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What are the pros and cons of prepaid debit cards?

By Ben Woolsey

[Prepaid debit cards](#) began to take off in the 1990s as credit card company's realized that a significant portion of the U.S. population was not able to qualify for many of their credit cards. Even among those who did qualify a certain portion often defaulted on their outstanding balances and declared bankruptcy, which drove up losses. An early attempt to address this market need was in the form of a secured credit card, which involved having a credit line that was "collateralized" by an equal sum of money deposited with the credit card bank. During the first few years the secured card's credit line was set at 100 percent of the savings on deposit. Once a satisfactory payment history was established by the customer the bank would begin extending gradual amounts of credit beyond the savings total – sometimes up to 200 percent of the deposit. This way the bank was able to create a stable credit card customer who might not qualify otherwise and still limit their ultimate losses should the customer default.

Later variations of the secured credit card took the form of prepaid debit cards where funds were loaded directly onto a [Visa](#) or [MasterCard](#) prepaid debit card either at a merchant location or online with a bank which marketed the products. These products functioned just like a prepaid phone card and essentially just converted paper currency into electronic currency accessed via a plastic card. Prepaid debit card credit lines would always be set at the amount deposited and would be drawn down with purchases.

The advantages of prepaid debit cards include being safer than carry cash, worldwide functionality due to Visa and MasterCard merchant acceptance, not having to worry about paying a credit card bill or going into debt, the ability for anyone over the age of 18 to apply and be accepted without regard to credit quality and the ability to reload with any amount of money online, over the phone or at any ATM worldwide.

The disadvantages include the fact that you don't have the luxury of using a credit card bank's funds for 25 days for free (but you could also look at that as an advantage, too). Another is if the card is lost or stolen Visa and MasterCard have much stricter notification requirements than with a credit card.

All in all the advantages of prepaid debit cards usually outweigh the disadvantages -- especially for those individuals who don't have access to standard credit cards due to lack of credit history or because their credit rating is less than perfect.

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National Average	14.90%
Low Interest	11.62%
Business	12.85%
Student	13.14%
Balance Transfer	14.04%
Reward	15.04%
Airline	15.10%
Cash Back	15.28%
Instant Approval	17.93%
Bad Credit	22.48%

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