

Managing Money
www.managing-money.org

Understanding debit cards

Plastic with a difference



A project of **Consumer Action**

Many consumers prefer to use a debit card rather than a credit card for shopping and getting cash. Debit cards look similar to credit cards but function more like checks because the 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 make purchases.

Debit cards are processed 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) With your signature or PIN to pay for goods, meals, gas and services.

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.
- Avoid using a debit card online. If you must use a debit card rather than a credit card, do it through a payment intermediary such as PayPal.
- Ask the bank for a copy of your dispute rights under the Electronic Fund 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.

Fraud protection

Debit card transactions are governed by a different federal law than credit card charges. Regulation E, the Electronic Fund Transfer Act, limits debit card users' liability for fraudulent transactions to \$50 if the cardholder reports a lost or stolen card within two business days. After two days, you could be liable for up to \$500. Beyond 60 days, you could be liable for all unauthorized transactions. (Credit card holders' fraud losses are capped at \$50 no matter when they are reported.)

Debit cards (like credit cards) can be used fraudulently by copying your authorized signature, stealing your PIN or using the card information to make purchases online (without a signature or PIN).

Despite federal law, you may actually 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 transactions 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 card conveniences

Debit cards offer the convenience of paying with plastic without the risk of overspending.

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 a record of all transactions. Using a debit card is safer than cash if you report the card's loss or theft immediately.

Many supermarkets and some other merchants let you use your debit card with your PIN to receive “cash back” when you make a purchase, making getting cash convenient and free (no ATM fee).

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 and save you money, even when factoring in the currency conversion fee 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 typically referred to as a “debit” or “PIN” transaction. You can typically make debit transactions at stores that have a PIN pad. PIN-based transactions may not be covered by your bank’s “Zero Liability” fraud protection policy or other optional cardholder benefits, so it’s a good idea to find out from the card issuer in advance.

2. With your signature: You can sign for your purchase instead of entering a PIN. This is called a “credit” or “signature” transaction.

In many cases, you must press “Debit” or “Credit” in order to choose whether your card transaction should require a PIN or a signature. Do not be misled by the option for a “Credit” transaction using your debit card; the money for the purchase will still be deducted from your checking account balance.

‘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 on funds in your checking account for an amount larger than your purchase. 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 plus incidentals.

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 transaction is settled, which most often is within 24 hours but can take up to 3 days. The important thing to be aware of is that

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 not have access to money when you need it or even to bounce checks and incur overdraft fees.

If this might be an issue, try to use cash or a credit card (if you won't need access to the portion of your available credit on hold before the hold drops off) instead of your debit card. You can avoid a hold on gas station transactions by handing your debit card to the cashier before you pump so that he or she can enter the actual purchase amount when you are finished.

How to choose a PIN

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

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

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, the transaction could still go through and result in an overdraft fee. When you open a checking account, your bank will ask if you want to “opt in” to allow the bank to pay your debits even if you have insufficient funds in your checking account. This is not recommended because “courtesy” (standard) overdraft fees average about \$30, even on very small purchases. (Optional overdraft programs that you may be able to sign up for have lower fees, but overdrafts should still be avoided.)

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. Combined, the fees could be as much as \$4 or more per withdrawal. On a \$20 withdrawal, that's the equivalent of a 20% service charge!

Many debit cards have daily withdrawal and purchase limits. These limits are intended 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 purchase limits, contact your bank to find out 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, counterfeits your signature or steals your card or card info, 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 account-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. Your bank has 10 days to investigate. If it determines that the transactions were indeed fraudulent, it must replace the missing funds (less the \$50 or more that you are liable for, depending on how long before you reported the card loss or theft) within 24 hours of making that determination. In many cases, the bank will provide provisional credit for your losses much sooner. 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 card number, a thief can steal from your account by making purchases online or by phone. As a protection against this type of fraud, the billing address and phone number you provide during the checkout process must exactly match the bank's records in order for the transaction 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 two 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, report them 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 cardholders' fraud losses are capped at \$50 of fraudulent charges no matter when they are reported.)

If you follow these rules, your bank must give you provisional credit for disputed amounts if the investigation lasts more than 10 days. In many cases, provisional credit will be provided immediately or within 24 hours, but it is not required by law.

Zero liability fraud protection

Recognizing that consumers might be reluctant to use debit cards because of potential liability for 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, however, so be sure to check that with your card issuer before you use your card.

While federal guidelines require provisional credit on disputed amounts within 10 days, you may get full provisional credit in five days or even sooner because of MasterCard and Visa policies. Many banks have their own additional policies regarding customer liability and provisional credit, so read your checking account and/or debit card terms carefully or contact your bank for information.

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 regarding your debit card, including a disclosure of any fees you will—or could—have to pay.

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

Disputes with merchants

When you buy things with your debit card, save all your receipts. If a problem arises regarding a purchase made with your debit card, try initially to resolve it with the merchant. If the merchant won't resolve the dispute to your satisfaction, 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, contact the Consumer Financial Protection Bureau (CFPB). You can submit your complaint online (www.consumerfinance.gov/complaint/) or by phone (855-411-2372).

Consumer Action

www.consumer-action.org

Consumer Action empowers low- and moderate-income and limited-English-speaking consumers nationwide to financially prosper through education and advocacy. We have offices in San Francisco, Los Angeles and Washington, DC.

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Consumer advice and referral hotline

Submit consumer complaints to our advice and referral hotline: www.consumer-action.org/hotline/complaint_form/ or 415-777-9635.

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