

them to make a purchase or to take out money at an ATM, the money is immediately taken out of your checking account. You need to be sure you have money in your checking account before you use an ATM or debit card.



### Activity 1: Credit Cards and ATM/Debit Cards

Although they look similar, credit and ATM/debit cards allow you to use money differently. Review the chart and answer the following questions.

	ATM/Debit Cards	Credit Cards
<b>Payments</b>	<ul style="list-style-type: none"> <li>Buy now, <b>pay now</b>.</li> </ul>	<ul style="list-style-type: none"> <li>Buy now, <b>pay later</b>.</li> </ul>
<b>Interest Charges</b>	<ul style="list-style-type: none"> <li><b>No charges apply</b> as funds are automatically debited from your checking account.</li> </ul>	<ul style="list-style-type: none"> <li><b>Charges will apply</b> if you carry a balance or if your card offers no grace period and you incur interest charges.</li> </ul>
<b>Fees</b>	<ul style="list-style-type: none"> <li><b>Fees</b> on certain transactions (e.g., an ATM fee charged for withdrawing funds from an ATM not operated by the bank that issued your debit card).</li> <li>Potentially costly fees if you try to spend more money than is available in your account.</li> </ul>	<ul style="list-style-type: none"> <li><b>Fees and penalties</b> can be imposed if payments are not timely.</li> <li><b>Some cards have annual fees.</b></li> <li><b>Not all cards offer grace periods</b> (time to repay without incurring interest charges).</li> </ul>
<b>Other Potential Benefits</b>	<ul style="list-style-type: none"> <li><b>Easier and faster</b> than writing a check.</li> <li><b>No risk</b> of losing cash that you cannot replace.</li> <li>Some cards may offer <b>freebies or rebates</b>.</li> <li>As long as you do not overdraw your account, debit cards are a good way to pay for purchases without borrowing money and paying interest.</li> </ul>	<ul style="list-style-type: none"> <li><b>Freebies</b> sometimes offered (e.g., cash rebates, bonus points, or travel deals).</li> <li>You can <b>withhold payment</b> on charges in dispute.</li> <li><b>Purchase protections</b> offered by some cards for faulty goods.</li> <li>If you manage your credit card carefully, <b>your credit score may go up</b> and you may qualify for lower interest rates on loans.</li> </ul>
<b>Other Potential Concerns</b>	<ul style="list-style-type: none"> <li>Usually there are <b>no protections</b> against faulty goods and services.</li> <li>You need another way to pay for unexpected emergencies (e.g., car repairs) if you do not have enough</li> </ul>	<ul style="list-style-type: none"> <li><b>Overspending</b> can occur, since the credit limit may be higher than you can afford.</li> <li>If you do not pay your card balance in full each month, or your card does</li> </ul>

	money in your bank accounts.	not have an interest-free grace period, <b>you will pay interest.</b> This can be costly, especially if you only pay at or near the minimum amount due each month.
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**Questions:**

1. Which card requires you to have enough money at the time you pay for something?  
\_\_\_\_\_
2. The balance on which card can increase if you do not pay the entire amount each month and accrue charges? \_\_\_\_\_
3. Which card(s) may have fees associated with them? \_\_\_\_\_
4. Which card generally offers purchase protection against faulty goods? \_\_\_\_\_
5. Which card allows you to pay for unexpected emergencies when you do not have enough money to pay for it? \_\_\_\_\_

**Differences Between ATM and Debit Cards**

ATM cards are generally used to withdraw or deposit funds into your bank account through an ATM. An ATM card typically has your bank's logo on it, but not a Visa or MasterCard logo.

A debit card will usually have a Visa or MasterCard logo on it. That means you can use the card at any merchant that accepts the major payment system. You can also use a debit card at an ATM to withdraw cash, make deposits, or transfer funds between accounts, like an ATM card.

**Purchase Protections**

Using a credit card generally offers more purchase protection than a debit card. Federal law limits your losses to a maximum of \$50.00 if your credit card is lost or stolen, although industry practices may further limit your losses.

But, your liability limit for a debit card purchase you did not make is \$50.00 if you notify the bank within 2 business days of losing the card or noticing an unauthorized transaction—it could be up to \$500.00 or even more if you wait longer.

### Stored Value Cards

There are four main types of stored value cards:

1. *Payroll cards* are used by an employer to pay wages instead of giving you a paper paycheck.
2. *Government disbursement cards* are provided by government agencies to pay benefits.
3. *General Purpose cards* can be purchased from retailers. Some come with a set value, while others require you to “load” (add) money to the card after obtaining it.
4. *Gift cards* can be purchased in fixed amounts and redeemed for purchases from particular businesses.

Remember, the use of a stored value card will not allow you to build a credit history because no money is being borrowed. Read all information that comes with the card so you understand which fees are mandatory and which ones you can avoid.

### Take additional precautions to protect yourself from fraud or theft.

- Experts suggest that you be wary of any offer to sell you a prepaid card for less than its face value because it may have been stolen or otherwise obtained improperly.
- When you first receive a card, inspect it for indications of tampering of any protective stickers.
- It is always important to promptly review your monthly statement (online or on paper) to check for errors or fraud.



### Activity 2: Which Card is This?

Selecting the best answer from the list provided.

1. Which card requires you to have money in a bank account to cover the purchases you make?
  - Debit Card
  - Stored Value Card
  - Credit Card

2. Which card allows you to “load” money on it for future purchases?
  - Debit Card
  - Stored Value Card
  - Credit Card
  
3. Which card has a spending limit and can be paid back over time?
  - Debit Card
  - Stored Value Card
  - Credit Card



### **Secured and Unsecured Credit Cards**

Most credit cards are unsecured. This means you do not have to provide collateral in order to get a credit card. Collateral is what you promise to give the bank if you do not repay a loan.

You might want to consider a secured credit card if you have no credit history or have had credit problems in the past. To get a secured card, you generally need to pledge a bank savings account as collateral.



### **Student Credit Cards**

There are many credit cards today aimed at young adults. These cards may have a lower credit limit than other cards, as they are intended to help young people establish credit for the first time. Remember to read the terms and conditions associated with the card before applying.



### **Reward Cards**

Reward cards are credit cards that offer “rewards” for using them. Many airlines and hotels offer reward cards. When you use these credit cards you earn points toward goods or services, and you may receive cash rebates. Remember, unnecessary spending can result in you accumulating a substantial debt to the credit card company and having to pay interest, which can more than cancel out any rewards you would earn.