

Managing Money

www.managing-money.org

Understanding debit cards

Plastic with a difference



A project of **Consumer Action**

A growing number of consumers like the ease and convenience of using a debit card for shopping and banking. Debit cards look similar to credit cards but act like checks because money to pay for purchases comes out of your checking account.

Debit cards are issued by banks to customers with checking accounts. Debit cards can be used at cash machines (ATMs) to withdraw money from your checking account and, like a check, they can be used to purchase items at stores and online.

Debit cards work over the same worldwide networks (MasterCard, Visa, etc.) used to process credit card payments. You can use your card two ways:

- 1) With a personal identification number (PIN) to withdraw cash from an ATM or to request “cash back” at stores when making a purchase and
- 2) you can use your card with your signature or PIN to pay for goods, meals, gas and services.

Fraud protection

Electronic transactions are governed by a different federal law than

Prevent debit card fraud

- Sign the back of a new debit card as soon as you get it.
- Always check that your card is returned to you after a purchase.
- Watch out for “shoulder-surfers”—someone who sneaks a look over your shoulder when you enter your PIN.
- Ask the bank for a copy of your dispute rights under the Electronic Funds Transfer Act (Regulation E).
- Call your bank immediately to report a lost or stolen debit card.
- Monitor your checking account balance closely. You can use your bank’s phone or online banking services to monitor your account between statements.
- Go over your bank statement as soon as you receive it to make sure there are no unauthorized transactions.
- If you notice a transaction on your statement that you did not authorize, call your bank immediately and follow up with a letter.

credit card charges. Regulation E, the Electronic Funds Transfer Act, protects debit card users from fraudulent charges (except for the first \$50) if the cardholder reports a lost or stolen card within two business days after learning of the loss. (See “Federal Standards” section.)

Debit cards (like credit cards) can be used fraudulently by copying your authorized signature or stealing your PIN.

Despite federal law, you may have a higher level of protection on your card because many of the banks that issue debit cards voluntarily offer “zero liability” to cardholders. Both MasterCard and Visa have policies that go beyond federal guidelines so that you will not be held financially liable for fraudulent purchases on your card. Ask your bank if your debit card has zero liability and, if so, what types of transactions are covered.

Card of a different stripe

While debit cards look similar to credit cards, they work differently. You can't use them to charge a purchase and pay it back over time, as you can with a credit card. For your debit card to work, you must have enough money in your checking account to cover transactions unless you have overdraft protection.

Don't confuse your debit card with an ATM-only card. An ATM card is limited in its uses—you can only use it with your PIN to either withdraw cash at certain ATMs or to make purchases at some stores with PIN pads.

Debit cards can be used to get local currency from almost any ATM worldwide and to make purchases where MasterCard or Visa are accepted. You can use your debit card in restaurants and stores simply by signing your name. And debit cards, like credit cards, can be used without your PIN or signature to pay at many stores and gas stations, as well as over the phone or the Internet.

Debit card conveniences

Debit cards help you spend within your means and avoid debt while maintaining the convenience of paying with plastic.

When you use a debit card, you do not get a monthly bill. You also avoid the finance charges and debt that can come with a credit card if not paid off in full.

Paying with a debit card instead of a check lets you skip the wait while merchants check your ID or verify your checking account number.

Debit cards provide a safe alternative to using cash and they provide a record of all transactions. Using a debit card is safer than cash if you

report the card's loss immediately.

Many supermarkets and chain stores let you use your debit card with your PIN to receive “cash back” when you make a purchase.

You can use your debit card almost anywhere in the world to get cash at ATM machines or to buy things. As with credit cards, using your debit card in another country can result in a better exchange rate, even with the currency conversion fees charged by many banks.

Ways to pay: pen or PIN?

You can use your debit card in two ways. Many stores allow you to select the payment option you prefer:

1. Using your PIN. This is called “online” use or the “debit” or “PIN” function. You can make online debit card transactions at many stores that have a PIN pad. PIN-based transactions may not be covered by your bank's “zero liability” fraud protection policy, so it's a good idea to ask in advance.

2. With your signature. The second way to use your debit card is to sign for your purchase instead of entering a PIN. This is called a “signature-based” transaction. Signature-based transactions also are referred to as “off-line” use. At many point-of-sale payment machines, you must press “credit” in order to make a signature-based debit card transaction.

‘Hold’ that transaction

When you use your debit card in situations where the final amount is unknown—such as at hotels, gas stations or restaurants—the business can ask your bank to place a hold in your checking account for an amount larger than your purchase. This is done to ensure that you have enough to cover the final amount. No money leaves your account until the purchase clears but the hold is active until the actual transaction is settled, which most often is within 24 hours, but can take up to 3 days.

For instance, when you pay at the gas pump with your card, the station may hold \$75 in your account, even if you bought only a few dollars worth of gas. Restaurants also may seek higher authorizations so that you can add a tip. (If you pay a cash tip, part of your balance is still blocked until the transaction is settled.) When you use your card to check into a hotel, the hotel may ask your bank to hold the cost of one or two nights lodging.

When there's a hold on your account it lowers your available balance. If you maintain a low balance, the funds on hold could cause you to bounce checks or be charged an overdraft fee.

How to choose a PIN

Because your PIN is an important security feature for accessing cash with your debit card, choose a truly secret code. Avoid obvious words or numbers, such as your address, birthday, phone numbers and spouse's or pet's name.

Don't write your PIN down—memorize it instead. Don't tell anyone your PIN—even close friends.

If you give your PIN to someone and they use it to obtain money or make purchases without your authorization, you may be held liable for the losses.

Cautions and limitations

There is no grace period on debit card purchases—the money is immediately deducted from your checking account. Always write down all transactions and balance your account regularly.

If you use your debit card when you don't have enough money in your account, it could result in a hefty overdraft fee. If your account has automatic "courtesy" overdraft protection, your purchase may go through even if you have insufficient funds, but you will still pay the overdraft fee.

While debit cards look similar to credit cards, depending on the policy of the rental car company you may not be able to use one to reserve a rental car. When you make the reservation, you'll need a credit card, but upon returning the car, you can pay your bill with a debit card.

When you use your debit card to withdraw cash at an ATM that is not owned by your bank, you may be charged two fees—one by your bank and one by the owner of the ATM. Check the information at the ATM and with your own bank to determine whether the fees are applicable. Together, the fees may total \$4. On a \$20 withdrawal, that's the equivalent of a 20% service charge.

Many debit cards have daily withdrawal limits of up to \$1,000. Purchase limits may be even higher. Spending limits are meant to protect you in case your card is stolen, but if your withdrawal limits are too high, it can expose you to big losses. If you have a joint account with two cards, the limits apply to the entire account, not to each card. If you don't know your daily cash and purchasing limits, call your bank to ask what they are. If the limits are higher than you like, ask the bank to lower them.

Unauthorized use

Debit cards, like credit cards, can be used fraudulently and should be protected like cash. Whether a thief steals your PIN or counterfeits your

signature, the person could use the card up to your daily spending limit. If you do not discover the fraud immediately, the thief could wipe out all the money in your checking account (assuming your daily limit is more than your balance) as well as any overdraft line of credit or savings-linked overdraft protection that you have.

If your card is used without your consent, dispute the unauthorized use with your bank so that it can investigate your complaint. While your bank is investigating, it will provide provisional credit for your losses within five days, but you might face overdraft fees for insufficient funds and be short of money in the meantime. If there is not sufficient proof that your card was used fraudulently, you could be liable the entire amount in dispute.

It's not necessary for a crook to have your card in order to defraud you. With only a debit or credit card number, a thief can steal from your account by making purchases online or by phone. As a protection against fraud, the billing address and phone number you provide during the ordering process must exactly match the bank's records in order for the charge to be approved.

Some receipts have your account number printed on them, so guard all receipts carefully. Tear or shred them into tiny bits when you no longer need them.

Federal standards

To fully protect yourself under federal Regulation E, you must report a lost or stolen debit card to your bank within 2 days of the time you become aware that it's missing. You then will be liable only for \$50 of your losses.

If you notice any electronic transactions you did not make on your monthly bank statement, complain in writing immediately. If you bring the unauthorized transactions to the bank's notice within 60 days of the statement date, your losses will be limited to \$500, no matter how much money was stolen.

If you complain after the 60-day deadline, you may not get any refunds for your losses. (Credit card holders' fraud losses are capped at \$50 of fraudulent charges no matter when they are reported.)

If you follow the debit card rules, your bank must give you provisional credit for disputed amounts.

Zero liability fraud protection

Recognizing that consumers might be reluctant to use debit cards because of potential liability and fraud, MasterCard and Visa have policies

to remove consumer liability on certain debit card transactions. Zero liability may be limited to purchases that are authorized with a signature instead of a PIN.

While federal guidelines require provisional credit on disputed amounts within 10 days, you may get full provisional credit in 5 days or even sooner because of MasterCard and Visa policies. Many banks have additional standards for customer liability and provisional credit and provide zero liability for unauthorized ATM and debit card transactions.

Read your bank's policy carefully. For instance, some banks limit liability protection in certain situations.

Read the fine print

Your bank or credit union must give you information about your rights and responsibilities for using your debit card, including a disclosure of any fees you have to pay.

If your bank imposes any liability on you for debit card fraud, it must give you a summary of your potential liability for unauthorized transactions and its policy for resolving unauthorized transactions.

Disputes with merchants

When you buy things with your debit card, save all your receipts. When a problem arises about a purchase made with your debit card, try initially to resolve the dispute with the merchant. If a merchant won't resolve the dispute with you, ask your card issuer for help. In most cases you will be bound by the store's policy on returns and defective merchandise, so before you make important purchases ask how returns and defective merchandise claims are handled. Dispute resolution only applies to debit card purchases made with a signature. This is an important consideration in deciding whether or not to sign.

How to complain

If you cannot resolve a debit card problem with the merchant or the bank, write to the:

Board of Governors of the Federal Reserve System
Division of Consumer and Community Affairs
20th and C Streets, N.W., Stop 801
Washington, DC 20551
(202) 452-3693.

You also can complain in writing to your bank's regulator. To find the appropriate agency, call the Federal Deposit Insurance Corporation (FDIC) at (877) 275-3342 or visit its web site (www.fdic.gov).

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Consumer Action provides consumer advice, suggests appropriate complaint-handling agencies and distributes free consumer education publications. Leave a message and a counselor will call you back. Chinese, English and Spanish spoken. 415-777-9635 or 213-624-8327. Or send an e-mail to: hotline@consumer-action.org

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