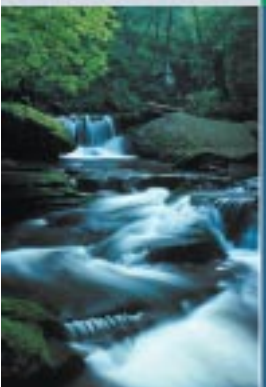


Credit Card or Debit Card: The Great Debate



Having trouble getting approved for a credit card? Do you have bad credit? Maybe a debit card is the answer. Today, more and more banks and financial institutions are rushing to issue their customers debit cards. In fact, many of these companies routinely issue “enhanced” ATM cards that can also be used as debit cards to make purchases. This article will tell you everything you need to know about debit cards and how they differ from credit cards.

► Myvesta is a nonprofit consumer education organization. We provide a wide range of educational materials to assist those in financial need. Visit us on the Web at Myvesta.org.



The minimum monthly payment due is based on a percentage of your total balance.

A credit card allows you to buy goods and services now and pay later — up to a certain amount (your “credit limit”). The merchant or service provider from whom you made the purchase collects what you owe from the card issuer — the company that issued you the card. The card issuer then bills you on a monthly basis. The minimum monthly payment due is based on a percentage of your total balance. You are charged interest on the unpaid balance you owe at the end of each period. (See more about credit cards in the “Plastic Power” publication)

A debit card is a combination of a credit card, check and an automated teller machine (“ATM”) card. There are two types of debit cards — online and off-line. Online debit cards are usually enhanced ATM cards. When you purchase something using an online debit card, you immediately transfer money electronically from your bank account to the merchant’s bank account. You must punch in your personal identification number (“PIN”) to access your account for added security. Off-line debit cards may have the Visa or MasterCard logo and can be used at any place that accepts Visa or MasterCard credit cards.

When you pay with an off-line debit card, you sign for your purchase without providing any additional identification just like a credit card. The payment for the purchase is deducted from your checking account within one to three business days after the transaction. This “float” period is comparable to the time it takes for a regular check to clear the bank. Some debit cards handle both off-line and online debits, and you would choose the function you want when you use the card. Visa and MasterCard debit cards may be used to make online purchases if the merchant has a keypad for you to punch your PIN into. Be aware that some merchants charge you a fee to use an online debit card. Ask if you are unsure.

Most people use a credit or debit card for convenience. With both cards, you don’t need to carry around a lot of cash when you are away from home. If an emergency arises, such as a broken-down car, and the cost of the repair outweighs the cash in your pocket, a credit or debit card comes in especially handy. Credit and debit cards carrying the Visa or MasterCard logos are accepted worldwide and they save you from the identification hassles connected with writing a check.

The Major Differences Between Debit and Credit Cards

There are several major differences between credit and debit cards, outlined below.

Card Incentives

Certain credit cards will offer special services to make them more appealing, such as the replacement of lost or stolen merchandise, frequent flier programs, a warranty extension on a product, automatic air travel insurance, or collision waiver insurance for rental cars. Be sure to read the fine print on these benefits — they might not always be as wonderful as they sound. Debit cards, on the other hand, don’t usually offer these kinds of services to the cardholder.

Fees/Costs

With debit cards, since the money comes directly from your checking account and you never have an outstanding balance, you avoid interest charges, late fees and over-limit fees that are connected to credit cards. If you take cash from your bank’s ATM with your debit card, you don’t pay interest or a transaction fee as you normally would when taking cash advances on a credit card. If you use a machine not associated with the bank that issued your ATM card, however, you may be hit with two separate fees — one from the bank you are using and another from your own bank for not using a machine on its network.

You also may be charged a fee if you exceed your bank's quota of free debit transactions.

Spending Limit

A major disadvantage with credit cards is that undisciplined cardholders can end up spending much more money than they can actually afford. A debit card avoids this problem because the funds are taken directly from your checking account. But this raises a different problem — if you spend more than you can afford with your debit card, checks you have written recently may bounce when they reach your bank. You will then have bounced-check fees to pay, which can be very high. To avoid this, know how much money you have available in your account and budget carefully by tracking debit purchases in your check register. Also, be aware that a debit card may not give you a debit limit equal to the balance of the bank account to which it is linked. Check with your bank to find out your limit.

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Credit Rating

Unlike credit cards, debit cards cannot help you build good credit because the accounts are generally not reported to credit reporting agencies. If you are looking to rebuild your credit and can't get a credit card, you should consider a secured card, where you place a deposit with the bank equal to your credit limit. Secured cards are a good way to build a strong credit history and, as a bonus, the deposit you make may earn interest. Read Myvesta.org's "Secured Cards" publication for more information.

Billing Errors

Billing errors on credit and debit card accounts are treated differently by federal laws. If you find an error on your credit card bill, you must notify the card issuer within 60 days of the day that the statement was sent. You should

write a letter to the customer service department, give your name, account number, explanation of the error, amount involved, and attach any documents that show the error, such as a receipt showing the correct charge amount.

Within 30 days, under federal law, a credit card issuer must either acknowledge receipt of your letter or correct the bill. If the card issuer does not correct the error within those 30 days, it must either do so within two billing cycles or explain why it hasn't. Until the dispute is resolved, you can withhold payment of the disputed

amount and the card issuer cannot report you as delinquent to the credit reporting agencies. But the card issuer can apply that amount to your credit limit and can charge you interest on the disputed amount (and later subtract it if you are correct).

For debit cards, you also must notify the card issuer within 60 days of the date of the statement that shows the billing error (or the receipt). You should call the card issuer to notify it about the error, then immediately write a letter confirming the phone call. Under federal law, the card issuer has 10 business days from the date of your notification to investigate the problem and correct any error. During its 10-day investigation, the card issuer does not need to credit your account with the amount in dispute. The card issuer can extend its investigation to 45 days, but only if it deposits the disputed amount into your account pending the result of the investigation.

Merchant Disputes

Different policies govern merchant disputes, depending on whether you used a credit or debit card. If you are dissatisfied with a product or service that you purchased using your credit card, the Fair Credit Billing Act gives you the same legal rights against the card

issuer that you would have under your state laws against the merchant. So if your state law gives you the right to withhold payment to a merchant for defective merchandise or pay and later sue for a refund, you might also be able to withhold payment to your credit card issuer. State laws vary so you should talk to an attorney or to your local consumer affairs office. In general, your dispute rights only apply if you gave the merchant a chance to cure the problem, you bought the item in your home state or within 100 miles of your current mailing address and the amount paid was more than \$50.

There are no dispute rights for debit card purchases under federal laws. However, some debit card issuers treat disputes regarding the quality of goods or services the same whether a consumer uses credit or debit cards to make his purchases. Check the terms of your debit card agreement.

Theft Protection

Perhaps the most startling difference between debit and credit cards is the protection you get under federal law if your card is lost or stolen. If your debit card has been lost or stolen and you fail to notify your card issuer within a short period of time, there is very little protection for you under federal law.

Under federal laws, your liability is \$0 for any unauthorized charges after you report the card missing, but you can be liable for unauthorized charges made before you notified the card issuer. In general, you are responsible for \$50 of any unauthorized withdrawals if you notify the card issuer within two business days after you realize the card is missing. You are responsible for \$500 of any unauthorized withdrawals if you notify the card issuer two business days or more after realizing the card is missing, but within 60 days after the card

Until the dispute is resolved, you can withhold payment of the disputed amount and the card issuer cannot report you as delinquent to the credit reporting agencies.

issuer mailed the bank statement listing the unauthorized withdrawals. If you fail to notify the card issuer within 60 days after the bank statement with the unauthorized withdrawals is mailed to you, you are responsible for all unauthorized withdrawals up to the time of your

notification.

You may get relief outside of the federal law, thanks to consumer complaints. Visa and MasterCard, some banks and some states have established policies that go beyond the federal law to protect consumers. Visa and MasterCard have policies that establish the same protections as exist for unauthorized credit card charges: debit card holders are not responsible for any unauthorized charges as long as they notify their issuer immediately and have a maximum liability of \$50.

Some banks and states also have capped the liability for unauthorized withdrawals on an ATM or debit card at \$50. You should check with your financial institution and state Consumer Protection office about your liability limits.

Under federal law, after you notify the debit card issuer about your lost or stolen debit card, the issuer has up to 10 business days to investigate and credit your account if it was used fraudulently. Some debit card issuers promise faster provisional credit. Although they are not required to, as a measure of good customer service, some debit card issuers waive bounced check and other fees that incur from checks that unintentionally bounced because a debit card was stolen.

A Few Final Suggestions

- ▶ If you are thinking about obtaining a financial transaction card to build your credit history, consider a secured card

or credit card and use it responsibly.

- ▶ If you are having problems getting credit and don't have enough money to obtain a secured card, then a debit card may be the answer.
- ▶ For maximum consumer protection, a credit or secured card is preferable to a debit card.

If you decide to get a debit card:

- ▶ Budget diligently and know how much money you have in your account. Write all withdrawals into your check register. Reconcile all ATM receipts with bank statements as soon as possible.
- ▶ Memorize your PIN and don't carry your PIN in your wallet, purse, or anywhere near your card. Never use your address, birthday, phone number or social security number as your PIN.
- ▶ Hold onto your receipts from your debit card transactions. A thief may get your name and debit card number from a receipt and order goods by mail or over the telephone.
- ▶ Check your debit card account statements to make sure there are no mistakes. If you lose your card or it is stolen, call your card issuer immediately and follow up the call with a confirmation letter.
- ▶ Avoid using your debit card for specific types of purchases. If you use a debit card to purchase airline, train or bus tickets, the money is taken out of your checking account immediately or within three days after the reservation is made.

If there is a change in your plans and you need to cancel or postpone your trip, it can take weeks to get a refund issued. Some major car rental companies do not accept debit cards for reservations.

- ▶ Think twice before linking your savings account to a checking account with debit card access.

If a thief steals your card, both your checking and savings account can be drained. If you get an overdraft account that is linked to your checking account, you can get into even more trouble if your card is improperly used. Some card issuers or banks have daily limits on debit card withdrawals, which prevent thieves from clearing out bank accounts. Check with your debit card issuer to see if you have a daily limit.

Regardless of your decision, a debit, credit or secured card will offer you the purchasing convenience you have been searching for. Please refer to the following table that compares credit and debit cards. Good luck!

About Myvesta...

Myvestasm is dedicated to helping people create healthy financial lives. The organization provides a wide range of materials to inspire and inform people so they can break down their barriers to financial and personal success. For more information visit Myvesta.org online.

Information Guarantee

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Credit Card vs. Debit Cards

A Side-by-Side Comparison

CREDIT CARD

Purchase Protection

If you aren't satisfied with the quality of an item or service purchased, you have made an effort in good faith to resolve the dispute with the merchant and you haven't yet paid for the charge, you may have the right under your state's laws to withhold payment from your credit card issuer (must be for purchases greater than \$50 made in your state or within 100 miles of your home). If you do dispute a payment, notify the issuer in writing.

Billing Errors

If there is an error on your credit card bill, you must write a letter to the credit card issuer, which must reach the issuer within 60 days after the first bill containing the error was mailed to you. The issuer must acknowledge the letter within 30 days after it is received or correct the bill within that amount of time. You can withhold the disputed amount until the dispute is resolved and the issuer cannot damage your credit rating.

Grace Periods

When you buy goods or services, you will not be charged interest on the purchase price until the due date or payment date on your next monthly statement.

Fees/Costs

- Usually charged on ATM withdrawals (interest and/or transaction fee)
- No charge per purchase
- Late fees
- Over-limit fees.

Security

Requirement of your signature and the use of holograms and other technical devices (photos, personal identification codes) have made forgery very difficult.

Financial Management

Your statement can be used as a tool to provide a monthly spending record of purchases — allows you to keep track of how much you're spending, when and where you're spending it, and what you're spending it on.

Theft Protection

Immediate cancellation of account upon a phone call and, with most cards, you will not be liable for fraudulent purchases made after the card is reported stolen (maximum liability of \$50).

Building a Credit History

Your use of a credit card will be reported to the credit reporting agencies. This will allow you to either build a strong credit history or, if you are not careful and are unable to pay your debts, can lead to a bad credit rating.

DEBIT CARDS

Purchase Protection

There is no dispute resolution process under federal law. However, the card issuer may offer the same dispute rights as with credit cards.

Billing Errors

If there is an error on account statement/receipt, notify the debit card issuer within 60 days after statement containing error was mailed to you. The issuer must investigate within 10 days. If an error is found it must be corrected within one business day.

Grace Periods

When you buy goods or services, the funds come out of your checking account immediately or within 1 to 3 business days.

Fees/Costs

- No charges on ATM withdrawals at your own card issuer's branches (number of withdrawals may be limited, depending on the issuer's policy). If you use a machine that is not associated with your debit card issuer, there may be a fee by issuer and the bank you are using.
- May be a fee each time you make a purchase (can be charged by merchants or your card issuer; your issuer could also charge a monthly, quarterly or yearly fee).

Security

PIN for online debit card transactions add security if lost or stolen. Only a signature is needed to use off-line debit cards.

Financial Management

A separate statement is not provided for debit card accounts. Consumers should keep accurate transaction records in their check registers.

Theft Protection

Under federal regulations, you are responsible for varying amounts depending on how long you wait to report that your card was lost or stolen. If you notify the card issuer within two business days, you are responsible for \$50 AT MOST. If you notify the card issuer after two business days but within 60 days of receipt of the bank statement showing unauthorized transfers, you are responsible for \$500 AT MOST. If you wait longer than 60 days, you are responsible for the total amount of unauthorized transfers. State laws and bank policies can set your liability at a lower amount or even zero, so be sure to read the disclosure forms that come with your debit card.

Building a Credit History

Unlike a credit card, your debit card will usually not be reported to the credit reporting agencies and will not help build a credit history.