

# Credit Cards versus Debit Cards

## Credit Cards vs. Debit Card

### Credit Cards

Borrowed funds issued by a bank

Can reap rewards, travel points, and discounts

Helps you build credit

Offers fraud protections as well as protection against unauthorized purchases.

Interest rates and fees vary

### Debit Cards

Money deducted from your bank account

Helps avoid accumulation of debt

Little to no fees

No interest charges

Will not help you build credit

## Learning the difference between debit and credit card fraud

Credit card fraud and debit card fraud victims are protected under a separate set of laws. In function, however, the methods for obtaining card information are the same across both types.

Card information is often stolen via phishing scams, where the victim is tricked into giving their card information to somebody impersonating an official entity via email or other means. It's also frequently bought and sold on the dark web. Gas stations often are a hot spot for fraudsters to place skimmers on outside terminals. Online retailers can have their data breached, which then leads to large amounts of customer information being stolen, including card numbers. It's for the victims where the true difference between credit card fraud and debit card fraud can be found.

### Credit Card Fraud

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Credit cards operate on lines of credit rather than drawing from the cardholder's bank account like with debit cards. Theoretically, when you make a purchase with a credit card, you're making a promise to the merchant that the credit card company will pay for the transaction. Then, you pay the credit card company back for the amount.

We know this is basic information, but it matters when examining how a fraudulent charge on a credit card is handled.

Because credit cards operate on, well, credit, they're protected by the Fair Credit Billing Act (FCBA). This law ensures that a consumer who reports their credit card as missing or stolen will face no liability for any fraudulent charges thereafter.

Additionally, if the physical card wasn't lost but its numbers were stolen and used for fraudulent purchases, the customer is not liable. In any case where the victim is found liable for fraudulent use of their card, the maximum they can be expected to pay is \$50.

### Debit Card Fraud

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Debit cards fall under the protection of the Electronic Funds Transfer Act (EFTA). This law differs in several ways from the FCBA, most notably in its imposition of a timeline for liability.

Under the EFTA, if a lost or stolen debit card is reported within 48 hours, the maximum liability for the victim is \$50. If it's reported after 48 hours, but before 60 days, the maximum liability increases to \$500. Beyond those 60 days, the victim may be responsible for the entirety of the fraudulent charges, including any overdraft fees and money taken from any linked accounts to the debit card account.

### When are Cardholders Encouraged to Use Credit instead of Debit Cards?

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There are some scenarios in which buyers are discouraged from using debit cards. This is because of the fraud liability and chargeback rights associated with each card type.

We should note first that most banks will go to great lengths to recover their customers' money or reimburse them for the loss. However, it's easy to see how credit card chargebacks could be given priority. After all, with a credit card, you're dealing with the bank's money, as compared to a debit card, which is tied to funds in a cardholder's account.

Second, because of the decreased fraud protection, consumers are regularly warned against using their debit card in situations considered "risky." These can include:

- **Any Card-Not-Present Situation:** Card-not-present transactions, especially eCommerce, carry a greater inherent risk of fraud.
- **Purchases Requiring a Deposit:** Using a debit card means the consumer's cash is tied up until the deposit is returned.
- **Restaurants:** Because the card leaves the consumer's sight, there is a greater risk of merchant fraud involved.
- **Preorders:** Chargeback time limits usually begin the moment the purchase is made. The deadline might expire before the consumer is aware of a problem.
- **Recurring Payments:** Consumers might forget about an upcoming charge and have insufficient funds available when the transaction is processed.
- **Travel Accommodations:** There is a higher risk of compromised data if the information is stored for months pending upcoming travel arrangements.

Experts constantly advise consumers not to use a debit card in these situations. Instead, they suggest using credit cards, which offer more fraud protection.

### The Bottom Line

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Credit cards usually offer greater consumer protections on purchases related to fraud than debit cards. These fraud protections may not extend as generously or easily to debit card purchases.

In the case of an unauthorized credit card charge, fraud should be reported immediately. You'll receive a credit to your billing statement before the next billing cycle.

In the case of debit card fraud, the money is lost entirely. It may take your financial institution weeks to investigate. When it comes to financial fraud, it's safer to use credit cards online in order to avoid a financial situation that could damage your ability to pay your other debts.

Credit and debit cards may look alike, but their benefits and drawbacks are quite different. If building credit and cashing in rewards is important to you, then credit cards are essential tools for your financial journey. If you prefer to keep a tighter rein on your finances, then a debit card is a better bet.

