



# TOIRMA Update

By Jim Donelan

TOIRMA Executive Director

## Credit Cards vs. Debit Cards

**T**ECHNOLOGY IS EVERYWHERE. It's impossible to ignore and is becoming more and more a part of our lives. Anyone that watches television programs from the '80s or '90s can see how many of the plot lines would be different in today's smart phone era. Let's admit it, it's impractical to begin our days without first checking our phones for texts, emails, calls, or the weather. Earlier this month my Bluetooth antenna malfunctioned, and I can't explain the havoc this caused on my daily routine. As a part of our reliance on technology, it's almost impossible to do commerce without having an electronic means of payment. Whether it's a credit card or debit card, you can't even procure a hotel room or rent a car without them. Since we must have these plastic tools to function in our modern society, it begs the question: which outlet provides us the most protection?

Believe it or not, this has been a topic of conversation at recent regional township meetings. We have been discussing with officials the differences between a credit card and a debit card, and the risks associated with each.

We all know the basic differences between a credit and debit card. When you purchase something with

a credit card, you are not technically paying for the item until you receive your monthly statement from your credit card provider, and make the payment to them accordingly. This, of course, is done by the due date to avoid a late charge and reduce interest. A debit card looks like a credit card physically, and is offered through your bank or financial institution in partnership with a major credit issuer/provider such as Visa, Discover, MasterCard, or American Express. The difference is that once a transaction is made, the amount is removed electronically from your checking account.

The good thing about a debit card is that you can use one just about anywhere and you are not accumulating debt at high interest rates because if the funds are not present, the card will not process. The bad thing about a debit card is that if your card is stolen or compromised, funds may be taken from your checking account. With a credit card if your card is stolen or compromised, no funds are actually removed from your checking account.

Unfortunately, dealing with financial transactions leads to the risk of fraud. What protections are afforded to us with either a credit or debit card? Which is better for a township? I'll leave the fee question up to you to

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investigate, since it varies by card/bank. According to the Federal Reserve and Federal Trade Commission, if your debit card is lost or stolen your liability limit is \$50, but it must be reported within two days. After two days your liability limit is increased to \$500. Further, if you wait 60 days or more from the time money is stolen, you may be liable for whatever the amount. This, coupled with the fact that money is actually taken from your checking account, is a sobering thought<sup>1</sup>.

Credit card users are provided much more protection than users of debit cards. If a credit card is stolen, the consumer's liability caps out at \$50. The Fair Credit Billing Act also provides a mechanism for consumers to dispute unauthorized charges on a credit card and the purchase of goods that are lost during shipping.<sup>2</sup> Generally, debit card providers don't offer the same protections, plus, even if one does, remember money has actually been removed from your account and is not there for use until it is refunded.

Back in 2006, my debit card was duplicated and someone was in New Orleans making purchases at Wal-Mart. At the time, I had never even been to New Orleans in my life. Although we caught it early and reported it to our bank, it took a few days for us to recoup our funds. What a headache!

It seems clear that the credit cards offer townships greater protections for lost, stolen, or compromised cards. In addition, Illinois Compiled Statutes require the township board to audit each expenditure or bill prior to it being paid. If the order/warrant is being drawn from a proper fund consistent with the adopted budget and appropriation ordinance, and there are funds available to pay the expenditure, it should be paid. The spirit of the statute seems to be that bills should be audited prior to being paid. Since transactions paid for with credit cards afford the township board the opportunity to examine the transaction prior to paying for it, the most conservative approach would be for a township or road district to utilize a credit card over a debit card.

We hope you find this information useful. If you have any further questions regarding the above topic, please feel free to contact me at (888) 562-7861, or by email at [jdanelan@toirma.org](mailto:jdanelan@toirma.org).

Citations:

- 1: [www.banking.about.com](http://www.banking.about.com), Your Protection against Electronic Banking Fraud and Errors, Pritchard, Justin, July 21, 2015
- 2: [www.investopedia.com](http://www.investopedia.com), Credit vs. Debit Cards: Which is Better? Cussen, Mark P.



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