

Are Debit Cards the New Credit Cards?

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Plastic has long surpassed cash as the preferred currency of the 21st century. However, debit cards are becoming increasingly popular, because they have many of the same advantages as credit cards, with [fewer disadvantages](#).

The last quarter of 2008 marked the first time when debit card purchases exceeded those of credit card purchases with \$206 billion versus \$203 billion respectively. Even more significantly, the *number* of transactions that debit cards were used for by far exceeded that of credit cards. Consumers used debit cards for 70 percent of their charges, and credit cards for only 30 percent of charges. These numbers suggest that many consumers increasingly rely on credit cards mainly for large purchases for which they need longer-term financing, and turn to debit cards for everyday purchases and expenses.

The shift happened in an environment where consumers increasingly have begun to mistrust credit cards in the face of rising interest rate, rising fees, and slashed credit limits. Where credit cards can easily lead to credit card debt and high costs, debit cards in comparison are much more simple: you can only spend the money you have in your bank account. In addition, debit cards don't take into account a person's credit rating, even people with [bad credit](#) can easily get a debit card, and the fee structure is much more transparent and easy to understand.

More than that, however, debit cards have been changing their face over the last few years and have increasingly become the plastic alter ego of credit cards. Over the past year, debit cards have entered into the territory of credit cards, offering rewards programs for using the card. Some debit cards offer a little higher interest for consumers who use their debit cards a minimum number of times each month, others offer cash back with popular retailer chains, such as Barnes & Noble, Starbucks, or Gap.

Yet, debit cards are not without drawbacks. Many banks now allow overdrafts, which not only saddles the cardholder with a pesky overdraft fee to the tune of \$25-\$35, but also takes away one of the prime advantages of debit cards: the inability to spend more money than you have.

Kemba does not currently charge an overdraft fee for your debit card.

Secondly, debit cards don't carry the same protection for fraudulent use as credit cards do. For credit cards, card issuers take full responsibility for any fraudulent charges above \$50 if a credit card is stolen, and there is zero liability if the fraudulent charges occurred because hackers got a hold of the credit card information. With debit cards, the consumer can easily end up being the one on the hook.

Federal regulations do limit liability for debit card holders who are defrauded, but the protection isn't as extensive as for credit cards. Unless the card holders reports the fraudulent charges within a certain time frame, he or she could end up being on the one footing the bill. According

to the Federal Reserve (federalreserve.gov), the cardholder's loss is **limited to \$50** as long as the cardholder notifies the financial institution **within two business days** after learning of loss or theft of the card or PIN code. If the cardholder doesn't alert the card issuer within two business days, he or she could lose as much as \$500. Much worse, if an unauthorized transfer that appears on the statement is not reported within 60 days after the statement was mailed, the cardholder risks **unlimited loss** on transfers made **after the 60-day period**. In short, you could theoretically lose all the money in your account plus your maximum overdraft line of credit, if any.

Still, despite these disadvantages, debit cards do provide a great alternative to credit cards. To overcome the drawbacks, follow these three basic rules:

1. Carefully track your debit card charges to avoid overdraft fees,
2. Always know where your debit card is, so you can alert your bank right away if it is stolen
3. Check your debit card statement carefully each month when it arrives in the mail.

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