="checkbox"/> |
| You must have a good credit score to get it. | <input type="checkbox"/> | <input type="checkbox"/> |
| You can build savings on it. | <input type="checkbox"/> | <input type="checkbox"/> |
| You have FDIC insurance on its funds if certain conditions are met. | <input type="checkbox"/> | <input type="checkbox"/> |
| You can borrow money with it. | <input type="checkbox"/> | <input type="checkbox"/> |
| You can set up text or email alerts to monitor use of it. | <input type="checkbox"/> | <input type="checkbox"/> |
| You can view the card account history online if you register the account and activate the online features. | <input type="checkbox"/> | <input type="checkbox"/> |



Try It: What Fees are Common to Reloadable Prepaid Cards?

Put a check next to the prepaid card fees you think are charged by at least some reloadable cards.

- | | |
|---|--|
| <input type="checkbox"/> Monthly fee | <input type="checkbox"/> Balance inquiry fee |
| <input type="checkbox"/> Transaction fee | <input type="checkbox"/> Additional card fee |
| <input type="checkbox"/> Account or card reload fee | <input type="checkbox"/> Inactivity fee |
| <input type="checkbox"/> Bill payment fee | <input type="checkbox"/> Lost or stolen card replacement fee |
| <input type="checkbox"/> ATM withdrawal fee | <input type="checkbox"/> Fee for canceling the card |

Read your card agreement when you get your prepaid card. Be sure you understand the fees and what you may be able to do to avoid the fees.



Try It: A Prepaid Card or a Bank Account?

Read the scenario and answer the questions.

This scenario presents two choices to illustrate similarities and differences. In reality, Lucia does not need to choose only one. She can have both—a prepaid card, and a bank account with a debit card.

Scenario: Should Lucia Use a Prepaid Card or Open a Bank Account?

Lucia has been using cash for everything, but she wants to build a relationship with a bank. She is unsure about where to start. She wants to be able to make purchases easily and pay her bills. She does not yet have a driver's license. She also does not have a credit history.

One of her friends told her about reloadable prepaid cards. She's not sure if she should get one. Her employer talked to her about establishing a relationship with a financial institution. She could open an account and use a debit card to buy things and pay for bills. She is confused about what she should do.



Why might Lucia want to use a reloadable prepaid card instead of opening a bank account that provides a debit card?

Why might Lucia want to open a bank account and use a debit card instead of using a reloadable prepaid card?



Apply It: Reloadable versus Debit—Which Card is Right for Me?

Use this checklist to compare a reloadable prepaid card and a debit card to help you figure out the right option for you.

| Reloadable Prepaid Card | Debit Card |
|--|---|
| <p>Not linked to an account at a financial institution</p> <p>If you are unable to open an account at a financial institution right now, a reloadable prepaid card may be an option for you.</p> | <p>Linked to your account at a financial institution</p> <p>If you do not have an account at a financial institution, you cannot use a debit card. If you want a debit card, consider applying for a checking or savings account at a financial institution.</p> |
| <p>Balance on the card may be insured by the FDIC if certain conditions are met.</p> | <p>Deposits at a federally insured financial institution are insured by the FDIC (banks) or NCUA (credit unions).</p> |
| <p>Uses money loaded onto the card.</p> | <p>Uses money deposited in your account.</p> |
| <p>Safer than carrying cash.</p> | <p>Safer than carrying cash.</p> |
| <p>Generally can't spend more money than is loaded onto the card.</p> | <p>For a fee, may be able to spend more money than you have in your account if you opt-in to an overdraft program.</p> |
| <p>May include fees for adding money, using the card, ATM withdrawals, and others.</p> | <p>May include fees for adding money, using the card, ATM withdrawals, and transactions.</p> |
| <p>May provide a record of your transactions online or through a mobile app if you register your card.</p> | <p>Provides a record of your transactions through account statements, online, or mobile app.</p> |
| <p>Fewer consumer protections under federal law if there are unauthorized charges.</p> <p>Read the documentation that comes with the card (or is on the card's website) to understand any limitations on your liability.</p> | <p>Under federal law, you will generally not be responsible for more than \$50 of fraudulent charges if you notify your financial institution within two business days after learning of the loss or theft of your card.</p> <p>If you notify them after those first two days, you could lose up to \$500 or more.</p> <p>Ask if there is a zero-liability policy, which may further limit your losses.</p> <p>If your debit card number (not the card itself) is stolen (such as in an online hacking incident), under federal law you will not be liable for the transaction if you report it within 60 days after your account statement showing the transaction is sent to you.</p> |
| <p><input type="checkbox"/> This is the right option for me right now.</p> | <p><input type="checkbox"/> This is the right option for me right now.</p> |

Lost or Stolen Prepaid Cards

If your card is lost or stolen, or you notice a charge on your statement you did not make, report the problem right away to the card issuer. That can help you avoid further losses.

Tips for Using Prepaid Cards

Consider these tips for using prepaid cards and related mobile apps and websites:

- Review your account and dispute charges you did not authorize.
- Understand your card's limits on reloading funds, purchases, and withdrawals.
- Know what fees will be charged and what you may be able to do to avoid them.
- Report loss or theft immediately.
- Stay safe online. Visit [OnGuardOnline.gov](https://www.onguardonline.gov).



Remember the Key Takeaway

Prepaid cards allow you to spend or access money loaded onto them. They usually aren't linked to a checking or savings account. Before you use one, review its features and fees.