



## 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 purchaser 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 payments network and financial tools that enable the almost instantaneous transfer of money between banks, merchants and people.

#### CREDIT CARD PROS

- 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.
- Eliminate the time and money spent writing, mailing and reconciling check payments.
- Eliminate the risk of loss and theft associated with carrying cash, and the time and money spent getting cash from ATMs and banks.
- Provide the opportunity to reverse a charge for goods or services that a customer finds unsatisfactory. Chargebacks are initiated by the cardholder through the bank that provides their card; in most cases, without requiring direct confrontation with merchants or service providers.
- Offer the most consumer protection. 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 removes the charge and completes an investigation to resolve the issue.
- Offer more protection for large purchases, fragile purchases and objects that arrive after you've paid for them.
- Credit cards are a great tool for individuals who are trying to establish or improve their credit rating. Financial Institutions 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 person'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, insurance and rewards programs for using them: Airline Miles Rewards, Cash Back Rewards, Satisfaction Guarantee, Identity

Theft Resolution, Rental Car Insurance, Car Rental Collision Damage Insurance, Roadside Assistance, Lost or damaged Luggage Insurance, Travel Accident Insurance, Trip Cancellation Insurance, Concierge Service, access to airport lounges, etc.

- Allow you to make purchases when cash flow is tight, so you can get what you want when you need it and pay for it later.
- Provide you with the ability to make an expensive and essential purchase on an emergency basis, (i.e. broken hot water heater, refrigerator, home or car repair) and are often the most suitable and cost-effective way to make that payment.
- Offer individuals the option to revolve their balances, giving them optional and easy access to short-term credit and provide "cash advances," giving 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 becoming saddled with debt and interest charges that can build to high levels.
- Many credit cards have annual fees, especially if benefits and rewards are part of the offer. You should weigh the amount you need to spend in order to receive these rewards against the amount of the annual fees.
- Just as credit cards offer a good chance to build up a good credit score, they also present 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, may be a risk with credit card accounts. You must report it immediately to the bank that issued your card.
- If cardholders do not accurately track their account balances, they can be caught off-guard and reach their credit limit, therefore being unable to make additional purchases.
- Cash advances include different fees, terms and higher interest rates than card purchases, making this type of borrowing more expensive.

## DEBIT

Consumers with checking or other deposit accounts can get debit cards to make payments and purchases using their existing money. 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 transactions, providing greater value to consumers and merchants alike.

## DEBIT CARD PROS

- You don't need to have a credit history 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 can get a debit card, allowing you the convenience of electronic transactions.
- Debit cards are linked to the funds in a person'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.
- Provide convenience and immediate access to funds everywhere payment cards are accepted, including online.
- Eliminate the time and money spent ordering, writing, mailing and reconciling checks.
- Eliminate the risk of loss and theft associated with carrying cash.
- Cash Back with purchases allows you to obtain cash in the process of buying something, eliminating the need to stop at an ATM or bank.
- Some debit cards include benefits and rewards for purchases made with your card.
- Debit cards are a very efficient way to provide funds to children, family members and others who are away, traveling or living at a distance.
- Debit cards provide the opportunity to dispute a charge for goods or services that you find unsatisfactory.
- Chargebacks are initiated by the cardholder through the bank that provides their card; in most cases, without requiring direct confrontation with merchants or service providers.

## DEBIT CARD CONS

- Most debit cards do not help build a credit score. Individuals looking to improve their credit ratings should seek out a debit card product that provides that benefit.
- 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 charge fees for debit card use. These fees should be weighed against the benefit of savings on high check-cashing fees and the convenience and security of not carrying cash.

## PREPAID

Prepaid cards don't require a bank account or having a credit history. Funds are loaded, and reloaded, onto a prepaid card account.

Consumers can spend their prepaid 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 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 payments 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, or by bringing cash to participating retailers.
- Prepaid cards are used like credit cards—typically you 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 cards, although many have fees associated with them.
- Provide strict control of funds and are effective for parents or individuals providing support to family members and others living at a distance.
- Eliminate the time and money spent ordering, writing, mailing and reconciling checks.
- Eliminate the risk of loss and theft associated with carrying cash and reduce the time and money spent getting cash from ATMs and banks.
- Many cards offer a number of free benefits like ID Theft Alerts, Expert Restoration Assistance, and Emergency Wallet Replacement Assistance, Purchase Assurance, Price Protection, Extended Warranty, and Satisfaction Guarantee on Purchases.
- Can offer additional benefits that may provide greater peace of mind, such as retail benefits, additional ID theft solutions, and cell phone insurance.

## PREPAID CARD CONS

- Some prepaid cards have fees associated with them, for things such as reloading funds or withdrawing cash at an ATM. There are many card options, so make sure you check the card terms first.
- Do not build a credit history or impact your credit scoring.
- Money might be put on hold for reservations requiring a deposit.
- Look for cards with low start-up costs, cheap and easy reloading online, in-person or by phone, and no monthly maintenance or balance checking fees.

### About Master Your Card

Master Your Card is a community empowerment education program sponsored by Mastercard, that works with committed partners nationwide to bring information about the benefits of electronic payments technology for underserved communities to build brighter financial futures. The program has facilitated presentations and workshops in numerous cities around the country, provided financial education to tens of thousands of students and reached millions through partners' initiatives and education materials.