

As debit cards become increasingly popular, problems are appearing among customers, merchants, and banks.

The problems range from difficulties when the cards are lost or stolen to complaints from merchants that the fees to accept these cards are too high.

Not All Plastic is Created Equal

New car rental rules represent the first case in which debit cards cannot be used in the same way as credit cards. The big car rental companies, including Hertz and Avis, have recently stopped letting people rent cars using just a Visa Check card or the similar Master Money card from MasterCard. The card companies, and the banks that issue these cards - known as debit cards - are furious. And so are some customers.

For years, the car rental companies have used possession of a credit card as a crude way to weed out potentially risky renters, just as they have usually ruled out renters under the age of 25. But this test does not work with debit cards because banks will now give them to nearly any one with a bank account.

Charges on debit cards, which go under many names, come directly out of a consumer's checking account almost immediately rather than appearing on a monthly credit card statement. In contrast to using a credit card, which the debit card

physically resembles, no loan is involved in the transaction.

Debit cards "provide no qualification of credit-worthiness," a Hertz spokesperson said. Car rental companies believe they are entitled to a certain level of confidence because in car rental, unlike almost any other business, the customer is given total control of a vehicle with an approximate value of \$20,000.

The rental car companies are requiring a customer with only a debit card to follow the same procedures as someone who pays cash to rent a car. That involves making an application several weeks in advance and leaving a substantial deposit.

Higher Fees?

The new debit cards have become more popular because they are easier to use and more widely accepted than those that require personal identification numbers. Moreover, for the tens of millions of Americans who do not qualify for a credit card, the cards are their first opportunity to put a card with a MasterCard or Visa label in their wallets.

Until recently, such cards also provided the easiest way for such individuals, many of whom have had financial troubles, to rent a car or buy merchandise over the phone.

Banks like the debit cards because transactions on them are less costly to process than paper checks. Also, some banks charge customers a fee for the cards.

And for the MasterCard and Visa versions, banks receive a fee from merchants of about one percent of the purchase price. Retailers, though, have become increasingly unhappy about the growth of these debit cards precisely because they do not want to pay the fee.

Confusingly, a single card can have both a Visa or MasterCard logo and the mark of an automated teller machine network like NYCE or MAC. If a signature is used, rather than a personal identification number, the fee paid by the merchant is higher.

The credit card companies say the higher fee is justified because of the greater risk. Even though both types of transactions involve electronic verification of the amount of money in the consumer's checking account, the card companies say their experience has been that the signature method results in more overdrafts.

For consumers, the debit cards also carry a little more risk. If the card is stolen, a thief can go on a spending spree with the money in the customer's checking account.

Federal law limits liability to \$50 if the cardholder notifies the bank within two days of discovering the missing card. But the bank has up to 20 days to put the money back into the checking account.

See our Brochure on Credit and ATM Cards.



The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

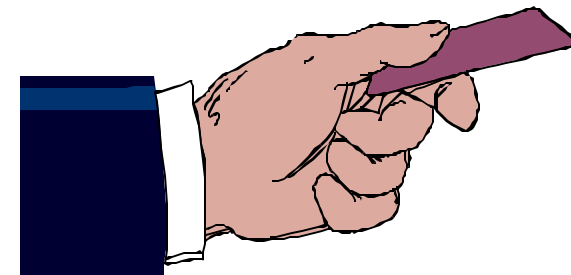
- Answers to Credit Problems
- Applying for Credit
- At Home Shopping Rights
- Bankruptcy Facts
- Buried in Debt
- Car Financing Scams
- Charge Card Fraud
- Choosing A Credit Card
- Co-Signing
- Credit and Divorce
- Credit and Older Consumers
- Deep in Debt?
- Equal Credit Opportunity
- Fair Credit Reporting
- Fair Debt Collection
- Gold Cards
- Hang up on Fraud
- High Rate Mortgages
- Home Equity Credit Lines
- How to Avoid Bankruptcy
- Indiana Uniform Consumer Credit Code
- Look Before you Lease
- Mortgage Loans
- Repossession
- Reverse Mortgage Loans
- Rule of 78s – What is it?
- Scoring for Credit
- Shopping for Credit
- Using Credit Cards
- Variable Rate Credit
- What is a Budget?
- What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information.



DEPARTMENT OF FINANCIAL INSTITUTIONS
Consumer Credit Division
30 South Meridian Street, Suite 300
Indianapolis, Indiana 46204

DEBIT VS. CREDIT CARDS



**DEPARTMENT OF FINANCIAL
INSTITUTIONS**
Consumer Credit Division
30 South Meridian Street, Suite 300
Indianapolis, Indiana 46204
317-232-3955
1-800-382-4880

