Payment Methods

Work in small groups to complete the following steps …

STEP 1: Review the information about various payment methods below (pages 1-2).
STEP 2: Complete the grid with the benefits and costs of each payment method (page 3).
STEP 3: Review the case studies and determine which payment method is appropriate for each (page 4).

PERSONAL CHECK

- In order to use checks, you must have a checking account. You open the account at a bank or credit union and deposit funds.
- Checks are pre-printed slips of paper with your account information, and you fill in the recipient, the amount and the date, then sign. The recipient endorses (signs) the back and can receive cash or deposit the funds, which are then removed from your account.
- Financial institutions may charge for the use of a checking account, but if you have a large balance of funds, they may pay you interest. Checks cost about $5 for 100, and some institutions charge fees for using them. If you write a check for more than the amount in your account, you will have to pay an "overdraft fee," which is about $30-40 per check.
- You may write a check for any amount, but the recipient may not be willing to accept a large check, since they do not know for certain that the funds are in your account. Some firms will not accept payment by check because so many people try to use fake checks.
- Note that checks can't be used online.

DEBIT CARD

- A debit card works much like a check and requires an account. When you use it, the funds are removed from your account. It is possible to overspend your funds, and you can face an "overdraft fee."
- You may use the card to get cash from an ATM (automated teller machine) or pay for a purchase directly. Debit cards can be used for large or small purchases, and they can be used online.
- Usually, using a debit card requires a PIN (personal identification number) for security purposes. Banks often charge fees to use a debit card to withdraw cash.
- When you use a debit card to pay for something like a hotel, the hotel may put a "hold" on a larger amount of your funds until your final bill is paid.
- If your card is lost or stolen, then used by someone else, you may be responsible for some of the charges. It is important to report the missing card to your financial institution right away.

CASHIER'S CHECK

- A cashier's check is like a regular check, except it is paid from the bank's account, rather than the individual customer's account.
- This makes it more reliable from a merchant's perspective – they don't have to worry about the check being fraudulent or overdrawn.
- Banks typically charge a $10 fee for a cashier's check, so it wouldn't be worthwhile for small transactions.
- Consumers and businesses use them for large purchases, such as a down payment on a house or a stock purchase, when security and confidence are critical.

TRAVELER'S CHECK

- A traveler's check is a special type of private currency, sold at banks and some travel firms, such as AAA, in different denominations like $25, $50 and $100.
- Traveler's checks are typically used for foreign travel (although they have decreased in popularity) because if they are lost or stolen, they can be replaced.
- When you buy a traveler's check, you pay the amount of the check plus a 1-4% commission. You record the serial number, then sign the check.
- In order to use the check, you must present your passport and sign it again. If a traveler's check is lost or stolen, you report it to the issuing company (with the serial number), and you will be reimbursed.
- Many merchants are unfamiliar with traveler's checks and not willing to take them as payment, so travelers frequently exchange them for local currency at a bank.

ELECTRONIC BILL PAYMENT

- Electronic bill payment actually includes a variety of payment methods, including wire transfers, PayPal, and electronic funds transfers through your financial institution.
- These payments occur completely online, and funds are transferred between your account and a merchant's account through the Electronic Funds Transfer network.
- Electronic payments may be as simple as a few keystrokes on your computer or smart phone, but they may incur fees for either the customer or the merchant.
- Some banks, for example, charge a fee for receiving transfers. PayPal is free to the sender, but merchants pay a 2-3% fee for receiving payments by PayPal. For wire transfers, both the customer and the merchant may pay a $15-$50 fee.
- Although electronic bill payment is growing in popularity, due to its speed and ease of use, it is not always the most affordable method of payment. Some fear that hackers can access and use these payment systems, but increasing security measures are being put in place. Customers should carefully monitor their online accounts to protect against fraud.

MONEY ORDER

- Money orders are issued by the U.S. Post Office, money transfer businesses and some retail stores, not by banks. They may be used to make payments, just like a check, but they do not include your account information or other personal information on them.
- In fact, you are not required to have an account to buy a money order. They may be sent through the mail, but they cannot be used online.
- Some firms, like insurance companies, do not accept money orders because they are sometimes used in illegal enterprises.
- A money order costs a maximum of $1.65 and can be issued for any amount up to $1000.

AUTOMATIC DEDUCTION

- Automatic deduction requires an account, just like using a check or debit card. It is a type of electronic bill payment where you authorize your financial institution, in advance, to pay a set amount to a vendor every month.
- Banks often offer this service without any additional fee. Automatic deduction must be set up to pay a fixed amount, so it doesn't work for paying variable expenses, like groceries. Consumers use these deductions for everything from mortgage payments and college loan payments to life insurance premiums and health club memberships.
- It is important for consumers to check their bank statements to ensure that the correct amounts are being paid, as banks sometimes make mistakes or don't make payments on time. The consumer is still liable for any late or missing payment fees.

CREDIT CARD

- You can obtain a credit card through a bank, credit union or credit card company. In order to set up the account, you must "qualify," which means proving that you are a reliable borrower.
- The issuing company requires information about you, including your Social Security number, your employer, and your credit score, which reflects your payment history. *You will learn much more about qualifying for and managing credit in the next unit.*
- Making payments using a credit card is similar to using a debit card, but you are actually borrowing the money rather than spending funds from your account. The issuing company sets a credit limit, which limits how much you can spend. It may be several thousand dollars, even on a new card.
- Paying by credit card is easy, but it may be too easy, since you can spend money you don't actually have.
- If you check with your company first, you can usually use a credit card internationally.
- If you are unable to pay the full cost of all of your purchases at the end of a month, you will be charged interest, which can be as high as 25-30%. Many credit cards also have an annual fee. If your credit card is stolen, the most you will owe for unauthorized charges is $50.

BENEFITS AND COSTS

Method of Payment	Benefits	Costs
Cash/Coin *(paying with U.S. dollars or coins)*	• Widely accepted • No additional fees charged • If you get paid in cash, you can spend it without going to any intermediary	• Can't use to pay large bills • Can be lost or stolen, can't get it back • Not safe to send through mail, can't use online
Check		
Debit Card		
Cashier's Check		
Traveler's Check		
Money Order		
Electronic Bill Pay		
Automatic Deduction		
Credit Card		

CASE STUDIES: What is the best method of payment?

In each of the following scenarios, explain which method of payment you think the consumer should use. Be sure to explain your reasoning – how the benefits of your selected method outweigh the costs.

James is buying a new car at a local Ford dealer, and he is making a down payment of $4500.
Maurice is buying a new textbook from Amazon.com, which costs $120.
Neko is buying a $3 coffee at Starbucks on her way to work.
Annika is paying $25 to fill up her gas tank at Super America.
Danny is buying a used lawnmower from a neighbor for $200.
Lucinda is buying a $900 plane ticket to London from an online travel agency.
Juan, who is on vacation in Germany, is buying an $800 cuckoo clock at a small store.
Trina is paying her monthly mortgage bill of $1250 to Bank of America.