Debit, Credit and Prepaid Cards: Do You know the differences?

Many consumers use debit, credit and prepaid cards, often interchangeably, to purchase goods and services. However, these three types of cards are quite different. Each card works differently. If you use a credit card, you are borrowing money that you must pay back, in addition to interest, if you do not pay the balance in full by the due date. If you use a debit card, which is issued by your bank and linked to your checking or savings account, the money taken from the account is yours and you never have interest charges.

With prepaid cards, you are spending the money deposited onto the card not money in a checking or savings account. Prepaid products include "general-purpose reloadable" cards; gift cards for purchases at stores; and payroll cards for employer deposits of salary or government benefit payments. These cards may have fees and limited protection against unauthorized transactions.

Watch for fees. You may be charged an overdraft fee if you use a debit card for a purchase without enough funds in the account and you have given your bank written permission to charge you for allowing the transaction to go through. If you don’t want to risk paying these fees you can revoke the authorization. Beware that future debit card transactions will be declined if you don't have the enough money in your account.

A credit card issuer may decline a transaction that puts you over your credit limit unless you have explicitly agreed to pay a fee to permit over-the-limit transactions. Prepaid card offers seem attractive, however you may have to pay a monthly fee, a fee to load money onto the care and fees for each transaction you complete.

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