

UNDERSTANDING CREDIT CARDS AND DEBIT CARDS

You see cards being used everywhere--at stores, online, at ATM's, and other places. There are actually two main types of cards, and they work in two different ways. It's good to have an understanding of how these work.

FLIP OVER FOR YOUR NEXT CHALLENGE



EARN THIS NUGGET

Compare the advantages of credit cards (rewards, no interest, access to funds you don't have, greater security and insurance) compared to a debit card (control of your bank account and funds). Create a list of 5 scenarios. Determine which card you should use for each and give an explanation to your parents. Devise a strategy for staying out of credit card debt.

LEVEL K

PERIOD 7

TASK 3

A Debit Card

This card is connected to your bank account, and in most cases is exactly as using cash, at least in theory. You swipe the card and enter your PIN (Personal Identification Number), the money is transferred from your account to theirs, and most of the time, there's no fee. Depending on your perspective, this has several pros and cons.

- You can only spend money that you have (unless you have an overdraft).
- There is no delay in processing, so you know exactly where you are financially, and you can manage your finances easily.
- Debit cards are unacceptable for some purchases, such as rental cars.

A Credit Card

This card looks the same as a debit card, but the credit card is a card in which you have an agreement with a bank that has given you a line of credit. You can make purchases up to the limit they've given. This sounds great, but also spells disaster for many people as they may end up faced with huge debts that they struggle to pay back.

- Terms vary, but generally there is no interest on a purchase as long as you pay back the money within a month.
- Credit cards have great security and many have additional warranties on purchased items beyond the manufacturer's warranty.
- A store has to pay a transaction fee when you use a card, so there is sometimes a surcharge added for credit card use.
- The interest on a transaction, if not paid within the grace period, can make a \$10 cost \$100 if you only pay the minimum payment.
- Often credit cards have very good rewards for using them, including cash back.

