

Using Debit Cards Wisely

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Debit cards, which use money from your own bank accounts, are different from credit cards. Learn about their advantages and disadvantages and how best to use them.

Plastic debit cards look like credit cards, but they're not. Whether you use a debit card to buy something or to get cash, each transaction automatically debits the account it's tied to like an electronic check. In fact, some debit cards are called "check" cards. Debit cards provide access to your own money.

If a transaction requires a personal identification number (PIN), a debit card is being used. Debit cards also can be used without the PIN like a credit card for transactions in a store or restaurant. Financial institutions and stock brokerage houses issue debit cards.

Consequences of Overspending

When you overspend with a credit card, the issuer usually lets you carry the balance over into the next month. They charge interest for that privilege. A debit card is different.

When you overspend with a debit card, you may drain all funds from the account tied to the debit card. Then, the next time you try to use your debit card, the transaction won't be processed. Even more troubling is that any checks you've written will "bounce" because you've already spent the money in the account using your debit card. Extra fees may cost up to \$40 or more for each check with insufficient funds.

Characteristics of a Debit Card

Debit cards offer several advantages and disadvantages for their users. Understanding these characteristics and how they differ from those of credit cards can help the user enjoy the convenience and benefits they offer while avoiding unnecessary fees.

Advantages

- Convenience of paying with a card, perhaps without additional fees
- No need to carry a checkbook (but you do need to record all debit transactions so the account balance in the check register will be accurate)

Using a Debit Card

- Read the fine print in the contract before you sign it. Know what fees are charged and when.
- Faithfully record each transaction in your checking or money market account record book so you always know your account balance.
- Balance your account each time the statement arrives so you know you have all of the debit card transactions recorded.
- Carry your debit card in a safe place.
- Memorize your PIN number. Do not carry it with your card.
- Be aware of any transaction fee charged each time you use the card and whether the fee varies depending on where you use the card.

- No additional identification required
- With a joint account, you don't have to juggle two checkbooks or carry loose checks (but each person needs to be responsible for recording transactions)
- Don't have to get cash as often
- You can't spend more than is in the account (unless you have an automatic overdraft credit line attached to the card)
- Can be used instead of a check or cash.

Disadvantages

- Additional fees, perhaps including a fee each time the card is used and an annual fee for having the debit card
- Use won't help build a credit record
- A transaction can't be stopped like it can with a check
- Funds are immediately deducted from your account, so there is no delay or "float" time like you have with a check

- No leverage if you buy something defective and ask for your money back like you have with a credit card
- No law limiting liability to \$50 like with a credit card. If the debit card is stolen, report the loss immediately. Some debit card issuers will waive some or all of your liability if you report the loss quickly.

Lost or Stolen Debit Cards

While a thief needs your PIN number to get cash, a debit card can be used for retail purchases up to the limit of what is in the account plus any credit line the card may access. If the debit card is tied to a brokerage account, that limit may include all of the cash in the account plus the value of any margin account you have.

If you lose your debit card, notify the issuer immediately. If the card has not been used, you are not responsible for any charges. If unauthorized charges occur before you call the card issuer, you can owe up to \$50 if you tell the issuer about the loss within two business days of discovering it. If you wait three to 60 days, you could be liable for up to \$500. Waiting more than 60 days after getting a statement showing fraudulent charges means you'll owe \$50 plus everything charged to the card from day 61 on.

Visa and MasterCard usually limit your loss to \$50. Some issuers do not even charge that. Check the fine print in the contract to determine your potential liability.

Other Debit Card Rights

If you discover errors on your monthly statement involving your debit card, you have the same rights as those given for credit cards and billing errors. Notify the issuer immediately and in writing that your statement has a problem. Give name, address, account number, a description of what's wrong, and the date and dollar amount of the error. The issuer has 30 days to respond and 90 days to resolve the problem.

If goods bought with a debit card turn out to be defective, your protection depends on the card you have. The issuer will refund your money if you use a MasterCard or Visa card. With another card, it may not. Read the application completely, especially the fine print, so you understand all of the conditions of the debit card.

Debit Cards for Teens

At least four companies nationally offer debit cards just for teens. Billed as a convenience for parents and teenagers especially when the teen is away from home at college, these cards may be used to withdraw cash from the account or to make purchases. Parents transfer money to the card from their own bank account or credit card, and may allow other people to add "gift certificates" to the card online.

If you are considering this debit card option, know:

- the time before the funds are available for use. This varies from immediately to five or more days.
- if the card is insured by the FDIC. If not and the card is lost or stolen, you could lose all funds associated with the card.
- annual and transaction fees. Annual fees currently range from nothing to \$10 or more and transaction fees are at least \$1. In addition, some companies charge \$.50 or more for each telephone inquiry.

Parents can monitor these accounts online. Companies offering these cards may highlight "questionable transactions" or include a built-in "parent" blocking illegal purchases such as for alcohol, tobacco, pornography or on-line gambling.

Critics of this card question whether it will train teens to abuse credit cards as adults while issuers see it as a way to teach teens how to manage their money.

Resources

Federal Trade Commission. (2003, June). Credit and debit card blocking. Washington D.C.: FTC.

Federal Trade Commission (2002, June). Credit, ATM, and debit cards: What to do if they're lost or stolen. Washington D.C.: FTC.

Garman, E. T. and R. E. Forgue. (2006). Personal finance (8th ed.). Boston MA: Houghton Mifflin Co.

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