

HOW THEY WORK

Although credit and debit cards may have the same logos and appear to be very similar, they are different.

When consumers use a credit card for a purchase or cash advance they are incurring debt, owing the credit card issuer. The consumer is then obligated to pay back the credit card issuer the amount borrowed plus any interest accrued.

Debit card transactions are processed the same way as credit card transactions. However, instead of going into debt, the payment is withdrawn (debited) from the consumer's checking or other account. When the consumer needs cash, the debit card can be used in an automated teller machine (ATM) to withdraw cash from his or her checking account.

There are advantages and disadvantages to each.

Credit cards may allow a consumer more spending freedom with a greater amount of money at his or her disposal. However, the consumer should use caution, creating only the amount of debt that he or she can repay.

Debit cards offer less freedom than credit cards because they do not permit the consumer to pay over a period of time, therefore they limit the size and amount of purchases. When a debit card is used, the money is immediately withdrawn from the consumer's checking or other account. Consumers should be careful since a debit card can overdraw a checking account just like when too many checks are written. Good record keeping is essential when using debit cards.

COMMONWEALTH OF KENTUCKY

KENTUCKY DEPARTMENT OF FINANCIAL INSTITUTIONS DIVISION OF FINANCIAL INSTITUTIONS



To request additional quantities of this document
at no cost, call or write:

1-800-223-2579

Kentucky Department of Financial Institutions
1025 Capital Center Drive, Suite 200
Frankfort, KY 40601

www.kfi.ky.gov

The Public Protection Cabinet does not discriminate on the basis of race, color, national origin, sex, age, religion or disability, sexual orientation, gender identity, ancestry or veteran status, and provides, on request, reasonable accommodations including auxiliary aids and services necessary to afford an individual with a disability an equal opportunity to participate in all services, programs and activities. To request materials in an alternative format, contact the Department of Financial Institutions. Hearing and speech-impaired persons can contact the agency by using the Kentucky Relay Service, a toll-free telecommunication device for the deaf (TTY). For voice to TTY, call 1-800-648-6057. For TTY to voice, call 1-800-648-6056.



Printed on recycled paper with state funds August 2008.

DIVISION OF FINANCIAL INSTITUTIONS

DEBIT CARDS VS. CREDIT CARDS



KENTUCKY DEPARTMENT OF FINANCIAL INSTITUTIONS

TIPS FOR CREDIT

PROTECTING CARDS

LIMITING LOSS

	Credit Cards	Debit Cards
Payments	Buy now, pay later.	Buy now, pay now.
Interest Charges	Yes if you carry a balance or the card has no "grace period."	No.
Other Potential Benefits	Freebies , such as cash rebates and bonus points good for travel deals.	Easier and faster than writing a check. Avoid debt problems. Some freebies.
Other Potential Concerns	Fees and penalties. Also, not all cards offer grace periods. Overspending can cause debt problems.	Fees on certain transactions. You may overdraw your account if you don't record transactions.

Tips on Shopping for a Credit Card:

- Decide how you will use the credit card and what you will purchase with it.
- Start small. Do not charge too much until you get comfortable with the monthly bill.
- Shop around for the plan that best fits your needs. Make sure you understand the terms.
- Beware of introductory rates. Some offers start out with low rates and low or no fees, but later the rates and fees may increase, turning out to be higher than many other offers.
- Beware of credit card issuers who require application fees.
- Look for a low annual percentage rate (APR).
- Make sure you understand the implications of fixed and variable rates, as well as penalty APRs and universal default.
- Read the Federal Truth in Lending Disclosure statement the company must provide. Understand how much you will be paying for fees, finance charges, grace period terms and the method of computing the balance for purchases.

The best protections against card fraud are to know where your cards are at all times and to keep them secure. For debit card protection, it's important to keep your Personal Identification Number (PIN) a secret. The following suggestions may help you protect your credit and debit card accounts:

For Credit Cards:

- Be cautious about disclosing your account number over the phone unless you know you are dealing with a reputable company.
- Never put your account number on the outside of an envelope or on a postcard.
- Draw a line through blank spaces on charge slips above the total so the amount cannot be changed.
- Don't sign a blank charge slip.
- Tear up carbons and save your receipts to check against your monthly billing statements.
- Open billing statements promptly and compare them with your receipts. Report mistakes or discrepancies immediately to the "billing inquiries" address listed on your statement. The card issuer must investigate billing errors reported within 60 days of the date your statement was mailed.
- Keep a record — in a safe place separate from your cards — of your account numbers, expiration dates and the telephone numbers of each card issuer so you can report a loss quickly.
- Carry only those cards you anticipate you'll need.

For Debit/ATM Cards:

- Don't carry your PIN in your wallet or purse and don't write it on your debit card.
- Memorize your PIN. Never write it down.
- Take your receipt after completing a transaction.
- Reconcile all ATM receipts with bank statements as soon as possible.

If your credit or debit card is lost or stolen, report it to the card issuer immediately. You also should follow up your phone calls with a letter. Include your account number, when you first noticed your card was missing and the date you first reported the loss. You may want to check your homeowner's insurance policy to see if it covers your liability for card thefts. It is also a good idea to request a copy of your credit report to review it for errors.

Credit Card Loss. If you report the loss before the cards are used, the Fair Credit Billing Act says the card issuer cannot hold you responsible for any unauthorized charges. If a thief uses your cards before you report them missing, the most you will owe for unauthorized charges is \$50 per card. After the loss, review your billing statements carefully. If they show any unauthorized charges, send a letter to the card issuer at the "billing errors" address describing each questionable charge. Again, state the date your card was lost or stolen and when you first reported it.

Debit Card Loss. If you report a debit card missing before it's used without your permission, the Electronic Funds Transfer Act says the card issuer cannot hold you responsible for any unauthorized withdrawals. If unauthorized use occurs before you report it, the amount you can be held liable for depends upon how quickly you report the loss.

If you report the loss within two business days after you realize your card is missing, you will not be responsible for more than \$50 for unauthorized use. If you don't report the loss within two business days, you could lose up to \$500 through unauthorized withdrawal. You risk unlimited loss if you fail to report an unauthorized transfer or withdrawal within 60 days after your bank statement is mailed to you.