

Bottom Line

If you can pay off your balance every month, you are probably better off using a credit card. If you have trouble keeping out of debt, use your debit card but be careful of overdrafts.

What's a Prepaid Debit Card?

You may come across cards called "prepaid debit cards," "prepaid Visa/MasterCards," or "stored value cards." These cards work like debit cards to make purchases and withdraw cash, but they are not linked to a regular bank account. Instead, the money is deposited with the card issuer, and the card accesses the funds. Prepaid debit cards can be a useful tool, but some cards carry high fees, so read the fine print carefully. Also, only some prepaid debit cards are protected from loss or theft under federal law.

NCLC is a resource for lawyers and advocates on consumer issues affecting low and moderate income individuals.

This brochure was supported by a grant, number 90-AP-2647, from the Administration on Aging, Department of Health and Human Services, Washington, D.C.

CREDIT

VS.

DEBIT



WHICH

SHOULD

YOU USE?

NATIONAL
CONSUMER LAW
CENTER



7 Winthrop Sq.
Boston, MA 02110
www.consumerlaw.org

Two Types of Plastic:

Credit or Debit

Credit cards allow you to pay for purchases or borrow cash from a line of credit. You can pay back this money soon after you get your bill, or you can pay it back over time.

Debit cards can be used to get money out of your bank account from an ATM or to make purchases at a store. A debit card may look like a credit card, but there are important differences. This brochure discusses the differences and benefits versus risks of each.

It's Still a Debit Card

What does it mean when you are asked, "Debit or credit?" when you use your debit card?

Many debit cards come with a Visa or MasterCard logo on them. At a store, you may be given the option of using the card as "credit" or "debit." The credit option might be confusing because really you are still using the card as a debit card – that means that the money comes from your checking account, not from a line of credit.

What this choice actually means is: do you want to use your debit card by entering your PIN number for identification, or do you want to use your debit card through the Visa/MasterCard networks and sign your name on the receipt for identification?

Credit Cards

Benefits:

Ability to Spread Payments Over Time.

You may want or need the flexibility of making smaller payments over time, especially for large purchases. However, this flexibility also makes it easy to get mired in debt.

Stronger Consumer Protections.

If your credit card or the number is lost or stolen, you are not responsible for any unauthorized use over \$50. With debit cards, your loss can be much greater.

Better Dispute Rights.

Credit cards allow you to dispute more types of problems, such as defective goods bought with the card. For example, if you purchased a vacuum cleaner from a nearby store with your credit card and it breaks during the first week and the merchant refuses to fix it, you may dispute the charge for the vacuum on your credit card. You can't do that with a debit card.

Risks:

Unmanageable Debt. The biggest risk of credit cards is that you will borrow more than you can pay back, and dig yourself deep into debt. If you make only the minimum payment each month, it can take 20 years or longer to pay off the debt. You'll end up paying a lot of interest and fees to borrow that money, which will add to your debt woes.

Hidden Fees and Interest Rate Hikes.

Credit card lenders are notorious for inflicting tricks and traps on consumers. When you carry a balance, you become a target for hidden fees and sudden interest rate hikes.

Debit Cards

Benefits:

Avoid Unmanageable Debt. There is little risk of getting yourself mired deeply in debt with debit cards, since the money is taken out of your bank account immediately.

No Interest Charges. With a debit card, you generally won't pay high interest rates to borrow money.

Risks:

Weaker Consumer Protections.

Debit cards come with less protection for loss or theft. You must report a loss or theft of a debit card within two business days in order to limit your loss to \$50. If you take longer, you could lose up to \$500. And if you don't report the loss or theft within two months after getting your statement, your loss may be unlimited. VISA and MasterCard have "zero liability" policies, but they don't cover all types of theft or loss.

Overdraft Fees. Even if you don't have enough money in your account, many banks will approve a debit card purchase but will charge you an overdraft fee as high as \$35, even if the overdraft is only \$2 or \$3. The bank will charge you this fee for each overdrawn transaction, which can add up quickly – plus sometimes there is a daily fee.

Be careful to spend only what you have in your account. You can also ask that this feature – sometimes called "bounce protection" or "courtesy overdraft" – be taken off your account (though it may affect checks and electronic payments too). Or sign up for less expensive protection, like an overdraft line of credit or linking to your savings account to cover overdrafts.