

CREDIT VS. DEBIT - CONSUMER PROTECTIONS

by [Steve Brown](#)

Each year around this time, a majority of Americans either use credit or debit cards to buy gifts. As a banker, you are often expected to know the ins and outs of both. The information below may serve helpful, should you want to write an article for your bank's newsletter or for some e-mail marketing. Here are some tidbits that may prove useful.

Purchasing on credit instead of a debit card is similar but not exactly the same. Using a credit card gives customers certain rights under the Fair Credit Billing Act that are not afforded to debit card users. Credit card users are protected against "billing errors" such as fraudulent charges, math errors, or goods that weren't delivered as agreed (great for online purchases).

When it comes to debit cards, however, they are less safe than credit cards. Consumer protections for debt cards largely fall under the FTC's Electronic Fund Transfer Act. For debit cards, it is up to the issuing bank whether you can dispute a debit or get a refund for non or late delivery. While a majority of banks offer such type of purchase protections (banks can purchase such insurance from a 3rd party), many do not.

"Billing errors" are the most common dispute and include being double charged, mischarged, or charged for something you did not get. Here, both credit and debit offer strong protections. However, there is a large gray area for the 2nd most common set of complaints that include "delivering as promised." Here, if the wrong good was delivered, or was delivered late, the consumer may not have solid recourse. This also goes for any "guarantees" that the merchant gives you including those that read along the lines of "your money back if you are not completely satisfied." For credit cards, It helps that the merchant is domiciled in the state of purchase or 100 miles or less from the billing address of purchase, as there is a somewhat archaic carve out under the Fair Credit Billing Act that treats local merchants with a higher standard. In addition, FTC requires that all goods, unless a delivery time is stated, must ship within 30 days of purchase.

This gray area can be partially mitigated by a few easy tips. Make sure you verify the merchant's contact information before ordering if you are not familiar them. It is not uncommon for both legitimate and fraudulent companies to operate during the holiday season. If you don't know the merchant, check online, research reviews or call them for references in order to conduct an extra level of due diligence. Another set of tips is to know the details of the item you are purchasing; keep records and understand the company's policies on privacy, returns and dispute resolutions. It seems crazy, but according to the BBB, most unresolved problems with legitimate merchants are a result of the consumer not being able to provide proof of what they purchased or not knowing the details of the transaction. The best protection is preventative.

Finally, because of the low threshold for opening any business and the lack of regulation, merchants of all types will always present a material transaction risk. Having a bank or card company help in disputes is valuable. The trust and expertise of a banker as a 3rd party to a transaction will be even more important in the future, as online purchases continue to grow.

BANK NEWS

2 Closed (92 YTD):

Regulators closed: 1) Premier Community Bank of the Emerald Coast (\$126mm, FL) and sold it to Summit Bank (\$131mm, FL). Summit gets 2 branches, all deposits and entered into a loss share on 78% of the assets. 2) Western National Bank (\$163mm, AZ) and sold it to Washington Federal (\$13.4B, WA). Washington Fed gets 3 branches, all deposits (except brokered) and essentially all of the assets (no loss share).

Payroll Tax Cuts

The Senate extended for 2 months the payroll tax cut and laid the cost to pay for it on people who buy a home or refinance it after Jan. 1. They also will delay for two months a cut in Medicare reimbursements for doctors that was scheduled to take effect at the end of this year.

Competition

JP Morgan Chase said it will put 800 ATMs in Arco AM PM convenience stores in AZ, CA, NV, OR and WA. About 80% (625 ATMs) will be in CA.

Significant ALLL Change

FASB and IASB agreed in principle to a new standard for recording loan losses that will shift banks to an "expected loss" model for loan loss reserves. Under the approach, banks will have to book losses and increase reserves based on future projections of losses, as system that is expected to accelerate the building of reserves. Under the new approach agreed to by FASB and the IASB, banks would book loan losses upfront if the cash flows aren't expected to be collected within the next 12 months. Further losses over the loan's lifetime would then be recorded if banks determine the loans' credit quality has deteriorated to a "more than insignificant" extent and there is enough of a possibility of default that the contractual cash flows from the loan may not be recoverable. A formal proposal will be released in 2012.

Horrible

MSNBC reports analysis of FDIC data shows small loans to business of \$1mm or less are down nearly 15% from their peak and have tanked to a 12Y low.

CU M&A

Webster First Federal CU (\$558mm, MA) will take over Winthrop Federal CU (\$40mm, MA).

Exhausting Pace

If you thought you were crushed with the flow of regulatory changes, consider a new study by Thomson Reuters that finds financial services firms were hit with more than 14,000 regulatory changes in the year through Nov or an average of 60 changes each working day.

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