

Credit vs. Debit

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Plastic Payments

- Debit Cards— Pay Me Now
 - Paid from funds in an account
- Prepaid Debit Cards— Pay Me Before
 - Paid by funds loaded onto the card
- Credit Cards — Pay Me Later
 - Paid in the future

A Few Statistics

- 67 percent of all households have a debit card
- 80 percent of all households have an ATM card
- Who uses debit/ATM cards?
 - 86 percent of those under 30 years
 - 50 percent of those over 60 years
 - 54 percent of low income
 - 83 percent of upper income
 - 69 percent no college degree
 - 82 percent college degree

Debit vs. Credit Card Use

- Credit card spending in 2009 was down 9 percent over the same period in 2008
- Debit card use was up 5 percent in the same period
- Why? Consumers curtailed the type of spending done with credit cards – big ticket discretionary – while nondiscretionary small purchases using debit cards continued in a recession

Debit vs. Credit

Electronic Fund Transfer Act

Vs

Truth in Lending Act, Fair Credit Billing Act

Debit Card Protections < Credit

- Liability Limits for stolen or lost debit card:
 - \$50 limit if report loss in two days
 - Can lose up to \$500 if report loss after two business days
 - No limit on lost funds if don't report within 60 days of getting statement showing error
 - Voluntary Zero Liability policies don't cover all types of theft or loss
 - Credit card maximum liability \$50 if fail to report loss in two days
 - States can set lower liability limits— CA and MA

Debit Protections, 2

- Dispute Rights and Error Resolution
 - 60 days after receive statement to dispute errors with debits
 - Bank must investigate in 10 days
 - If not resolved, must provisionally recredit the disputed amount
 - Cannot chargeback or dispute debit purchase with merchant (defective item, non-delivery)
 - Cannot stop payment on a debit transaction

Recommendations:

- Upgrade protections for all forms of electronic payment.
Consistent rules and limits.
- Amend EFTA to lower loss cap to \$50 and cut 10-day delay for recredit to 3-5 days
 - CA has \$50 limit on debit card losses
- Extend EFTA protection to general spend prepaid cards
- Add a chargeback right for debit cards
- Extend right of recredit to all checks processed electronically

Dodd-Frank Financial Reform Act

Impact on Debit cards

Consumer Financial Protection Bureau Functions

- Conduct financial education programs
- Collect, investigate, respond to complaints
- Research financial services market
- Write rules and enforce federal laws, such as the Electronic Fund Transfer Act
- Issue rules, orders, and guidance
- Protect consumers from unfair, deceptive, or abusive acts or practices and from discrimination

Implications for Debit Protections

- CFPB will write rules for EFTA, not Federal Reserve Board
- CFPB can expand Reg E coverage to general spend prepaid debit cards (payroll cards covered)
- States can enact stronger protections for debit cards with the risk of fewer preemption challenges
- CFPB expected to monitor payment devices and can write organic rules to curb unfair, deceptive or abusive practices

Dodd-Frank and Interchange Fees

- Federal Reserve to determine that debit card interchange fees are reasonable and proportional
 - Exempts all prepaid cards if do not charge overdraft fees or a fee for first network ATM withdrawal per month. Result may be elimination of these fees.
- Eliminates network contractual terms or practices that prevented merchants from offering cash discounts, requiring minimum payments, or suggesting lower-cost methods of payment
- Expect savings to be passed onto consumers
- Carves out small banks and credit unions

Gift Card Rules: Credit CARD Act

- Gift cards cannot expire less than five years from the date of purchase or date money last added
- No fees if card used within past 12 months.
- If card unused for 12 months, one fee per month can be charged.
- Stronger state laws apply, including for expiration dates and fees.
- Covers retailer gift cards and prepaid general use gift cards (network branded). Does not apply to rewards, loyalty, phone or promotion cards or to paper gift cards or paper gift certificates.

Prepaid Cards and Federal Benefits

- Treasury proposal to require direct deposit of Social Security, other federal benefits to bank accounts or Direct Express card. No paper checks.
- Treasury proposal to authorize deposit of SS and SSI to prepaid cards if covered by EFTA and FDIC insurance. CFA urged Treasury to:
 - Prohibit credit features for prepaid cards
 - Limit fees, permit only network branded cards, end master-sub account arrangements

Turning Debit Cards into Credit Cards

Bank Overdrafts Triggered by Debit Card Purchases and ATM Withdrawals on Insufficient Funds

Banks collect almost \$24 billion a year in OD fees

Debit Card Sold as Cash Device

- Use instead of a check to withdraw funds from bank account
- Use to avoid going into debt and paying interest
- Banks do not charge a fee to deny an attempted debit card transaction
- Consumers expect banks to deny transactions if no money in the bank

Overdrafts Turn Debit into Credit

- Bank uses its money to cover debit transactions on insufficient funds
- Bank charges a fee for the use of its money
- Bank requires immediate payment
- “Banks extend credit when overdrafts are paid.”

However,

- Federal Reserve does not require banks to comply with Truth in Lending Act

Federal Reserve Reg E Opt In

- New rules apply July 1 for new accounts, August 15 for existing bank accounts
- Banks must get consent to charge overdraft fees for single debit card purchases and ATM withdrawals
- Banks can continue to charge overdraft fees for checks, preauthorized electronic payments, recurring debit card payments without consent
- Federal Reserve Model Form does not provide a clear cost comparison of all OD options
- Banks cannot charge a fee to deny debit attempt

CFA Big Bank Overdraft Survey

- Typical fee \$35, range from \$33 to \$37
- 9 of the 15 largest banks charge twice for the same overdraft if not repaid in days
- Banks permit multiple OD fees in one day
- A \$10 overdraft paid in ten days costs up to \$93
- Overdraft to trigger a fee \$1 to \$10
- 13 of the 15 largest banks are soliciting debit card overdraft opt in.
 - Bank of America and Citibank deny debit ODs

Debit Overdraft Real Deal

- No warning at cash register that debit will trigger an overdraft fee
- Typical debit OD is \$20, fee is \$35
- Bank takes payment out of next deposit, including exempt funds such as Social Security, SSI
- Banks process payments largest first, drive up the number of overdraft fees
- Bank version of payday lending. A \$100 OD repaid in two-weeks costs over 900% APR
- Disproportionate impact on vulnerable consumers

Reforms for OD

- Require consent for all forms of overdraft
- Require Truth in Lending Act compliance
 - APR to compare cost
 - No set-off for payments
- Cap fee
- Limit to one OD fee per month
- Prohibit payment order manipulation
- Protect exempt funds
- CFA poll found strong public support for reforms

What You Need to Know

What is an Overdraft?

A transaction that your bank pays when you have insufficient funds in your account to cover a payment. Big banks charge on average a \$35 fee each time you overdraft. If you buy three things with your debit card, and you don't have money in your account, you will be charged three separate fees, totally \$105!

Overdraft fees are triggered by not having enough money in your account for a:

- Cash withdrawal at an ATM
- A check
- A debit card purchase
- A preauthorized electronic payment

Some banks also charge a second overdraft fee if the overdraft and fee are not paid back in a few days. "Sustained" overdraft fees are either another flat fee or a fee per day.

If bankers had to tell you the real cost of their "overdraft loans," the annual percentage rate for a \$100 overdraft repaid in two weeks would be more than 900% APR.



For More Information

The Consumer Federation of America

<http://www.consumerfed.org/finance/fees.asp>

The Center for Responsible Lending

<http://action.responsiblelending.org/overdraft>

Consumers Union

http://www.defendyourdollars.org/topic/bank_accounts/overdraft_loans/

Consumer Action

<http://www.consumer-action.org/>

The Federal Reserve

http://www.federalreserve.gov/consumerinfo/wyntk_overdraft.htm

Is Your Bank Asking You to Opt-In to Steep Overdraft Fees? Just Say No to Debit Card Overdrafts!



Get the Facts About Overdrafts and Fees



The Consumer Federation of America is a non-profit association of over 280 pro-consumer groups, with a combined membership of 50 million people. CFA was founded in 1968 to advance consumers' interests through advocacy and education.



The Consumer Federation of America

New Overdraft Rules and How They Affect You

New Rules Issued by the Federal Reserve

The Federal Reserve issued new rules requiring banks to get consumers' consent or "opt-in" to pay overdraft fees for debit card single purchase and ATM overdrafts. Without opt-in, banks cannot charge these fees and it costs NOTHING to have transactions denied.

- Starting July 1st, new account holders MUST tell their banks (opt-in) if they agree to pay overdraft fees for single purchase debit card and ATM transactions covered by the bank.
- Banks must get consent from existing customers by August 15 to continue charging fees for single purchase debit and ATM overdrafts.
- Banks do NOT have to get consent to charge fees for checks, preauthorized payments, and recurring debit card transactions that overdraw your account.

What Happens If I Don't Opt-in?

If you don't opt-in, your bank will deny transactions that overdraw your account at the ATM or when you use your debit card to make a purchase. You will not be able to spend more money than you have in your account. There is no fee for denied debits.

Overdraft coverage for other payment methods (checks, electronic payments, etc.) Most banks will permit customers to **opt out** of having checks, preauthorized payments and recurring debit card payments covered for a fee. Banks charge a bounced check or "non-sufficient funds" fee if these transactions are returned unpaid.

What's the Real Deal on Overdrafts?

Overdrafts and fees are due immediately and must be repaid within a few days. You do not get an affordable repayment schedule if you opt in.

If you have not brought your account to positive, the bank will take payment out of the next deposit, such as a paycheck or Social Security to repay overdrafts and fees.

Even if you opt in to overdraft coverage, your bank does NOT guarantee that it will cover overdrafts up to a set amount.

Banks use tactics to charge the most fees possible, such as:

- Processing the largest payments first in a day, which can cause more overdraft incidents that trigger more fees.
- Charging additional fees per overdraft if you do not repay them right away. One \$6 lunch can cost you as much as \$93 if not repaid in ten days.
- Charging fees for multiple overdrafts on the same day. You will owe a bank that limits fees to four per day a total of \$140 if you make four transactions without sufficient funds in your account assuming you repay them immediately and do not incur additional sustained overdraft fees.



The Consumer Federation of America urges consumers to just say NO to bank overdraft fees. Do not opt in to overdraft fees for debit card single purchases and ATM withdrawals.

Other Options

Keep a cushion of extra money in your checking account in case you forget you made a transaction, make a mistake, or have a deposit delayed. Keep track of the money you have available to spend. Sign up for email or text alerts from your bank to keep you updated on your balance, or check your account online.

Most banks offer better and cheaper options in case you overdraw your account. You can link your checking account with:

1. A savings account
2. A credit card
3. A line of credit

Each day that you need a transfer to cover overdrafts, the bank will automatically transfer money to your account. You may pay just one \$5 to \$10 fee to cover the transfer *—but you will not be hit with overdraft fees*. If you choose a credit card or a line of credit, you will be charged some interest on the advance until you pay it back.

Talk to your bank or credit union branch to find the options available to you. If you have already opted in, you have the right to opt out at any time.



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