



FACTS

FOR OLDER CONSUMERS

National Consumer Law Center®

Protections for Debit Card and Electronic Transactions

Debit cards and electronic payments are convenient ways to pay for purchases or bills, but sometimes there can be errors or even theft. The bank might mistakenly process a charge for the wrong amount. Thieves might use your debit card number to buy a big-ticket item, such as a TV or computer. Fortunately, a federal law called the Electronic Funds Transfer Act (EFTA) protects consumers in these situations.

There are **two** separate protections under EFTA for debit card holders. The first protection applies when your debit card or its number is used to make a purchase that you did not make. The second protection gives you the right to dispute errors affecting debit card and other electronic transactions.

Note that while you can withhold payment to your credit card lender for poor quality goods or services in many cases, you don't have a similar right with respect to your debit card. That might be an important consideration if you are making a big ticket purchase (such as furniture or appliances). See NCLC's Consumer Facts "Your Credit Card Rights" for more information.

1. Unauthorized use

The first protection helps you when there is unauthorized use of your debit card, that is, when someone steals, borrows, or otherwise uses your card or card number without permission. The rules that apply differ depending on whether your card was lost or stolen, or whether you still have the card but an unauthorized charge appears on your bill

Lost or stolen card. If your card itself was stolen and used, your losses will be limited depending on how quickly you report the loss or theft of the card.

- If you notify the bank within 2 business days of learning that your card has been lost or stolen, the most you can lose is \$50 or the amount of unauthorized charges made before you call, whichever is less.
- If you notify the bank more than the 2 business days described above but less than 60 days after your statement is provided, you can lose up to \$50 in charges made in the first 2 business days plus any subsequent unauthorized charges made before you report the loss, up to a total maximum of \$500.
- If you fail to report the fraud charges within 60 days after your bank statement is sent, there is no cap on your liability for unauthorized charges made after those 60 days. Within the first 60 days, your losses are capped as previously noted.

You are not responsible for any unauthorized charges made after you notify the credit card company.

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No lost or stolen card. If your physical debit card itself is not lost or stolen, you are not liable for **any** fraud charges using your debit card number if you report the fraud within 60 days after your statement is sent. That is, neither the \$50 liability limit nor the \$500 liability limit applies if your card was not lost or stolen. If you take longer than 60 days after your statement was sent, you should still be able to get reimbursement for fraudulent charges made in the first 60 days, but you will not be able to recover later charges that could have been prevented if you had called within 60 days. In either event, you should act promptly.

If you report an unauthorized charge promptly, VISA, MasterCard, and other card networks have “zero liability” policies that limit your losses to \$0. Also, the zero liability policies may not apply if the thief is able to find out your PIN and make a purchase or get cash from an ATM using that PIN. You should never write your PIN number on your card or carry it in your wallet.

You should call your bank as soon as you realize your debit card is missing or you learn of any unauthorized use. If you call before unauthorized charges are incurred, you cannot be charged even \$50 since the bank can take steps to cancel your card and send you a new one. After you report an unauthorized charge, the bank must conduct an investigation of your claim.

Since the money used to pay an unauthorized debit card charge comes directly out of your account, you won't be able to use that money until the fraud charge is reversed. However, you can use the billing error resolution procedures in the next section to dispute an unauthorized charge. Those procedures give you a right to a “provisional credit” in some instances after 10 days.

If you give your debit card to another person, such as a family member, to use and they subsequently misuse it for a charge that you did not authorize, that is not considered unauthorized use. That is because your family member is considered an “authorized user” once you give them the authority to use your debit card, until you tell the bank that the family member is no longer permitted to use your card.

2. Error Resolution Procedures

The second type of protection allows you to dispute errors involving your debit card or other electronic transactions such as a direct deposit from your employer or a monthly electronic withdrawal to pay your mortgage. The Electronic Funds Transfer Act requires banks to follow specific “error resolution” procedures to resolve these disputes.

How to raise a dispute using the error resolution procedures

Under the law, you must dispute an error within sixty (60) days of the first bank statement with the error. You may raise the dispute either in writing or orally, but the bank can ask that you send a written confirmation of the dispute within 10 days of an oral dispute. It may be a good idea to submit a dispute in writing so that you have a record of it. Your dispute should include:

- Your name and sufficient information to identify your account.
- The date, type, and dollar amount of the error.
- An explanation of why you believe an error exists.

Your bank may specify a particular telephone number or address for you to report an error. However, if you report an error to the wrong telephone number or address, the bank should refer you to the correct number or address.

What can you dispute?

The EFTA only permits you to raise certain types of disputes using the error resolution procedures. Some examples of reasons for dispute are:

- I did not authorize this charge.
- This transfer from my account is for an incorrect amount.
- I am missing a transaction (e.g., direct deposit) to my account.
- The bank made a math error on my monthly statement.
- I tried to withdraw \$100 from the bank's ATM, but the ATM only gave me \$80, yet the receipt and my bank statement say I withdrew \$100.
- I can't identify this transaction to my account. Please send me additional information about this transaction.

You do not have a legal right to raise a complaint about the quality of merchandise or services you bought using a debit card with these error resolution procedures. That right only exists for credit cards. However, the card networks might give you some protection under their voluntary Zero Liability policies.

The following is an example of a dispute letter.

SAMPLE DISPUTE LETTER

Jane Consumer
101 Main Street
Anytown, USA 12345

Big Bank
P.O. Box 666
Somewhere, USA 12345

Dear Big Bank:

My name is Jane Consumer. My account number is 123456789. I am disputing an error on the statement you mailed on June 5, 2014. That statement includes an electronic payment of \$157.80 on May 30, 2014 to My Mobile Co. for my cell phone bill. However, this payment should have only been \$107.80, because that was the amount of my cell phone bill.

Please investigate this dispute and provide me with a written statement of the outcome. Thank you for your time and attention to this matter.

Very truly yours,

Jane Consumer

What happens after you raise a dispute?

Once you have raised a dispute, the bank must investigate and report back to you within 10 days. However, if the bank is not able to complete its investigation within 10 days, the bank may extend the investigation to

45 days if it provides a “provisional credit” of the disputed amount. In other words, the bank must credit your account for the disputed amount but it can reverse the credit if it concludes there was no error. Also, these timeframes are doubled to 20 days and 90 days if the electronic transaction involves a point-of-sale debit card charge (e.g., a store purchase using your debit card) or an out-of-state transaction.

The bank must report the results of its investigation within 3 days after completing it, including a written explanation of its findings. If you claim that a charge is unauthorized, the burden is on the bank to show that the transfer was authorized. The bank must also give you any supporting documentation upon your request. If the bank gave you a provisional credit and then does not find in your favor, it may reverse the credit, but it must notify you. In addition, it must honor any checks or other debits for the next five days without charging you for overdraft fees that those debits might trigger.

3. Prepaid cards

Prepaid cards work just like bank account debit cards, but without the bank account or check writing capacity. They often carry the Visa, MasterCard, or American Express logo, which means they can work on these networks. Prepaid cards can be used to make purchases, get cash back from a purchase, and withdraw cash at an ATM just like bank accounts debit cards.

Most prepaid card will provide the same protections as a bank account debit card. They also offer the voluntary Visa or MasterCard “zero liability” policies.

How to Enforce Your Bank Account Dispute Rights

If your bank does not respond to your dispute or you are not satisfied with the results, there are further steps you can take.

Complain to the Consumer Financial Protection Bureau. The CFPB takes complaints involving banks account problems. You can file a complaint online, or by phone, or mail.

Online: www.consumerfinance.gov/complaint

Phone: (855) 411-CFPB (2372)

Mail: Consumer Financial Protection Bureau
P.O. Box 4503
Iowa City, Iowa 52244

You should also file the same complaint with your state Attorney General.

Sue the company or take them to arbitration. Federal law permits you to sue your bank if it does not follow the dispute procedures discussed above. However, your right to sue may be limited by a mandatory arbitration provision. Many banks have slipped these provisions into their contracts (probably one of those bill stuffers with tiny print that few consumers read) that prevent you from suing the bank in court. Instead, you are required to use a private company to resolve your claim. Arbitration is not as favorable for consumers as going to court. If you decide to use the arbitration process, make sure to have the bank agree to pay the costs. Otherwise, arbitration is very expensive, with filing fees of \$100 - \$200 and daily fees up to \$1,000 per day.

Additional Resources

National Consumer Law Center, *Guide to Surviving Debt* available at www.nclc.org/for-consumers/guide-to-surviving-debt.html.

National Consumer Law Center, Consumer Facts “Your Credit Card Rights” available at www.nclc.org/images/pdf/older_consumers/cf_credit_card_rights.pdf.

Federal Trade Commission, Electronic Banking, available at www.consumer.ftc.gov/articles/0218-electronic-banking.



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