

## 5 SECRETS TO SMART DEBIT CARD USE

Read fine print, keep close track of purchases to avoid excess fees

By John Morell

It's estimated that by 2010, a whopping 40 billion consumer transactions will be completed using debit cards -- that's double the number from 2005. Recognizing that explosive growth, banks are working hard to make money off these transactions. Thus, it's up to consumers to watch out for wayward fees that can make using a debit card an expensive proposition.

Here are five tips to smart debit card use:

### 1. Fee free?

Back in the day -- that is to say, a decade ago or so -- it wasn't uncommon for banks to charge an annual fee for a debit card. However, in today's topsy-turvy-but-competitive environment, a free debit card linked to your checking and savings account or both is a given. Where you can find fees, however, is at the retailer's terminal or the point-of-sale, as it's known in the financial industry.

"When you use your check card as a debit, you're punching in your PIN, which makes the card more secure and the retailer usually pays less per transaction," says Linda Sherry, director of national priorities for Consumer Action in New York City. "But that doesn't stop him from charging you for the transaction, which could be 50 cents or more."

If you're using the card with a retailer you're not familiar with, especially a small business, be sure to ask first if there's a fee for running your plastic through.

### 2. Big transactions clear first

Most banks clear your largest transactions first. However, this can cost you in expensive overdraft fees. Here's how: Say math isn't your strong suit, and you generally add up your check card purchases at the end of the day. You go to the mall with \$100 in your account and buy the following, in order:

- \* \$5 coffee
- \* \$6 picture frame
- \* \$65 sweater
- \* \$9 DVD
- \* \$25 book

You add up the receipts in the order you bought the items and find the book put you \$10 in the hole and you're facing the prospect of one overdraft fee. However, your bank clears your charges from largest to smallest, as follows:

- \* \$65 sweater
- \* \$25 book
- \* \$9 DVD
- \* \$6 picture frame
- \* \$5 coffee

Under this method, the situation is even worse than you thought. You'll face two overdrafts because the picture frame and the coffee both put you over \$100.

"A lot of people get caught by this system, it's a pure profit center for the bank," says Lauren Zeichner, an attorney with Consumer's Union in San Francisco. "It's up to the bank how they clear charges and you need to be aware of their policy."

A recent study by the Center for Responsible Lending found that more than 46 percent of overdraft fees were triggered by debit card use, which underscores the importance of knowing how your bank reconciles your account. It may seem obvious, but you should hang on to every debit card receipt and make sure to log it into your register at least daily to keep your account up to date.

If a distracting weekend has led to a rash of overdraft charges, call your bank. "If you're a good customer, they'll sometimes waive the fees as a courtesy," says Sherry. "If it happens again, though, soon after, you're not going to be viewed as a good customer anymore."

### 3. Current versus available balance

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When you check your account online or at the ATM, it often shows two separate figures, the current balance and the available balance. If you start the day with \$100 and buy \$50 in groceries with your check card, the store's bank notifies your bank that a \$50 purchase is coming through, and it takes your available balance down to \$50, even though it shows that you still "currently" have \$100.

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-- Michelle Jun, staff attorney  
Consumer's Union

"This can be deceptive because a lot of people aren't really sure what is in their account, and it makes planning purchases confusing," says Zeichner. "If a purchase is pending, that should be taken out of your current balance, period."

When checking your account, always assume the "available" is the correct one. Over time, you may notice that the lag between when you buy something and when it shows up on your account will shorten. Both Visa and MasterCard are introducing faster processing that will allow your account to be deducted within 24 hours of most purchases.

#### 4. Blocking your money before you spend it

These tactics can make it a nightmare to keep an accurate tally of what's in your account. When you use your debit card for a hotel room or rental car, it's common for the hotel or agency to "block" an amount an amount equal to one or two nights, or as much as \$400 if you're renting a car. This sum is taken away from your "available" balance, and when you check out or return the car, the block is lifted and that cash is once again available from your account. It works like a deposit to give the provider some cushion if you cause damage or use the room or car longer than promised.

"Many people don't know that when you use your debit card at the gas pump there's often an amount blocked out -- maybe \$60 to \$75 -- even though you may only be buying \$25," says Michelle Jun, a staff attorney with Consumer's Union.

Another common practice is "preauthorization," which you can see online on your account when you find charges from retailers for \$1. "They've sent through a charge to see if the card is good and it has money in it. Then later, that's replaced by a charge for the full amount of the purchase," says Jun.

The only way to fully protect yourself from blocks is to ask questions. Before traveling, call the rental car company and hotel about their block policy on debit cards. If you're concerned about possibly tying up cash with blocks, you can use your regular credit card to cover the deposits and then pay for the actual charges with your debit card when you check out.

#### 5. OD-ing on overdraft protection

If you're prone to overdrafts, some type of protection may be beneficial, but keep in mind that you'll pay for it. Most plans link your account to either a line of credit or your savings account. Depending on the plan, when your balance goes negative, either a set minimum -- say \$100 -- is pumped into your account or just enough funds are taken to bring your account to zero. You'll also be charged about \$5 to \$10 each time the overdraft protection service is used, however, though that fee is still better than an overdraft that can be amount to several times that \$5 or \$10 total.

"Problems occur when you combine overdraft protection with blocks," says Jun. "You might spend \$25 at a hairdresser whose processor has blocked \$75 from your account, since that's the average amount that retailer charges, while you only have a balance of \$35. Your overdraft protection is activated, and you're suddenly paying fees and possibly interest on money you didn't need."

If you think you'd benefit from overdraft protection, get a clear outline about fees and when the protection is activated. You can also create your own overdraft protection with an old housewives' trick from the last century: Deposit \$100 into your account but don't write it into your register. It's there as a cushion when you should happen to go over, and there are no usage fees -- as long as you remember to replenish it after dipping into it.