

MASTER YOUR CARD

A community empowerment program sponsored by  **mastercard**

CHOOSE THE RIGHT CARD FOR YOU



The trick to mastering your card is to pick the one that is right for you and your needs. Mastering the use of payment cards, even ones with fees, provides greater value in buying power, convenience, safety and financial management. There are three primary types of cards in use today, each giving access to the global electronic payment network: credit, debit and prepaid. Understanding how each works will help you choose the right card and use it wisely.

CREDIT, DEBIT & PREPAID: PROS & CONS

CREDIT

Every time a consumer uses a credit card, he or she is borrowing money from the bank or other financial institution that issued the card and set the terms of use—fees, interest rates, default periods and available credit. Banks provide the credit, and technology companies, like Mastercard, provide the electronic payment network and financial tools that enable the almost instantaneous transfer of money between banks and merchants.

CREDIT CARD PROS

- Credit cards enable you to make purchases even if you don't have the money on hand, allowing you to choose to pay them off at a later time.
- Credit cards eliminate the time and money spent ordering, writing, mailing and reconciling check payments.
- Credit cards eliminate the risk of loss and theft associated with carrying cash, and the time and money spent getting cash from ATMs and banks.
- Credit cards provide the opportunity to reverse a charge for goods or services that a consumer finds unsatisfactory. Chargebacks are initiated by the consumer through the bank providing their card, in many cases, without requiring direct confrontation with merchants or service providers.
- Credit cards offer the most consumer protection with strict laws that limit fraud liability to \$50. Some companies, like Mastercard, provide even greater coverage with their "zero liability" protection. When consumers report suspicious charges, double-billing or other potential fraud, the bank typically has 60 days to complete an investigation and resolve the issue.

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- Credit cards can offer more consumer protection for large purchases, fragile purchases and objects that arrive after you've paid for them. Credit cards are a great tool for consumers who are trying to establish or improve their credit rating. Credit cards typically report account activity to at least one of the three major credit bureaus on a monthly basis. An attractive credit rating will improve a consumer's chances of obtaining favorable credit terms (low interest rates, low fees, etc.) for automobile loans, mortgages, personal loans and other major purchases.
 - Many credit cards offer services and rewards for using them: Airline Miles Rewards, Cash Back Rewards, Zero Liability Protection for Lost & Stolen Cards, Satisfaction Guarantee, Identity Theft Resolution, Rental Car Insurance, Car Rental Collision Damage Insurance, Roadside Assistance, Lost or damaged Luggage Insurance, Travel Accident Insurance and Trip Cancellation Insurance.
 - Many credit cards include service advantages such as insurance on rental cars, extended warranties on purchased items, exclusive offers and concierge service at hotels.
 - Consumers can earn interest on the money in their bank accounts before paying off their monthly credit card account balance.
 - Credit cards allow consumers to make purchases when cash flow is tight, so they can get what they want when it's most valuable to them.
 - Credit cards provide consumers with the ability to make an expensive and essential purchase on an emergency basis, (i.e. broken hot water heater, refrigerator, home or car repairs), and are often the most suitable and cost-effective means to make that purchase.
 - Credit cards offer consumers the option to revolve their balances, giving them optional, easy access to short-term consumer credit.
 - Credit cards provide "cash advances," giving consumers immediate access to cash.

CREDIT CARD CONS

- The biggest risk associated with credit cards is that, because the process of borrowing money is so convenient and simple, people sometimes over-extend themselves and become saddled with debt and interest and other charges can build to high levels.
- Many credit cards have annual fees, especially if consumer rewards are a part of the product. Consumers should weigh the amount they need to spend to receive rewards against the amount they would need to spend on the annual fees.
- Just as credit cards offer a good chance to build up a good credit score, they also provide the chance to damage it—paying credit card balances late is a fast way to harm a credit score.
- Credit card fraud, with or without stealing the plastic card itself, is a risk with credit card accounts. Your liability for fraudulent credit card transactions is limited to \$50 under federal law.
- If consumers do not accurately track their account balances, they can be caught off-guard and reach their credit limits, unable to make additional purchases.
- Cash advances include different fees, interest rates and terms than credit purchases, potentially making this type of borrowing more expensive for consumers.

DEBIT

Consumers with checking or other deposit accounts can get debit cards to make payments and purchases with their existing deposits. Some people say debit cards function like electronic checks because they access money in your deposit account, but they really are much more than that. They are faster and more convenient with the added power of use in online or telephone payments and transactions and they provide greater value to consumers and merchants alike.

DEBIT CARD PROS

- You don't need great credit to have a debit card. Even if you find it nearly impossible to get a credit card, if you maintain a balance in your checking account you may still be able to get a debit card, allowing you the convenience of electronic transactions.
 - Debit cards are linked to the deposits in a consumer's existing account—this reduces the possibility of spending money you don't have and then being subject to the interest and related fees associated with credit cards.
 - Debit cards provide convenience and immediate access to funds everywhere payment cards are accepted, including online.
 - Debit cards eliminate the time and money spent ordering, writing, mailing and reconciling check payments.
 - Debit cards eliminate the risk of loss and theft associated with carrying cash and the time and money spent getting cash from ATMs and banks.
 - Cashback purchases allow consumers to withdraw cash in the process of making their normal purchases, eliminating the need to stop at an ATM or bank.
 - Debit cards offer consumer protection that limits liability to \$50 if consumers notify the bank within two days, increasing to \$500 and then up to the entire account balance after 60 days. Some companies, like Mastercard, provide even greater coverage with their "zero liability" protection.
- Some debit cards include consumer rewards for purchases made with the cards.
 - Debit cards are a very efficient way to provide funds to children, family members and others who are away at school, traveling or living at a distance from the person who wants to provide financial support to them. An account with a local bank can be maintained regardless of where the card funds are used.
 - Debit cards can provide the opportunity to reverse a charge for goods or services that consumers find unsatisfactory. Chargebacks are initiated by the consumer through the bank providing their card, in many cases without requiring direct confrontation with merchants or service providers.

DEBIT CARD CONS

- Unless it uses the Mastercard network, debit cards don't offer as much fraud protection as credit cards. Consumer liability is \$50 if consumers notify the bank within two days, increasing to \$500 and then up to the entire account balance after 60 days.
- Not all debit cards help build a credit score. Consumers looking to improve credit ratings should seek out a debit card product that is tied to those ratings.
- Overdraft fees can be problematic for debit card customers who exceed their account balances. Just like balancing a checkbook, keeping track of purchases to avoid overdraft fees is important.
- Some banks may begin charging new fees for debit card use as a result of Congress' recent action to reduce merchants' share of the cost to use electronic payment networks. These fees should be weighed against the savings of high check-cashing fees and the security of not carrying cash.

PREPAID

Prepaid cards don't require a bank account or a lender. Funds are loaded, and often reloaded, onto a prepaid card account with a unique identifying number. Consumers can spend their pre-paid funds anywhere credit or debit cards are accepted, including online. Employers, governments and consumers themselves can all load additional funds onto the cards at any time.

PREPAID CARD PROS

- Easy access to prepaid cards combined with worldwide and online acceptance and ease of use are key benefits. You don't need a credit rating or a bank account to participate in the modern electronic economy.
 - No possibility of entering into debt. Only the funds loaded onto the card are available.
 - If lost or stolen, funds on prepaid cards can be frozen and transferred to a new prepaid card. Some companies, like Mastercard, provide even greater coverage with their "zero liability" protection.
 - Prepaid cards are reloadable through direct payroll or government deposit, online fund transfers, purchasing a MoneyPak and entering the number online or over the phone, cashing a check or bringing cash to a participating merchant's register.
 - Prepaid cards are used like credit cards—consumers typically don't have to show a picture ID, and there is usually no PIN number for you to remember.
 - There are no interest rates applied to prepaid debit cards, although many have fees associated with them.
- Prepaid cards provide strict control of funds and are effective for parents or individuals providing support to family members and others living at a distance.
 - Prepaid cards eliminate the time and money spent ordering, writing, mailing and reconciling check payments.
 - Prepaid cards eliminate the risk of loss and theft associated with carrying cash and reduce the time and money spent getting cash from ATMs and banks.

PREPAID CARD CONS

- Reloading prepaid cards can be free or may require a fee, depending on the card terms.
- Some prepaid cards have monthly fees associated with them.
- Getting cash from a prepaid card may require a fee, but it is typically far less expensive than payday lenders and check cashers.
- Policies for dealing with theft, loss and fraud vary among cards.