

## WATCH OUT FOR LEAKY 'REBATE CARDS'

Consumers have a love-hate relationship with rebates. They're great when they arrive and maddening when they don't. And many consumers have been burned by a promised rebate that never arrived, leaving them with a healthy dose of skepticism about the process.

There are new reasons to be skeptical. Many firms have taken to issuing debit-card-like gift cards instead of rebate checks. Known in the industry as "prepaid rebate cards," the cards do offer some benefits. But they also come laden with gotchas that can leave you with worthless plastic.

Like some gift cards, rebate cards can lose their value over time. But unlike gift cards, the dollar drain on rebate cards can begin as soon as three months after they're issued. Some rebate cards charge fees for activation or checking balances, too.

Many consumers who buy products promising rebates are surprised when plastic arrives instead of paper.

"Rebates in the form of gift cards seem to be more and more common, but not always well disclosed in ads," says Evan Johnson, who researches gift card fees for the Montgomery County (Maryland) Office of Consumer Protection. "My perception is that even when ads involving a gift card rebate make clear that is the form of the rebate, they often don't state the limitations of the cards."

Let's look at some of the small print on these cards.

Sprint recently offered a \$25 incentive to current customers who talked friends into signing up. The friend also received a \$25 rebate. Both "referral rewards" came in the form of a debit card, and that debit card came with a lot of explanation. There was a \$3 "account maintenance fee"; a \$15 "over-limit" fee; a \$6.95 "plastic replacement fee"; and a 3 percent international transaction fee.

But that was only the start of the small print. Elsewhere on the explanation page included with the card, Sprint explains that the \$3 monthly account maintenance fee kicks in when accounts are considered inactive. That can happen at one of two times: six months after the card is issued or three months after the card is first used. That means a consumer who puts the card in a drawer for six months will see that \$25 card become a \$22 card. Seven months later, it will be worth just \$1.

Consumers who use the card right away have it even worse. If you receive a \$25 card on July 1 and buy a \$10 movie ticket, the \$15 balance will decline to \$12 on Oct. 1. And if you don't use it by Feb. 1, the card will be worthless.

### **Dormancy fees, only worse**

In the gift card business, these are called dormancy fees. Dormancy fees were standard until several years ago, when increasing consumer outcry -- and regular embarrassing reports issued by the Montgomery County Office of Consumer Protection -- forced nearly all retailers to drop them. The process was helped along by the Federal Trade Commission, which said it was scrutinizing gift card fee disclosures in 2006, and [later took legal action against](#) the owner of Red Lobster restaurants.

But the dormancy fees on retail store gift card fees didn't kick in for 12 months or more. In that light, the three-month inactive term on rebate cards seems exceedingly short.

Sprint's cards were issued through Ecount, a big name in the prepaid debit card business. The firm was acquired by Citicorp in March. During a brief conversation with the firm's public relations

department (the firm didn't respond to an interview request in time for this story), I was reminded that old-fashioned rebate checks also expire -- sometimes as quickly as 90 days after being issued. That's true.

### **Better than paper?**

Rebate cards offer a real advantage, too -- consumers don't have to go to the bank and cash them before using the money.

The Network Branded Prepaid Card Association, which helps market rebate cards, says there are other benefits. It says 35 million U.S. households don't have a bank account and cannot easily cash rebate checks. And the value of lost or stolen rebate cards can sometimes be recovered. That's not the case with rebate checks, which are worthless if lost.

Still, only those with a magnifying glass or exceptional eyesight can find and read the fee disclosures on these prepaid rebate cards. Many will be surprised when their value starts to drain away within three months of arrival.

Adding to the confusion, there's a meaningless expiration date embossed on the front of each card. It's only there because credit card processing systems require transmission of an expiration date. To hammer home this point, the terms and conditions for the card includes this phrase, bold and capitalized; "AVAILABLE FUNDS DO NOT EXPIRE."

Of course the funds do expire, though not on the date on the card. A consumers who thinks he or she has that long to use it will be sadly mistaken. In contrast, rebate checks prominently feature the expiration date.

### **Trouble at checkout**

The cards have another important shortcoming. Some merchant credit card systems have difficulty processing them. For example, the cards often can't be used to pay for part of a purchase, so a consumer who tries to use a \$25 rebate card to pay for part of a \$29 item will sometimes find the purchase declined. Convincing a retailer to take \$4 cash and then ring up a \$25 card purchase separately usually works.

It's too early to tell whether rebate cards or checks are better for consumers. Traditional rebate checks have myriad problems that experts say contribute an incredibly high rate of "breakage" -- the amount of rebates consumers never claim -- of around 40 percent, or \$2 billion per year. On the other hand, unused gift card money amounts to nearly \$8 billion annually, representing about 10 percent of all gift card value, according to TowerGroup. Consumers can get screwed both ways. Either way, you'd better get used to rebate cards -- there's now 10 million of them in circulation, according to the prepaid card association.

That's why it's important to read up on how rebate cards work:

### **RED TAPE WRESTLING TIPS**

- If you do receive a rebate card, know that it likely comes laden with gotchas. Johnson says there's no way around the old-fashioned advice to read the fine print.

"(It's) real important for consumers to ... read the front and back of the gift card and any accompanying materials very carefully when they are received," he said.

- It's sad but true: Your best bet is to spend the card as soon as you can after you receive it.

- If you try to use it at a store and are run into trouble -- if the transaction is denied -- try to talk the merchant into splitting the purchase into two transactions, and make sure one matches the exact value of the card. If that doesn't work, or you are unsure of the balance, use the card on a smaller purchase and check the balance at the next available opportunity.
- Treat rebate cards like cash. According to the terms listed on the Sprint card, consumers have far fewer rights to recover the value of the rebate card if it is stolen than they do with a credit card. The Sprint card indicates that consumers must tell Ecount about potential theft within 24 hours of learning about it, or face the possibility of being "held liable for all the unauthorized transactions." Credit and debit card time notification limits are far more liberal.

Also, the Sprint notice says explicitly that if you "share your Ecount Card number with another person, use of your Ecount Card by that person may be considered as authorized." That small print could limit consumers' rights to compensation if they fall for a phishing scam and accidentally give their account number to a hacker. In the past, the Federal Reserve has ruled that accidental divulging of ATM PIN codes through phishing that leads to bank account theft does not constitute an authorized transaction, and consumers who make that mistake retain their rights to a refund. It's not clear what refund rights you'd have if you gave your rebate card data to a hacker, though, so you're best off spending the card before you have a chance to lose it.