

Money for Life

May 2007

Dear Readers,

And how would you like to pay for that?" More and more, consumers are answering that question, "By debit card." But even though debit cards are common, many consumers are still unsure about how debit cards work, their pros and cons, and how to use them safely. To help you understand the basics, the FDIC provides some common questions and answers about debit cards.

What kinds of costs are associated with debit cards?

There may be fees for using your debit card. Examples: Some banks charge a fee if you enter a PIN to conduct a transaction instead of signing your name. You may trigger a fee if you overdraw your account using your debit card, just as you would if you "bounced" a check. Or, there could be a charge if you use your debit card as an ATM card at a machine that is not operated by your financial institution. As with other bank products, your financial institution must provide disclosures explaining the possible fees associated with a debit card. Be sure to read the disclosures to avoid an unexpected fee.

Some debit cards come with "rewards" or other incentives for using them. How can I know which one is a good deal?

As with similar financial products, rewards-linked debit cards are designed to encourage people to use a certain bank and its services. Before opening a new account or changing banks just to get a different perk, study the fine print. Start by reading the disclosures that explain the account terms and fees to understand the potential benefits as well as the costs.



How can I overdraw my account if my bank or bank network must approve a debit card transaction?

First, because the payments are electronic, they are deducted from accounts more quickly than when using a paper check. Often, a debit card purchase is posted within 24 hours instead of days, as may be the case with a paper check. That means there would be little time to make a deposit to cover a purchase, if necessary. In addition, even though a transaction was approved, you may overdraw your account because the bank won't know what other withdrawals you have made that day until it settles all transactions later that day.

Or, suppose you don't realize you have only \$100 in your bank account and you want to use your debit card to buy a \$200 item. Depending on the terms of your account or the rules of the card network, the bank might approve the \$200 purchase as a convenience, but it also might assess an overdraft fee for that transaction and subsequent ones until you make a sufficient deposit.



If I use a debit card to make a purchase can the merchant put a temporary "block" or "hold" on other funds in my account?

Yes, in certain circumstances, merchants can take these steps as protection against fraud, errors or other losses. One common situation involves a hotel putting a hold on a certain amount when you use a debit card (or credit card) to reserve a room. Another example is when you use your debit card at the gas pump. Typically, the gas station will create two transactions — the first to get approval from your bank for an estimated purchase amount (let's

say \$50) when you swipe your card before pumping gas, the second for the actual charges when you're done. Until the first (\$50) transaction is cancelled by the bank, usually within 48 hours, you wouldn't have access to that amount in your account.

Because a debit card transaction is processed so fast, is it possible to order a "stop payment" or obtain a refund if I later discover a problem with the merchandise?

It depends. Because funds are deducted from your account very quickly, don't expect to have the option to stop payment or obtain a refund. If the transaction cannot be cancelled, you may be able to work out other arrangements with the store. For example, if you return an item to a merchant and you're not able to get a refund, you instead may qualify for store credit or a gift card.

Sometimes you're asked to enter a PIN to approve a debit card transaction, other times you can sign your name. Does it matter?



Yes, it could. Examples: If you use a PIN at a merchant's sales counter, you also may be able to get cash back, and that can save you a trip to the ATM. However, be aware that some financial institutions charge consumers a fee for a PIN-based transaction. There also may be differences in how quickly the transaction is posted to your account, depending on how your bank processes PIN vs. signature debits.

If you want to sign for a debit card transaction, you generally swipe your card through the reader and choose "credit" — even though you are authorizing a debit (withdrawal) from your account, not a credit card transaction. To use your PIN instead of signing, select "debit."

What more do I need to know to prevent debit card fraud?

Protect your debit card as well as the account number, expiration date, security code on the back, and the PIN.

While in many cases you are not responsible for unauthorized transactions, it can be a hassle resolving the situation. Here's how to avoid becoming a victim:

- Never write your PIN on or near your card. Memorize it instead.
- Don't give out bank account information over the phone or the Internet unless you have initiated the contact or you know the person is who he or she claims to be.
- Don't share your debit card PIN, security code and other account information with friends or relatives who aren't co-owners of your account.
- Take precautions at the checkout counter, ATM and gas pump. Always stand so that no one can see the keypad where you enter your PIN. At retail establishments, it's best to use do-it-yourself scanners. Be alert for suspicious-looking devices that may be used to "skim" information from your card.
- Look at your bank statements as soon as they arrive. Or, better yet, review your account each week by phone or the Internet. Promptly report any discrepancy, such as a missing payment or an unauthorized transaction, to your financial institution.

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