

CREDIT VS. DEBIT: THE FACE-OFF

See when each card is the winning choice

BY BETH BRAVERMAN

Debit cards and credit cards look similar, and you can typically use them for the same thing. But they have crucial differences. Here's a range of situations in which you might use either, along with the card that comes out on top.

Round 1: You're making a big purchase.

Paying with a credit card, whether in person or online, provides an extra layer of consumer protection that debit cards do not. If your purchase is defective or you never received it, and you can't fix the problem with the merchant, you can appeal to the card issuer to intervene. Credit cards also are more likely to automatically extend warranties on purchases and give you limited protection against loss or theft.

A credit card will delay the moment you have to pay, while debit cards will take the money out of your account immediately. "You could get at least 21 days before you have to pay for the purchase," says Curtis Arnold, founder of BestPrepaidDebitCards.com.

The winner: CREDIT

Round 2: You're traveling overseas.

Many credit and debit cards charge a 3 percent currency conversion fee. For every \$100 worth of foreign currency you spend at a retailer or withdraw from an ATM, you get charged \$3. (See "6 Credit Card Tricks to Master" on page 28). In addition, many debit cards charge a transaction fee for using a foreign ATM. But not all: Debit cards from Capital One 360 and Charles Schwab are among those that don't charge conversion or ATM fees, though you may have to pay the local bank's ATM fee. Your best strategy: Use a credit card with no foreign transaction fee for your purchases—since credit cards offer greater consumer protection—and a similarly fee-free debit card for ATM withdrawals.

The winner: A DRAW

Round 3: You want rewards.

While some debit cards offer cash back—including Discover Cash Back Debit, Neon PointCard and Axos Debit Card—the rewards programs on credit cards tend to be far richer. "And with a credit card, you can pick the type of rewards that you want," says Howard Dvorkin, chairman of Debt.com. That can mean cash, travel points or discounts at a favorite retailer. Credit cards also often offer extra perks, including airport lounge access, shopping discounts and rental car insurance.

The winner: CREDIT

Round 4: You need cash.

When you have to scare up cash at short notice but you're far from your bank or one of its ATMs, using a debit card at another bank's machine will cost you an average of \$4.59 in total fees, according to Bankrate's latest estimate. But a cash advance on your credit card—either in person at another bank, or at an ATM, should you have a PIN—will cost you far more. You'll pay a cash-advance fee—typically 5 percent of the advanced amount or \$10, whichever is more. You'll likely pay a higher interest rate than you would for a purchase, and you'll get no grace period before that interest starts accruing. Bottom line: A \$250 advance could easily cost you at least \$17.50.

The winner: DEBIT

Round 5: You're trying to raise your credit score.

Since credit card companies report your payments to credit bureaus, making on-time credit card payments and lowering the amount of overall credit you're using can help build your score. So, if you're carrying a balance on a credit card, switch to debit for everyday transactions and pay that balance down. (Asking your card company to lower your rate might make the task easier.) If you don't have a credit card at all, open a card, use

it each month for a few small purchases and pay it off each month. Your regular, on-time payments will help raise your credit score over time, says Jasmine McCall, founder of the credit repair service The 20-Minute Credit Fix. Debit card issuers, on the other hand, don't report to the credit agencies.

The winner: CREDIT

Round 6: You're at a gas station.

Service stations often charge a higher price per gallon to customers who pay with credit instead of cash—a good reason not to use a credit card. But even though a debit card pulls cash from your bank account, if you use a debit card at the pump, you may be charged that higher credit card price anyway. Rules vary by state. Also, if you pay with debit, a gas station might put a "hold" on your bank account for more money than what you actually spent. The hold will expire in a few days, but if you make other purchases while it's still in effect and your account balance is low, you could get hit with an overdraft fee, says Sara Rathner, a credit card specialist at the personal finance website NerdWallet.

The winner: A DRAW

Round 7: You have trouble sticking to a budget.

With a debit card, unless you've opted into an expensive service, you can't spend more than what's in your account. (See "Big Banks Retreat on Overdraft Fees" on page 24.) A credit card, however, makes it easier to live above your means. "The debit card is more like the old cash envelope system," Arnold says. "Some people just don't do well with credit cards."

The winner: DEBIT

Beth Braverman is an award-winning personal finance writer who has written for Consumer Reports, Money and CNBC.com.

