



Credit Cards vs. Debit Cards

Credit cards and debit cards characteristically look the same, with card numbers, expiration dates, and magnetic strips and Europay, MasterCard®, and Visa® (EMV®) chips. Both can make it easy to buy items in stores or online, with one important distinction. Debit cards enable you to spend the money that you currently have in your bank account. Credit cards essentially lend you money up to a specific limit to make purchases or withdraw cash.

Most people have at least one credit card and one debit card to their name. They offer security and accessibility to funds, but they have significant differentiations that could considerably impact your wallet. We will provide some information that will hopefully be helpful in deciding which to use to meet your spending needs.

What is a Credit Card?

Credit cards are issued by a bank or other financial institution, and allow the cardholder to borrow money from that institution to make purchases. The cardholder then pays the money back, including interest, according to the financial institution's terms of use. Many credit cards will not charge interest if the balance is paid in full at the end of the billing cycle, but terms vary from card to card. Some credit cards require an annual fee to be paid to use the card, so it is important that you read through the terms of the credit card in which you are interested. Credit cards may also come with incentives to use the card, such as cash back, discounts, travel points, which isn't available to debit card holders. Credit cards can help you build credit history, as they are reported on your credit report. They also offer protection against fraud and may offer additional warranties or insurance on purchased items, depending on the card. One negative that may come along with the use of a credit card is that spending can lead to debt. The money that is being used is borrowed, and must be paid back, with interest and often times credit card rates are higher than other types of loans. The interest and fees can also add up, if the credit card is not paid on time, which can also affect your credit score. These are all important to keep in mind while utilizing credit cards over other forms of payment.

What is a Debit Card?

A debit card is much like writing a check. It is deducted directly from your checking account, but with the ease of use and convenience of a card. It also offers many of the same consumer protections as a credit card when issued by major payment processors. There are two types of debit cards that are not tied to your bank account. The first is the electronic benefits transfer (EBT) card, which is issued by state or federal agencies for people to access qualified benefits to make purchases. The second is a prepaid debit card, which is preloaded onto a card and enable people to make electronic purchases without a bank account. There is often an activation fee as well as other costs associated with the prepaid debit cards. There are normally few, or no fees associated with using debit cards tied to an account, unless the user spends more than what they currently have in the bank. You can incur an overdraft fee, just as you would for overdrawing your account with a check. This may happen since funds are placed on hold when you swipe the card, but the transaction doesn't post until the merchant sends in the transaction to their bank. This can take some time, and the hold may drop off before the transaction actually goes through, which is why it's important to keep track of your banking balance while utilizing your debit card.

When choosing which card to use, it's important to know yourself and your spending habits. If you would have difficulty handling credit or paying a credit card off each month, a debit card may be more appropriate for you. There are also situations where a debit card may not be accepted, so it may be beneficial to have both available to you.

