

# **Avoid These Debit Card Traps: New scams, fees, and traps to avoid.**

by Teri Cettina Close, Readers Digest 2008

## **The Latest Target of Thieves**

When Brad Lipman took his family out for dinner in July 2006, he had no idea it would end up costing him \$1,800. Lipman paid for the \$60 meal with his debit card. After the waiter took the card, someone swiped it through a portable "skimmer." This handheld electronic device allowed the thief to copy Lipman's account information and security codes, and clone his card.

Over the following week, the culprit drained Lipman's checking account and tapped into his overdraft line. He didn't realize anything was amiss until his credit union called him about some unusual charges. "It's hard to explain the feelings of violation," says Lipman, 40, owner of a lending company in Thousand Oaks, California. "Someone had their hand directly in my money."

Many people wrongly assume that debit cards offer the same protection against fraud as credit cards. But when a debit card is stolen or copied, there's no grace period while you contest the charges. Your cash has already been electronically zapped from your checking account. And if it falls short, as Lipman's did, you could face expensive overdraft charges that your bank isn't required to repay.

Debit cards have overtaken credit cards as Americans' plastic of choice for in-store transactions—33 percent debit, compared with 19 percent credit. Financial experts often recommend them as a money-management tool. Three years from now, debit card use will account for more than half our retail purchases, according to the Nilson Report, a payment-systems industry publication.

Debit cards have become the latest target of thieves, and it's not just random cases like Lipman's. In early 2007, hundreds of customers of a national chain restaurant in Sioux City, Iowa, learned their debit card numbers had been stolen. Thieves made cloned cards and are using them in stores in California and northern Mexico. And in 2006, the TJX Companies, which owns T.J. Maxx and Marshalls, reported one of the largest customer-data breaches ever: 45.7 million debit and credit card numbers were stolen from the retailer's computer systems over an 18-month period. Authorities still don't fully know the scope.

There's little you can do to predict a mass retail theft. But you can be smarter about how you use your card to avoid these and other common pitfalls. In addition to scams, hidden overdraft fees are at an all-time high, not to mention surprise holds and mismanagement traps that could land your account in the red faster than the ATM can spit out your receipt.

## **Know When to Hold 'Em**

When Ann Agent of Portland, Oregon, was planning to attend a children's book publishing conference in Tulsa, Oklahoma, she booked her hotel room over the phone by debit card. She and three colleagues intended to split the bill and each pay the hotel directly at checkout time.

Two days into the conference, Agent's husband called from home to read her a letter from her bank: Her checking account was overdrawn, and she was being charged \$35 a day in overdraft fees. "I thought there had to be a mistake," Agent, 45, says. "I keep close track of my account balance."

Turns out when Agent reserved the room, the hotel "blocked," or held, enough money in Agent's account to cover the entire four nights' stay, plus miscellaneous charges, amounting to \$580. This blocked every available

penny she had and caused her to overdraw. The charges weren't reversed until Agent returned home the following Monday.

Holds are common practice in the travel and hospitality industry. They're the merchant's way of ensuring you'll pay your bill. If you rent a car, the agency could block several thousand dollars to make sure you return the vehicle. Some restaurants will place debit card holds for large parties, and a friendly bartender can put a hold on your card if you start a tab. The hold is usually removed within five business days, sometimes much sooner.

Gas stations are notorious for holds. On a Friday morning in January 2005, Jessica Hathaway of Allentown, Pennsylvania, bought \$22.29 of gas by debit. On Saturday, the 34-year-old single mother of three checked her bank balance and learned she was almost broke. Right before the gas station debited Hathaway's account for the gas, it imposed a \$75 block.

"I was living paycheck to paycheck. I didn't have much extra in my account, and this \$75 charge worried me all weekend," she says. Hathaway was out of luck—and cash—until the following Tuesday, when her bank released the hold.

The kind of hold Hathaway described is a standard preauthorization for signature (non-PIN) transactions. Stations vary widely in their hold amounts. Because Hathaway bought gas before the weekend, her hold may have taken longer than usual to clear.

### **Avoid the Trap**

Leave your debit card at home when traveling. "People should use a credit card, even if they don't any other time," advises Clark Howard, consumer advocate and radio host of The Clark Howard Show. Never use a debit card any place your card is taken out of sight, like a restaurant. Book dinner reservations on a credit card. If you must use debit at a gas station—a hot spot for skimming—use your PIN inside or at the pump. Your card is safest if it stays in your hand, and typing in a PIN eliminates the hold.

### **Be Wary on the Web**

Say you buy an MP3 player for \$80 through an Internet discounter. You wait two weeks. Your music player never arrives, and now the seller is nowhere to be found.

If you used your credit card to buy the player, you've got options. Under the terms of the Fair Credit Billing Act, your card company must remove the questionable charge from your bill while it investigates. The law says you're liable for up to \$50, but you'll most likely end up owing nothing.

If you paid by debit card, you're doubly out of luck: no pocket tunes for you, and your money is already gone. Under the Electronic Fund Transfer Act, your debit card issuer isn't required to step in if you make a deal with an unscrupulous merchant. You get to wrangle with the seller yourself, no matter what your bank promised when you opened your account.

Then there's the fraud issue. Federal law generally limits your liability to no more than \$50 if your debit card is stolen or copied, as long as you report the crime within two days of receiving your statement. However, if you don't notice the suspicious activity till weeks later, you may be liable for up to \$500 or more. As with transaction disputes, recouping your cash isn't a sure thing.

### **Avoid the Trap**

Don't use debit for online purchases, especially if you don't know the retailer's reputation, says Avivah Litan,

electronic security specialist for Gartner, an information technology research firm that works with banks. Also opt for credit for all expensive items, like furniture.

Fraud is trickier because it can strike even if you're careful. Nessa Feddis, a senior federal counsel to the American Bankers Association, recommends checking your printed statements every month. Better yet, register for online banking and track your money trail even more frequently.

Some card issuers offer zero liability policies, meaning they won't hold customers responsible for even that first \$50 in fraud charges. But they are not legally bound to do so. "We get calls from listeners who struggle for weeks to get their own money back," notes Howard. Even if a store's card reader prompts for your PIN, you can override the system by pressing Credit/Other or asking the cashier to process the sale that way. When you sign a receipt, your debit transaction piggybacks on the credit card processing system, triggering the zero liability policy to kick in.

### **Steer Clear of Hidden Fees**

At the end of the week, most of us pull a wad of debit receipts out of our wallets and purses. Do we religiously record these amounts? Probably not. And even a \$5 purchase can cause you to overdraw if your balance is tight.

"Banks sometimes change the order of transactions at night. They take your biggest transactions and run them first," says Ed Mierzewski, consumer program director at the U.S. Public Interest Research Group. By manipulating the order of checks and debits, banks can cause you to overdraw sooner and more often than you thought, earning huge overdraft fees for themselves. Debit purchases and withdrawals are now the single largest cause of customer overdrafts, according to the Center for Responsible Lending (CRL). "Five years ago, if you didn't have enough money in your account to buy something, your card would be declined," says Leslie Parrish, a CRL senior researcher. Today banks extend "courtesy overdraft loans," the financial euphemism for letting you overdraw and then charging you for it. Charges average \$34 per transaction and add up to an estimated \$17.5 billion in annual fees for financial institutions, says the CRL.

### **Avoid the Trap**

Link your checking account to another account in case you overdraw. The fee, if any, is much lower than overdraft loans. If you incur fees, banks will often waive them if you ask. Some banks offer e-mail or text-message alerts if your balance gets too low. That could be a warning that someone has copied your card or charged you incorrectly.

### **What's Next?**

If you thought debit cards were popular now, just wait. The young tech-savvy generation is entering its prime earning and spending phase of life, and they live by their debit cards.

All the more reason for debit card security to step up a notch. Brad Lipman, the man who lost \$1,800 at a restaurant (his credit union eventually returned his money, including overdraft fees) was inspired to develop TablePay, a device that allows diners to safely swipe their debit cards right at their tables. Before long, U.S. debit card issuers may embed electronic chips in cards' magnetic strips, predicts Litan, the security specialist. These sophisticated cards are much harder to copy and use fraudulently.

And that's good, since even fraud victims like Lipman aren't willing to part with their debit cards. "I just can't give up the convenience," he says.