



You are on the checkout line at the department store buying back-to-school clothes. Finally you reach the counter and the sales clerk asks you politely “Will that be cash, debit, or credit”? You look in your wallet and you do not have enough cash but you have both a debit card and a credit card. Which one do you choose and why?

The following are some of the advantages and disadvantages of using either of these types of purchase.

Debit Cards

Fees: Some merchants still charge a **POS fee** (Point of Sale) fee for using a Debit Card. They are still around, especially at an ATM. It adds up if you use an ATM not affiliated with your bank. A \$3.75 fee to take out \$20.00 from your account really adds up if you do this once a week. That’s nearly \$200 a year taken out of your checking account and your hard-earned money!

Liability Risk: Consumer protection varies when it comes to using Debit or Credit cards. Some bank debit cards give you the same protection as a credit card but the greatest risk with a debit card is that careless use opens up your checking account to the world. Your money can be gone from your bank account before you notice it is missing.

Card Blocking: When you use “plastic” at some retailers, especially gas stations, they “block” your card. This means that they authorize and reserve money in your account, typically \$50 to \$100. They don’t know exactly how much you will buy, but they make sure that you can afford it. If you buy \$20 of gas, they will not release the remaining amount immediately. It can take several days! During that time you cannot use the blocked money. If you do this with your Debit Card, it could mean that you did not take this “blocking” into consideration and subsequently bounce checks or incur an overdraft fee.

NOTE: There is no difference in how retailers block debit versus credit cards!

Opening Your Account to the World: By using your debit card you can expose all that cash you have in the bank. Any retailer can make a mistake and charge you the wrong price. You will be out that money until you straighten it out with your bank. That can take days or even weeks. In addition, if your PIN number gets into the wrong hands a scammer can create a fake card, use any ATM, and clean out your account. You have to prove the fraud to the bank, more time and lack of available funds.

Overdrafts and Rubber Checks: If you are not careful as to how much money you have in your account and you use your debit card, a \$6.00 sandwich can result in a \$40 overdraft fee by your bank. If you use a credit card, even a \$60 ANNUAL FEE is a small price to pay for knowing that you will not bounce checks, pay overdraft fees, and lower your valuable credit score.

Not Accepted Everywhere you want to be: Nine times out of ten, nobody will know whether you are using a debit card over a credit card. However, some companies do not treat them the same way. Hotels and Car Rental companies demand a real credit card and deny debit cards. Their argument is that a credit card implies a minimum level of creditworthiness and responsibility.

Credit Cards

A credit card is safer than carrying cash: While there's only a small chance of having lost or stolen cash returned, a credit card can quickly be cancelled if you lose your wallet. Most financial institutions also have security processes in place to protect you if your card has been lost or stolen or if you suspect your account has been used for a fraudulent transaction. If you're in any of these situations, make sure to contact your bank to report the issue as soon as possible.

Giving up Free Money: A common reason for using a debit card is that you are saving interest fees from the credit card company. This is because you carry a balance on your credit card very month. Some cards have interest rates as high as 28% or more. The solution is simple; pay off your credit card bill every month in full, therefore no interest charges. That way you can keep your cash in a savings bank, earn interest for a while and simplify your accounting by only paying one bill per month.

Credit History: Using a credit card affects your credit rating, but using a debit card does not. Careful use with a credit card benefits your credit history but late payments and excessive balances will hurt your credit score.

Annual fees: Some major credit cards, such as American Express have annual membership fees. If you do not use your credit card regularly then these fees are an excessive burden to your budget.

Earn reward points when you spend: Rewards and frequent flyer credit cards allow you to earn reward points on every dollar you spend on eligible purchases, such as the groceries and petrol costs. Rewards credit cards let you earn reward points to redeem with the bank's rewards programs for perks including flights with partner airlines, products from the rewards store or cash back.

Cash advance fees and rates. Financial institutions make it very expensive to use your credit card to get cash out or make other "cash equivalent" transactions, such as buying foreign currency or gambling. Using a credit card for a cash withdrawal will attract a cash advance fee worth around 3% of the total transaction amount. It also typically attracts an interest rate of 19–22% right away.

Credit cards work in any currency. Although currency conversion fees usually apply, you can use your credit card overseas to make purchases in a foreign currency. There are even credit cards that waive fees for international purchases, which could be useful if you often shop at overseas online stores or have an international holiday coming up.

Credit cards give you an emergency line of credit. Credit cards can be a financial safety net if you don't have enough cash or savings to cover any unexpected costs that arise. Remember that you have to repay everything you owe, though.



