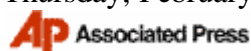


Jobless hit with bank fees on benefits

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WASHINGTON -- First, Arthur Santa-Maria called Bank of America to ask how to check the balance of his new unemployment benefits debit card. The bank charged him 50 cents.

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He chose not to complain. That would have cost another 50 cents. So he took out some of the money and then decided to pull out the rest. But that made two withdrawals on the same day, and that was \$1.50.

For hundreds of thousands of workers losing their jobs during the recession, there's a new twist to their financial pain: Even when they're collecting unemployment benefits, they're paying the bank just to get the money -- or even to call customer service to complain about it.

Thirty states have struck such deals with banks that include Citigroup Inc., Bank of America Corp., JP Morgan Chase and US Bancorp, an Associated Press review of the agreements found. All the programs carry fees, and in several states the unemployed have no choice but to use the debit cards. Some banks even charge overdraft fees of up to \$20 -- even though they could decline charges for more than what's on the card.

"They're trying to use my money to make money," said Santa-Maria, a laid-off engineer who lives just outside Albuquerque, N.M. "I just see banks trying to make that 50 cents or a buck and a half when I should be given the service for free."

The banks say their programs offer convenience. They also provide at least one way to tap the money at no charge, such as using a single free withdrawal to get all the cash at once from a bank teller. But the banks benefit from human nature, as people end up treating the cards like all the other plastic in their wallets.

Some banks, depending on the agreement negotiated with each state, also make money on the interest they earn after the state deposits the money and before it's spent. The banks and credit card companies also get roughly 1 percent to 3 percent off the top of each transaction made with the cards.

"It's a racket. It's a scam," said Rachel Davis, a 38-year-old dental technician from St. Louis who was laid off in October. Davis was given a MasterCard issued through Central Bank of Jefferson City and recently paid \$6 to make two \$40 withdrawals.

Neither banks nor credit card companies will say how much money they are making off the programs, or what proportion of the revenue comes from user versus merchant fees or interest. It's difficult to estimate the profits because they depend on how often recipients use their cards and where they use them.

But the potential is clear.

In Missouri, for instance, 94,883 people claimed unemployment benefits through debit cards from Central Bank. Analysts say a recipient uses a card an average of six to 10 times a month. If each cardholder makes three withdrawals at an out-of-network ATM, at a fee of \$1.75, the bank would collect nearly \$500,000. If

half of the cardholders also call customer service three times in any given week, the bank's revenue would jump to more than \$521,000. That would yield \$6.3 million a year.

Rachel Storch, a Democratic state representative, received a wave of complaints about the fees from autoworkers laid off from a suburban St. Louis Chrysler plant. She recently urged Gov. Jay Nixon to review the state's contract with Central Bank with an eye toward reducing the fees.

"I think the contract is unfair and potentially illegal to unemployment recipients," she said.

Central Bank did not return two messages seeking comment. Glenn Campbell, a spokesman for Rep. Russ Carnahan, D-Mo., said the congressman would support a review of the debit card programs nationwide.

Another 10 states -- including the unemployment hot spots of California, Florida and South Carolina -- are considering such programs or have signed contracts. The remainder still use traditional checks or direct deposit.

With the national unemployment rate now at 7.6 percent, the market for bank-issued unemployment cards is booming. In 2003, states paid only \$4 million of unemployment insurance through debit cards. By 2007, it had ballooned to \$2.8 billion, and by 2010 it will likely rise to \$10.5 billion, according to a study conducted by Mercator Advisory Group, a financial industry consulting firm.

The economic stimulus plan signed by President Barack Obama this week will increase federal unemployment benefits by \$40 billion this year. Subsequently, there will be more money from which banks can collect fees. The U.S. Department of Labor allows the fees as long as states create a way for recipients to get their money for free, spokeswoman Suzy Bohnert said.

"Beyond that, the individual decides how to manage his drawdowns using the debit card," she said in an e-mail.

A typical contract looks like the agreement between Citigroup and the state of Kansas, which took effect in November. The state expects to save \$300,000 a year by wiring payments to Citigroup instead of printing and mailing checks.

Citigroup's bill to the state: zero. The bank collects its revenue from fees paid by merchants and the unemployed. "If you use your card the right way, you're not going to pay fees at all," said Paul Simpson, Citigroup's global head of public sector, health care and wholesale cards.

But that's not always practical.

Santa-Maria, the laid-off New Mexico engineer, said he didn't pay any fees the first time he was laid off, for several months in 2007. His unemployment benefits were paid by paper checks. He found a new job last year but was laid off again last fall.

This time, he was issued a Bank of America debit card -- a "prepaid" card in industry lingo -- but he was surprised to learn he had to pay fees to get his money. He asked the bank to waive them. It said no. That's when Santa-Maria called back to ask how to check his account online. He logged on and saw that the call cost him a half dollar. To avoid more fees, Santa-Maria found a Bank of America ATM at a strip mall and withdrew \$80 at no charge. When he got back to his car, he decided to take out the rest of his money -- \$250 -- and deposit it in his bank account.

Afterward, Santa-Maria logged on to his account and saw a charge of \$1.50 for two withdrawals in one day.

New Mexico authorities bargained with Bank of America to get lower fees for unemployment recipients, said Carrie Moritomo, a spokeswoman for the state Department of Workforce Solutions. The state saves up to \$1.5 million annually by not printing checks.

Banks could issue unemployment debit cards with no fees for cardholders, but that would likely mean that states would have to pay more of the administrative costs, said Mark Harrington, director of marketing for Citigroup's prepaid card services. If a state demanded no cardholder fees and could pay the difference, Citigroup might enter such a contract.

"We would be open to that," Harrington said. "We're not looking to structure any programs where we would lose money, but we're definitely flexible."

Simpson noted that the cards can save money for jobless workers who have no bank accounts. In the past, these people had to use corner check-cashing shops that charged fees as high as 2 percent, or \$6 for a \$300 check. Now, they can swipe their cards at McDonald's, Wal-Mart or elsewhere for free.

Kenna Gortler, a laid-off paper mill worker in Oregon, said her union is advising members to avoid the debit cards and sign up to get their benefits through direct deposit. More than 300 of her fellow workers have lost their jobs at the mill in the last three months, and horror stories about ATM fees and overdraft charges are starting to filter back to others who are just now signing up for their benefits.

"It's discouraging," Gortler said. "People have limited funds and they don't need to be giving money to the banks. They need to be keeping that money to feed their families and pay bills."