

Payment Card FAQs

Q: How do credit cards work?

A consumer applying for a credit card is actually applying for a line of credit – the ability to purchase goods and services with borrowed money up to the maximum credit limit that the card issuer believes is appropriate based on that individual’s credit history. (As is also the case with a home equity line of credit, the consumer has the option to use only portions of the maximum approved amount whenever needed, up to the issued limit.)

When making a credit card purchase at the point of sale (POS), the consumer – or, sometimes, the merchant – generally swipes the card at a terminal, which transmits information about the transaction to the financial institution that issued the card (called the “issuing bank”). If the consumer’s available credit is sufficient to cover the transaction – and if the issuer’s automated security technology does not suspect potential fraud – the transaction is approved in a matter of seconds and the consumer’s available credit is reduced by the amount of the transaction. Within a few business days, the issuing bank forwards the amount of the transaction to the merchants’ financial institution (called the “acquiring bank”), where it is credited to the merchant’s account.

Approximately once a month, the issuing bank sends the consumer a statement detailing and totaling the previous month’s transactions – purchases, cash advances, payments, any applicable fees and any finance charges that accrued if the consumer paid only a portion of the previous month’s total. If the consumer pays the total amount in full, no finance charges appear on the following month’s statement, and the consumer has, in effect, been given a short-term, interest-free loan. If the consumer pays only a portion of the total, however, the remaining balance “rolls over” onto the next month’s statement and becomes subject to finance charges, according to the terms of the card agreement.

Q: What is a debit card?

A debit card is a safe and convenient alternative to carrying cash and checks. It enables a consumer to purchase goods and services or withdraw funds from automated teller machines (ATMs) anywhere in the world. When a consumer makes a purchase using a debit card, the amount of the transaction is deducted directly from their checking account or brokerage account, called a demand deposit account (DDA). Depending on the type of card the financial institution issued the cardholder, the funds may be deducted either immediately or after a few days.

**Q: How do debit cards differ from credit cards in terms of safety and security?
What happens if a debit card is lost or stolen?**

Debit users are afforded the same protections as credit users in terms of lost and stolen cards, as well as fraudulent use. Cardholders should immediately contact their card issuer or MasterCard if a card is lost or stolen, or as soon as any suspicious or fraudulent charges are detected. To contact MasterCard, consumers may dial 636-722-7111 collect from anywhere in the world to cancel your account. MasterCard's global directory will put you in touch with a representative who speaks your language – 24 hours a day, 365 days a year.

If you need to make purchases or arrange for a cash advance, with your issuer's approval, you can receive a temporary card the next day in the United States and within two business days in most international locations. You will not be responsible for any unauthorized transactions on your account in the event you report your card lost or stolen.

Q: What are “three-party” and “four-party” payment systems?

The major bank card associations and companies, including MasterCard Worldwide, operate payment networks that link the four parties involved in each card transaction described here for the MasterCard payment network:

- The cardholder uses a MasterCard payment card to purchase goods and services at more than 24 million merchants around the world.
- The cardholder's issuing bank markets and issues MasterCard cards to consumers.
- The merchant accepts MasterCard payment cards in exchange for goods and services.
- The acquiring bank enrolls merchants into programs that accept MasterCard payment cards.

Because these payment networks tie together four parties in each transaction, they are known as four-party systems.

In a three-party payment system, the company operating the network interfaces directly with merchants and consumers, in addition to processing transactions, issuing cards and enlisting merchants to accept those cards.

Q: What is Interchange?

Interchange is a small fee that “acquiring banks” (financial institutions that process transactions for merchants) in a four-party payment system pay to “issuing banks” (financial institutions that issue cards to consumers) on each card transaction. In a four-party payment system such as that utilized by MasterCard, issuing banks assume greater risks and costs than acquiring banks, and interchange helps ensure that issuing banks are fairly compensated for those higher risks and costs. This fee, which is only exchanged between financial institutions in a four-party payment system, helps issuers cover the costs associated with billing and administering millions of cards, developing innovative new payment card products and rewards programs, and investing in security and fraud prevention technology. It is set at a level to maximize both card issuance and

card acceptance. Three-party payment systems do not involve issuing and acquiring banks. The operators of three-party systems charge merchants fees on each transaction though such charges are not, technically, “interchange.”

Q: How do consumers benefit from using payment cards?

Payment cards offer consumers more security, convenience, flexibility and control than any other payment method. They are the fastest and simplest way to pay for purchases, whether at the point of sale, on the Internet, or by mail or telephone, and they are safer than carrying cash or using checks. The broad variety of payment cards available today gives consumers the flexibility to choose how and when they want to pay for goods and services, and credit cards enable consumers to meet emergency or other extraordinary expenses and to pay for them on a timetable that suits their needs and budgets. Cards also make it easy to track and manage expenses by offering instant online access to information about recent transactions and detailed monthly statements.

Q: How do merchants benefit from accepting payment cards?

Payment cards offer merchants a host of benefits that make them superior to cash and checks in many ways. Card transactions are faster, more convenient to process, and less costly overall than those paid by cash or checks. Card payments do not “bounce” as checks can, and merchants generally have access to their funds sooner than they would with checks. Accepting payment cards enables merchants to attract and retain customers, and studies have shown that the total value of a customer’s purchase is often higher when it is made using a payment card.

Q: How can credit cards help consumers build credit?

By using credit cards responsibly, consumers can build the positive credit records required for such necessities as purchasing or renting a home and securing needed utilities, financing the purchase or lease of a vehicle, and – sometimes – obtaining employment or insurance.

When making lending decisions – whether or not to lend money and, if so, at what interest rate – creditors rely heavily on applicants’ credit scores. Consumers’ credit scores are calculated based on information in their credit reports, including the length of their credit history, whether they pay their bills on time, and how much debt they currently have. By always paying their credit card bills on time – at least the minimum required payment, if not the total balance owed – consumers may be able to establish a positive credit history.

Credit scores make possible the automated underwriting of home mortgages and other consumer loans, making the process faster, less expensive and more equitable. Mortgage rates, for example, average two percentage points lower in the United States than in Europe because the U.S. consumer credit system – based largely on automated underwriting using consumers’ credit reports – makes it possible to pool loans and make them attractive to investors, increasing the availability of capital for lending. As a result, home buyers may have access to more money – and at lower interest rates