# Credit—or?

© CORBIS

**Joe walks into the bank and opens a checking account. He fills out all the paperwork, deposits his first paycheck, and heads for the door with his new checkbook. "Hang on," calls the banker. "You forgot to fill in the paperwork for your debit card. We can also offer you a credit card if you want one!"**

"Excellent!" Joe is psyched, but then remembers what happened when his older brother got his first credit card. As he recalls, his brother did a ton of work to pay for a drum kit and amplifier he bought on credit. It took him some time to get out of debt.

"Wait…," Joe turns to the banker. "What's the difference between the credit card and the debit card? Which one is better?"

"It's pretty simple," the banker tells him. "A credit card issuer extends you credit. That means they pay your bills on the understanding that you'll pay them back—either right away or over time."

"So, let me get this straight—I could have $500 worth of detailing done on my car tomorrow, and pay for it with a credit card," says Joe. "And then pay the credit card issuer back whenever I have the money?"

"Sounds great, doesn't it?" says the banker. "There's just one catch. You can pay back just a little bit each month, but if you do that they'll charge you up to 21 percent in interest. So you can wind up spending a great deal on interest (also called finance charges), especially if you spend a lot of money. That's why some people prefer to use a debit card—or no card at all."

"What's a debit card good for?" asks Joe.

"You can use it for two things: to withdraw money from your account at an ATM, or to pay for things without using cash," explains the banker. "If you use a debit card, the money is automatically withdrawn from your checking account."

"So which is better—a credit card or a debit card?" asks Joe.

"Well, that depends," says the banker. "Even though a debit card is used like a credit card, you can only spend as much money as you currently have. When you use a debit card, the money is immediately withdrawn from your checking account. If you don't have the money in your account, your purchase will be declined. If you want to use a debit card for a big purchase, you have to save up in advance. You don't have to save up with a credit card, because it lets you pay off your purchases gradually—but the finance charges can be tricky and end up costing you a lot more than you anticipated. You have to decide for yourself which is best for your needs, and the way you feel most comfortable managing your money and your spending."

Soon, Joe was back in his favorite coffee shop with his pad and pencil. He made two lists of pros and cons.

**Students: Use the chart below to list the pros and cons of a credit card and a debit card.** Then decide if Joe needs a credit card, a debit card, both, or neither.

| Credit Card | | Debit Card | |
|---|---|---|---|
| **Pros** | **Cons** | **Pros** | **Cons** |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |