



You'd better watch out: Gift cards can be lumps of coal

By Sandra Block

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Peer into any family's closets and you'll find the Gifts of Christmas Past. Scented candles. Reindeer sweaters. A stuffed bass that sings *Don't Worry, Be Happy*.

Gift cards are designed to reduce closet clutter. They're always the right color, and they're never too large or too small. While the National Retail Federation estimates that gift card sales will drop about 6% this year — reflecting a slowdown in overall spending this holiday season — nearly two-thirds of consumers plan to buy them, according to a survey by Deloitte. And 55% of consumers say they would like to receive a gift card, according to the NRF.

But the warm feelings generated by a gift card could turn cold in a hurry if the retailer that issued the card goes out of business. Gift card holders have few rights when a retailer files for bankruptcy. And with retail bankruptcies expected to rise next year, that's a real concern.

Some consumers have already been burned. When Sharper Image filed for bankruptcy earlier this year, gift card holders were informed they could no longer use their cards. The company later asked the court to allow it to accept gift cards if holders spent twice the value of the gift card on a single purchase. Consumers Union estimates that unused Sharper Image gift cards totaled \$20 million.

Consumers who held gift cards for Bombay Co., which filed for bankruptcy protection last year, didn't fare much better. In August, the retailer won approval from the bankruptcy court to pay off gift card holders 25 cents on the dollar.

Tweeter, a consumer electronics chain that filed for Chapter 11 bankruptcy in early November, originally planned to stop accepting gift cards on Nov. 15. After several state attorney generals intervened, the company agreed to accept gift cards through Dec. 31, or until its stores close.

When a retailer files for bankruptcy-court protection, gift card holders are considered unsecured creditors, says Michelle Jun, attorney for Consumers Union, an advocacy group. It's up to the retailer to ask the bankruptcy court to allow it to continue accepting

gift cards. If the retailer doesn't make that request, or the court denies it, gift card holders have to get in line with all the businesses and individuals that have claims against the retailer. "If you have a \$50 gift (card), it's pretty burdensome" to file a claim for relief, Jun says.

In September, Consumers Union and several other consumer groups petitioned the Federal Trade Commission to improve consumer protections for gift card holders. The groups asked the FTC to require retailers to segregate funds from gift card sales in a trust account, and use that money to honor gift cards as long as the stores remained open, unless ordered to do otherwise by a bankruptcy court. So far, the FTC hasn't responded to the petition, Jun says.

Consumers Union recommends that consumers give cash this year instead of gift cards. "It's hard to know what retailer will sink tomorrow," Jun says.

For some givers, though, sticking a couple of twenties in an envelope seems awfully cold. If you're determined to give gift cards this year, choose wisely. Some tips:

Consider the financial health of the retailer

Last week, Circuit City joined the growing number of retailers seeking Chapter 11 bankruptcy protection. The filing will allow the electronics giant to secure more financing and get out of some lease commitments.

In announcing the filing, Circuit City said it will continue to honor outstanding gift cards, and will continue to sell them. But Circuit City also announced that it's closing 155 stores, which means some card holders will have a harder time finding a place to redeem them. And if the company's efforts to reorganize fail, the cards could become worthless.

When Linens 'n Things filed for Chapter 11 bankruptcy in May, it said it would continue to honor gift cards in all of its stores. But consumers who still have gift cards for the retailer will have a hard time redeeming them: After failing to find a buyer, Linens 'n Things announced that it's liquidating its merchandise and closing its stores.

"If you read about a retail store teetering on the brink, you probably shouldn't buy a gift card from them," says Bill Hardekopf, chief executive of LowCards.com.

Opt for 'open loop' gift cards

The major credit card issuers — American Express, MasterCard, Discover and Visa — all offer gift cards. Most mall operators also offer gift cards that can be used in all of their stores.

These cards can be used anywhere, eliminating the need to gauge the financial health of a specific retailer. But they also contain more restrictions than gift cards issued by individual retailers. Visa gift cards expire after one year, MasterCard gift cards after 24

months, according to Bankrate.com's annual survey of gift cards. American Express gift cards have no expiration date but impose a \$2 monthly service fee after 12 months (the service fee is deducted from the balance on the card). None of the gift cards from the nation's 25 largest retailers have expiration dates, according to the National Retail Federation.

Most open-loop issuers also charge a fee to buy their cards. Fees range from \$3.95 to \$4.95 per card, depending on the bank that's issuing the card, according to Bankrate.com. If you're buying gift cards for a large number of people, those fees can add up.

Give gift cards for necessities

In Deloitte's annual holiday shopping survey, 17% of consumers surveyed said they planned to buy gift cards for gasoline, up from 13% last year.

A gift card for gas "isn't exactly an exciting gift, but it's very practical, and in these economic times, probably very much appreciated by the people getting it," says Stacy Janiak, vice chairman and U.S. retail leader for Deloitte. Most grocery stores and drugstores also offer gift cards.

Give gift cards that can be redeemed online

Hilco Appraisal Services, a large liquidation firm, projected last week that 14,000 retail stores, ranging from mom and pop businesses to big chain outlets, will close next year. That means consumers in some parts of the country will have a harder time finding a place to redeem their gift cards.

This year, though, a majority of retailers allow consumers to redeem their gift cards in stores or online, according to Bankrate.com. In its survey of 20 large retailers, only five — CVS, Walgreens, Home Depot, Marshalls and T.J. Maxx — didn't allow their gift cards to be redeemed online.

And what if you receive gift cards this holiday season? Don't let them gather dust, says Ellen Cannon of Bankrate.com. "Spend them by New Year's."