

Debit and ATM Cards: Using Them Wisely



The way we pay for things is changing from paper (cash and checks) to plastic (credit cards and debit cards).

Recently, debit cards have become the preferred form of payment by American consumers who use plastic for in-store purchases. Debit card transactions, which make an immediate transfer of funds from an account, such as a checking or savings account, may be more convenient than carrying cash, writing a check or paying a charge bill later.

Although some consumers claim to use debit cards to avoid credit card finance charges, overdraft fees charged when they don't have enough money in their account to cover the debit transaction also can be costly. Consumers who understand how to use debit cards wisely, however, can avoid costly consequences.

The U.S. Treasury, as well as some state agencies and employers, have launched debit card programs to allow Social Security recipients and other beneficiaries to receive monthly payments by direct deposit accessed

through prepaid debit cards even without a bank account. These are known as employee or benefit accounts.

Having everyone understand how to manage accounts effectively and to protect accounts from fraud or theft is important. This publication helps consumers:

- Understand how debit cards work
- Protect against loss
- Manage accounts effectively

How Debit Cards Work

Debit cards, also known as "check cards," may be used to make purchases, pay bills and get cash at thousands of locations. The word "debit" means "subtract." When the card is used, money automatically is subtracted from a user's checking or savings account at a bank or credit union or from a special employee or beneficiary account for those without a bank account. Although they look like credit cards, they operate more like personal checks.

Most debit cards work in two basic ways. Transactions may be debited immediately by using a personal identification number (PIN), or they maybe processed within a couple of days with a signature on a receipt. Getting cash froman automated teller machine (ATM) or retail location generally requires a PIN.

Debit cards also may be used to make purchases through the Internet or to pay bills.

Transactions may be denied if the account does not have enough funds in it, particularly for employee or benefits accounts. Bank account transactions may not be denied for insufficient funds, which may trigger expensive overdraft fees or loans. Overdraft fees related to debit cards are a profitable source of revenue for banks. One less costly alternative may be to sign up for overdraft protection linked to a savings account if it is available.

Consumers should read debit card terms carefully to understand fees and consequences of overdrafts fully. Many financial institutions offer debit cards to customers at no cost. Others may have charges tied to a certain number of transactions or locations used. For example, cardholders of benefit payment accounts may be allowed only one free ATM cash withdrawal per month. Fees may be charged for ATM withdrawals from locations outside a specific bank or account network.

Consumers also should understand the effects of debit card "blocking." A hold may be placed on your account, blocking access to funds in your debit card account, when you check into a hotel, rent a car, host a large dinner party or buy gas.

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This could tie up funds for several days or weeks, depending upon when final charges are paid. For example, if you check into a \$100-per-night hotel for five nights, at least \$500 would be blocked, and possibly an additional amount for “incidentals” such as food, beverages or damages you might cause. Signs in some hotels warn that the block may not be removed a number of days. Although credit limits also may be “blocked,” using a credit card for these types of purchases may be better for you than tying up available fund accounts.

Protect Against Loss

The Electronic Fund Transfer Act (EFTA) was designed to protect against loss when fraudulent account transfers are made and when cards are lost or stolen. Your liability under federal law for unauthorized use of your ATM or debit card depends on how quickly you report the loss.

If you report the card missing before it is used without permission, you are not responsible for any unauthorized transfers. If you report the loss within two business days after you realize the card is missing, you will not be responsible for more than \$50. But if you don't report the loss, you could lose up to \$500. Your loss can be unlimited if you fail to report an unauthorized transfer within 60 days after a statement showing it is sent. In other words, if you do not check your monthly statement and report the unauthorized use, you could lose everything in your account!

Your account contract or terms may limit liability even more than federal law. Some cards offer “zero liability” in case of fraud, theft or other unauthorized use if you report it within two business days after you discover it. Although your loss may be limited by law when fraud occurs, the money already has come out of your account and setting the record straight may take quite awhile.

Tips for Protecting Your Debit Account

- Make sure you know exactly what to do if your debit card is lost or stolen.
- Keep a record of your account numbers and telephone numbers in a safe place separate from your cards to be ready to report a loss quickly.
- Know where your card is at all times.
- Memorize your PIN. Never keep the printed number with the card!
- Keep your PIN a secret. Never share your number or let someone near see you key it in.
- Don't choose a PIN number that anyone could figure out, such as a birthday or phone number.
- Be cautious about using your account number on the phone or Internet.
- Don't give your PIN to anyone on the phone.
- Don't use an ATM if it looks suspicious.
- Be wary of those trying to help you if a machine “eats” your card.
- Draw a line through blank spaces on receipts above the total so the amount cannot be changed.
- Don't sign a blank debit receipt slip.
- Tear up carbons or duplicate copies of receipts and dispose of them carefully.
- Cut up old cards.
- Carry cards only when you'll need them

Manage Your Account

Debit card accounts have many advantages for both consumers and businesses. Electronic fund transfer (EFT) deposits are quicker and safer than sending benefits or paychecks through the mail. They also cost less for businesses and government agencies by saving on postage and printing. Debit cards can be a convenient way to pay for purchases and to avoid carrying large amounts

of cash or a checkbook. They may be a good alternative to checks, which may not be accepted out of town. Overdraft fees and fraud, however, can drain accounts and threaten financial security. That is why having consumers of all ages understand how to manage accounts effectively is so important.

If you have a joint account, pay particular attention to the account balance daily or keep separate debit accounts. Keeping a healthy “cushion” of unused funds in your debit account may be another good way to avoid overdraft fees.

Basic tools for managing debit accounts include a good method of recording each transaction, receipts kept in a safe place, the monthly account statement and a reconciliation form, computer software or your bank's online banking option. A reconciliation form is usually on a back page of a monthly statement from a financial institution. It is used to “reconcile” or account for most recent outstanding transactions not included in the monthly account statement. A simple recordkeeping account register tool is included in this publication.

Copies of the account register may be cut out, folded in half and wrapped around your card for easy record-keeping. Write down each transaction, showing the date, a description of the transaction, the amount of the debit or deposit and the current balance.

Each month when your account statement arrives (or you get it online), compare every transaction listed to your records on your personal account register with amounts listed on the statement. Place a check beside each transaction in your register when you see it has cleared your account on the statement. Compare the balance in your records with statements you receive and reconcile every month.

Tips for Managing Your Debit Account

- ✓ Always know how much money you have available in your account.
- ✓ Know your limits. Some issuers limit daily withdrawals or purchases for your protection.
- ✓ Record each transaction immediately and subtract it from the balance in your account register.
- ✓ Keep receipts in one place to compare with your monthly statement and your account register records.
- ✓ Be aware of transaction fees, when they will be charged and whether the fee varies, depending on where you use the card.
- ✓ Don't forget to subtract automatic preauthorized debits and add direct deposits to your account register.
- ✓ Don't forget to subtract payments made by check from your account register if you use the same account for both writing checks and debit purchases.
- ✓ Check your account balance and transactions online periodically between statements.
- ✓ Open monthly statements promptly and compare them with your records, balancing your account.
- ✓ Report any unauthorized transactions immediately.

Adapted from:

Shaffett, Bobbie (2009). Use Debit Cards Wisely.
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Prochaska-Cue, Kathy (2007). Using debit cards wisely.
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