

## **DEBIT OR CREDIT?**

The holiday season is upon us. My wish is that you take time to focus on your blessings, and express gratitude for your family and friends, your job, your faith, and this great country of ours. For some of us, our expression of gratitude will come in the traditional form of purchasing and giving gifts. The question you will undoubtedly hear at the checkout counter is: “Will that be debit or credit?” When you are pulling out the plastic to make a purchase, it makes sense to know how each works, and the respective advantages and disadvantages.

### **Debit Cards**

#### **Advantages**

A debit card is like an electronic check—the consumer is spending money that he or she already has in the bank. So, this is an option for those philosophically opposed to incurring debt, but wanting the convenience. Debit cards save the time of having to write out a check, and frequently retailers do not accept checks, but will accept a debit card because it can be processed like a credit card.

If you have bad credit, it can be difficult to obtain a credit card, but most banks offer debit cards with any standard checking account.

Debit cards offer convenience and an alternative to carrying cash. The consumer is not taking on debt when using a debit card, nor is s/he paying interest or an assortment of fees (assuming that the account is not overdrawn). Even if the account is overdrawn, it may be possible to avoid overdraft fees by linking a checking account to a savings account or a line of credit. A debit card can also be used to obtain cash without incurring charges that usually come with cash advances by means of a credit card.

#### **Disadvantages**

Debit cards carry the potential for greater liability if the card is lost or stolen. Under federal law, liability is limited to \$50 for the fast-acting consumer who notifies the bank *within two days* after discovering an unauthorized transaction. But after that, the cardholder could lose up to \$500, or even more in some cases. On its own, a bank may choose to waive liability for

unauthorized transactions if the consumer has taken reasonable precautions, but this varies depending on the bank's policies.

When there is a problem with purchased merchandise, there is no right to withhold payment if the consumer has used a debit card. This can be especially problematic when items that have been ordered are delivered damaged, or there are billing errors.

For transaction errors, banks, as a general rule, have up to 10 days to investigate after receiving notice from the cardholder, or up to 45 days in special circumstances. This keeps the money in question off limits to the account holder until the bank concludes its investigation. Pending the outcome of the review, banks generally must credit the account for the amount of the alleged error.

Another drawback for debit cards is the practice of putting "holds" on funds when the final amount is not yet known. For example, when you leave a credit card on file with the front desk at a hotel, the merchant may place a temporary hold on funds for all nights of your stay, plus additional money for incidental charges. This denies the consumer access to that full amount until the hold is lifted when the actual transaction occurs. (This can happen with credit cards too, if you are pushing the upper limits of the card, but credit card limits are usually high enough to avoid this problem).

## **Credit Cards**

### **Advantages**

Federal law limits a consumer's losses to a maximum of \$50 if a credit card is reported lost or stolen, and also provides protection against credit-card billing errors. Unlike debit cards, federal law may also allow the user of a credit card to withhold payment under certain circumstances until a problem with purchased merchandise is rectified.

### **Disadvantages**

The most commonly cited drawbacks for credit cards concern fees, interest rate increases,

and penalties. In addition to annual fees for some cards, there are usually fees for paying late and for exceeding the credit limit. Of course, unless a consumer is in an interest-free grace period, interest accumulates and adds to the overall debt, especially if the cardholder pays only the minimum amount due each month. As any holder of a credit card can attest, having a credit card also makes overspending easy, especially with high credit limits and enticements such as rewards programs.

The bottom line is that debit cards are fine for small and/or routine purchases, but credit cards, as a rule, are better for major purchases and online transactions because they offer more protections if something goes awry. Something to consider as you make purchases during this season of gratitude and giving.

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***Nothing in this article should be construed as legal advice. You must consult with an attorney for the application of the law to your specific circumstances.***

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