

What's The Difference Between Credit & Debit Cards

Debit and credit cards are both used to pay for goods or services without paying in cash or writing a check. The difference between the two is where the money to pay for the purchase comes from.



What's the difference?

When you use a debit card, the funds for the amount of your purchase are taken from your checking account in almost real time. When you use a credit card, the amount will be charged to your line of credit, meaning you will pay the bill at a later date, which also gives you more time to pay.

It can often be complicated to decide when it is best to use each card. For everyday purchases, consider using your debit card because you will see the money taken out of your checking account right away. For bigger items, such as a rental car or hotel room, you could use your credit card so that you can save up money by the time you have to pay.

Advantages of a debit card

In addition to the convenience if you don't have cash readily available, debit cards have several advantages for users.

- **Avoid increasing your debt.** Using a debit card instead of a credit card is a good way to decrease your chances of getting into debt. This payment method should keep you within your budget and from spending all of the money in your checking account. If you ever do spend more than your checking account allows, you may be charged an Overdraft or Return Fee from your bank.
- **Debit cards give you easy access to your cash.** You can use your debit card to withdraw cash from ATM machines. Some retail stores will also allow you to get “cash back,” charging more than your initial transaction to your checking account and giving the cash to you with your receipt.
- **Pay now to avoid a bill later.** Since the money from a purchase you make with your debit card is taken directly out of your checking account, you don't have to worry about a bill coming your way at the end of the month. This also means that you don't have to worry about interest accumulating on that bill. Using a debit card is a great way to control your spending, just be careful to avoid Overdraft and Return Fees!

Advantages of a credit card

There are several benefits of having and using a credit card.

- **Credit cards give you extra time to pay for purchases.** At the end of your monthly credit card cycle, you will receive a bill stating how much you owe for purchases made in the last 30 days. Depending on when you made the purchase, you have up to a few weeks to pay your credit card bill. Technically, you are only required to pay the minimum fee each month but this could lead to future debt.

For example, if you spend \$1,000 in a month but only pay your monthly minimum payment of \$15 and you spend again next month, you are likely to fall into a debt trap. Each month that you don't pay off the entire bill, there will be a certain amount charged for interest by the credit card company. A helpful tip is to pay off as much as you can each month to earn better credit and avoid building up debt.

- **Credit card use builds your credit history.** Each time you purchase something with your credit card and then pay it off on time, your credit history will build up. Building good credit is important when you are taking out a loan, buying a car or house, etc. Paying off your credit card bill each month will show that you are capable of paying off debt and can help increase your credit score.
- **Convenient for emergencies.** Having a credit card is very useful and convenient when there is an emergency. If you suddenly need to pay for a repair in your house, you can put the charge on your credit card. In this case, you probably did not plan for this expense, so your credit card company will extend you credit until you pay the bill at the end of the month. Again, this gives you a little extra time to pay for something you weren't expecting to pay.

Benefits of having a debit and a credit card

Many people have a debit card and a credit card. Since each card has a different use, they utilize the unique advantages and differences between debit and credit cards. Instead of choosing between one or the other, consider getting both!