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Wal-Mart charged up over debit cards

Retailer expanding in-store money centers, its own prepaid MoneyCard

BY STEVE PAINTER

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LITTLE ROCK — Wal-Mart Stores Inc. revealed plans Wednesday to rapidly expand its in-store money centers and aggressively promote its name-brand, prepaid debit card.

The company says a pilot project in a limited number of markets was a big hit with customers who have no bank accounts or have been hit with hefty charges, such as overdraft fees, with their existing accounts.

Thwarted by political opposition in its repeated attempts to establish a so-called industrial bank, the world's largest retailer has partnered with other financial institutions to expand its offerings beyond such basics as check-cashing and money orders.

Jane Thompson, president of Wal-Mart financial services, called the company's move "a game changer in the industry."

"These kinds of cards are going to change the lives of 70 million-plus people," she said in a conference call with reporters.

The Wal-Mart MoneyCard, which customers "load" in advance, is offered in partnership with Visa and GE Money Bank. Attempted purchases that exceed the card's pre-loaded, or prepaid, balances are rejected, preventing overdraft charges.

By loading a minimum of \$1,000 a month - which can be done through direct deposit or in person - a monthly \$4.94 maintenance fee is waived, and a \$4.64 charge to load the card is waived if the customer cashes a check at Wal-Mart.

Debit purchases, including cash back, also are free, but extra charges apply for automated teller

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machine withdrawals (\$1.95), ATM balance inquiries (75 cents) and paper statements (\$2).

The cards can be used, not just at Wal-Mart's, but at any business that accepts debit cards.

Other services will be offered in the future, but Thompson declined to provide details.

"We do have some more things we will be announcing before the year's out," she said.

Speculation has centered on other consumer lending such as home mortgages or equity loans and car loans, though Wal-Mart officials insisted that they wanted an industrial bank charter, like rival Target Corp. has, to save money by serving as its own clearinghouse for credit and debit-card transactions.

Several retailers, including Target, offer store-branded credit cards. George Whalin, president of Carlsbad, Calif.-based Retail Management Consultants, said he was unaware of other major retailers that have issued branded, prepaid debit cards.

"It's a fairly new phenomenon," he said.

Wal-Mart's bank charter bid drew strong reaction from some segments of the nation's banking industry, and Wednesday's announcement only fueled the criticism.

"We think this clearly demonstrates that they have every intention of getting into retail financial services as deeply as they possibly can," said Steve Verdier, senior vice president and chief lobbyist for the Independent Community Bankers of America.

The group's opposition goes beyond fear of competition, he said. Retailers could pressure their banks into decisions beneficial to the retailing side of the operation, Verdier said.

"We just think it's risky for the FDIC and the banks that stand behind the FDIC," he said.

But Ken Hammonds, president and chief executive officer of the Arkansas Bankers Association, said he had no objection to Wal-Mart's latest plans. Prepaid debit cards, he said, offer better protection than carrying cash.

"If they feel this is a way they can satisfy their customer needs, I think it's proper," he said.

Wal-Mart intends to expand the number of its money centers, currently in 225 stores, to 450 by the end of the year and to 1,000 by the end of next year.

Those centers allow customers to conduct financial transactions without waiting in line at the stores' customer service counters, which also handle product returns and other customer assistance, company officials say.

Eight of the existing money centers are in Arkansas, including one in Little Rock at 8801 Base Line Road, company spokesman Alfredo Padilla said. None are in Northwest Arkansas near Wal-Mart's Bentonville headquarters, he said.

A big drawing card for customers, Thompson said, is that the money centers are open from 7 a.m. to 9 p.m. seven days a week.

"For our customers, that's really meaningful," she said.

Prepaid debit cards are a rapidly growing area, said Todd Brockman, senior vice president of prepaid products at Visa USA.

He said about 80 million U.S. consumers, with \$1 trillion in annual income, collectively, don't have traditional banking services and are in and out of the financial mainstream.

The prepaid cards give them the convenience of paying cable, cell-phone and utility bills without having to take cash to the businesses or buy money orders.

Wal-Mart, he said, "certainly will increase the awareness of this product."

Some retail analysts said Wal-Mart's move could boost traffic in its stores.

"The company expects to offer additional financial products going forward, and we believe the rapid rollout of financial services should create additional store traffic and is another tool to boost comps [comparable store sales]," Morgan Keegan analyst John Lawrence wrote in a research note to investors.

He said Morgan Keegan remains "on the sidelines" awaiting signs of improving sales in stores open at least a year.

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Adrienne Shapira, an analyst with Goldman Sachs, also said the benefit to Wal-Mart is likely to be long term.

"While we believe these initiatives, given their size, will not materially boost earnings in the near term, we do see them as a positive long-term driver of customer loyalty," she wrote.

Wal-Mart's stock closed Wednesday at \$48.59 a share, down 22 cents, or 0.45 percent.

Thompson, during the conference call, declined to reveal the company's profit margins on its prepaid debit cards, but noted, "They are healthier than traditional retail."

She said Wal-Mart handles about 2 million financial service transactions - such as checkcashing and money orders - each week. The company has said in the past that about one in five of its customers does not use a bank account.

Cynthia Vega, spokesman for the Financial Service Centers of America, said her association does not fear competition from Wal-Mart.

The group's members offer nonbank financial services to a mostly urban population, where Wal-Mart's presence is less dominant.

"They are trying to be competitively priced, and that is good for the consumers who have occasion to be in Wal-Mart," she said. The group formerly was the National Check Cashers Association.

The Consumer Federation of America found in a study last year that Wal-Mart's 1 percent check-cashing fee was well below the average of 2.44 percent to cash government benefit checks. It also found that Wal-Mart's 50-cent charge for a \$100 money order was about half the cost of the other outlets surveyed.

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