

# **Why Use Debit Instead of Credit? Consumer Choice in a Trillion Dollar Market**

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Comments and Discussion

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The views expressed are those of the author and not necessarily those of the Board of Governors, other members of its staff or the Federal Reserve System.

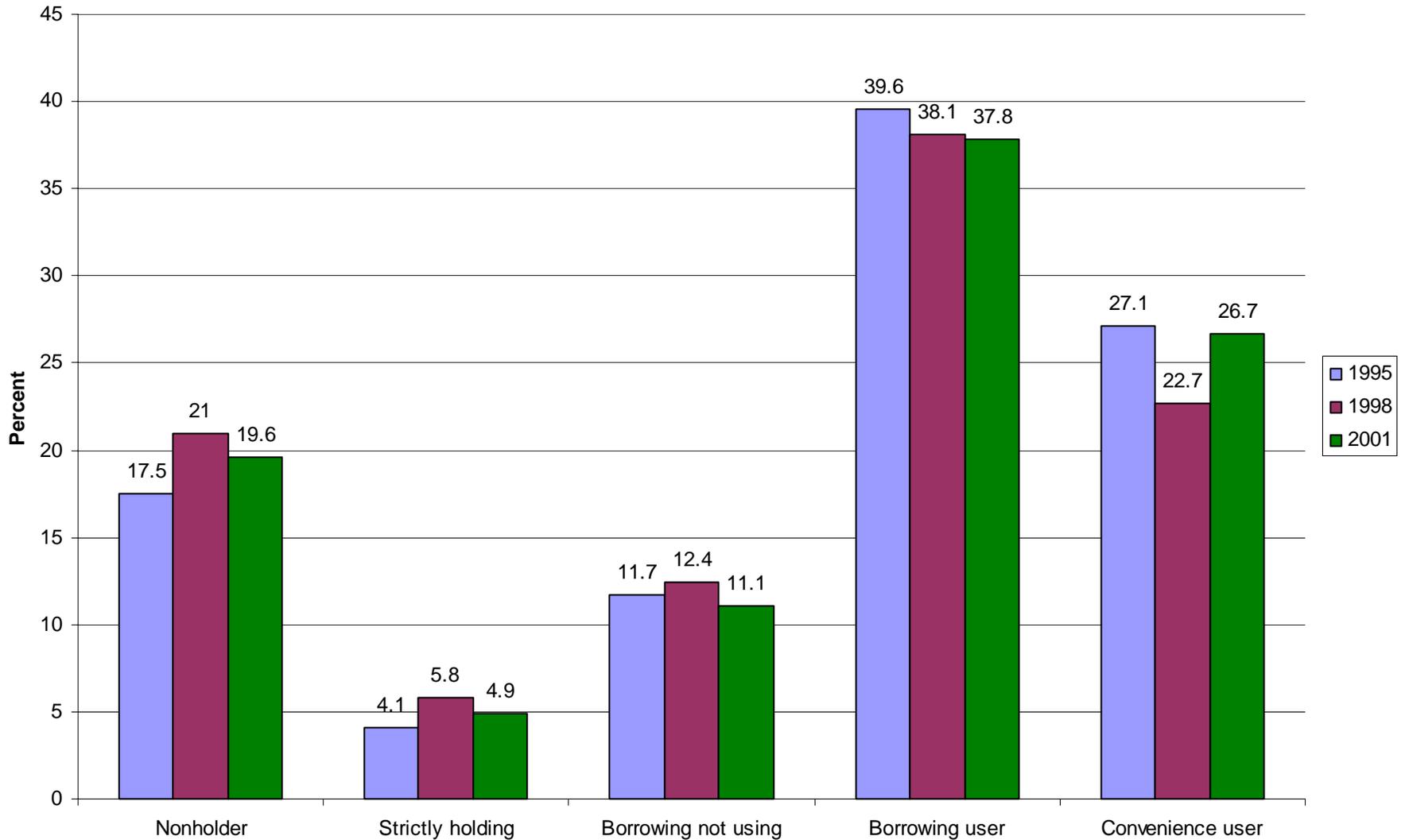
# Why use debit instead of credit?

- Three questions:
  - Are revolvers more likely to use debit cards than convenience users?
  - Are revolvers near or at their credit limit more likely to use debit cards than other bank credit card holders?
  - Are convenience users less likely to use debit cards than those who do not hold bank credit cards?
- Three answers:
  - Yes, yes and yes.
- These results are generally consistent across time
  - Important to note, because debit card use grew substantially over sample period.
  - 1995 results may be affected by relatively low debit card use rate.

# Changes in the use of payments: 1995-2001

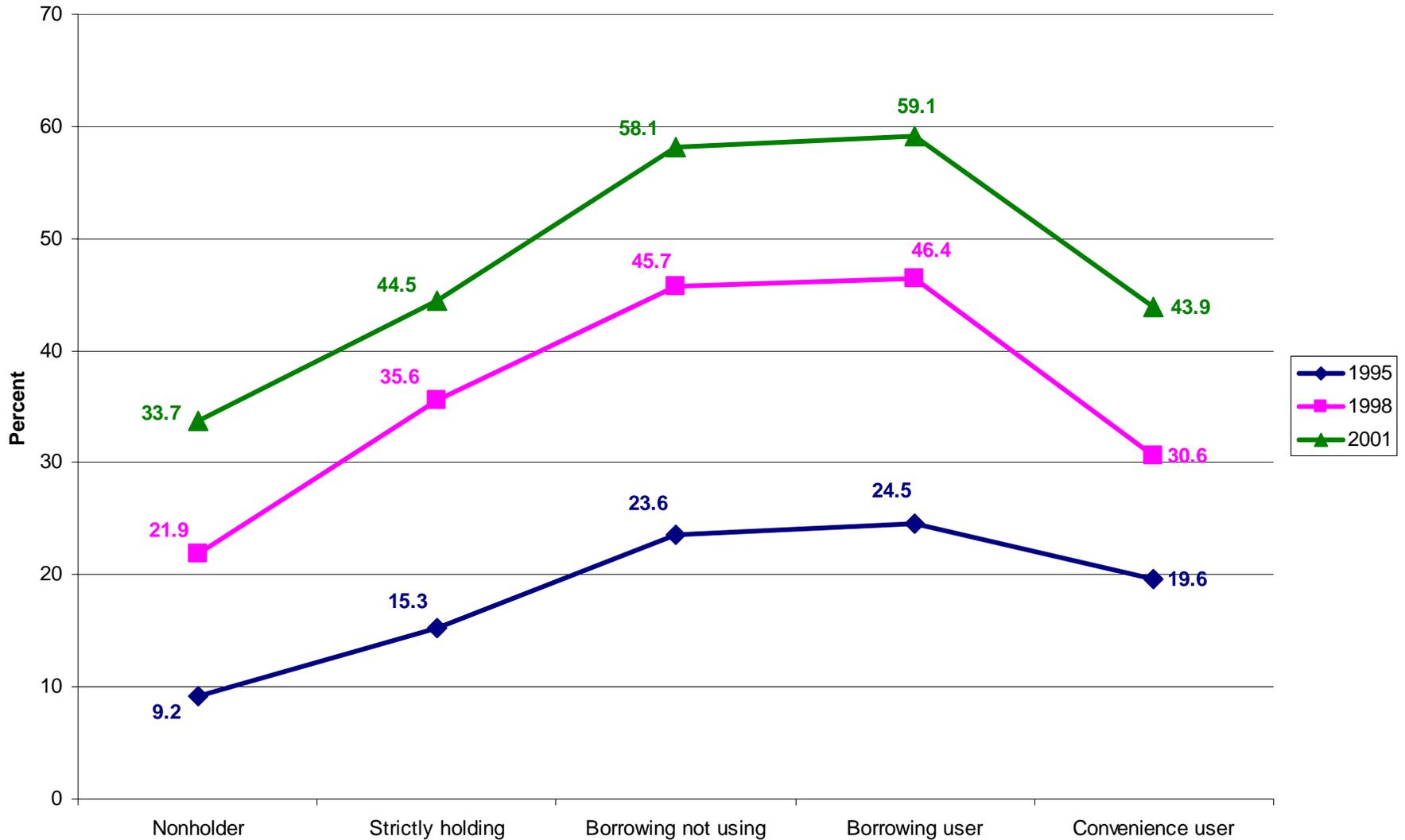
- From 1995 to 2001 ...
  - Debit card use grew substantially – from 17.6 percent of families in 1995 to 47.0 percent in 2001.
  - Bank credit card holdings increased moderately – from 66.4 percent in 1995 to 72.7 percent in 2001.
- In general, growth occurred across all income and age groups.
- But patterns of use stayed the same! In all survey years,
  - The largest share of debit card users are revolvers.
  - A greater proportion of revolvers use debit cards.
  - A greater proportion of younger families use debit cards.
  - A greater proportion of higher income families have credit cards.

### Debit card use by bank card holdings: 1995, 1998, 2001



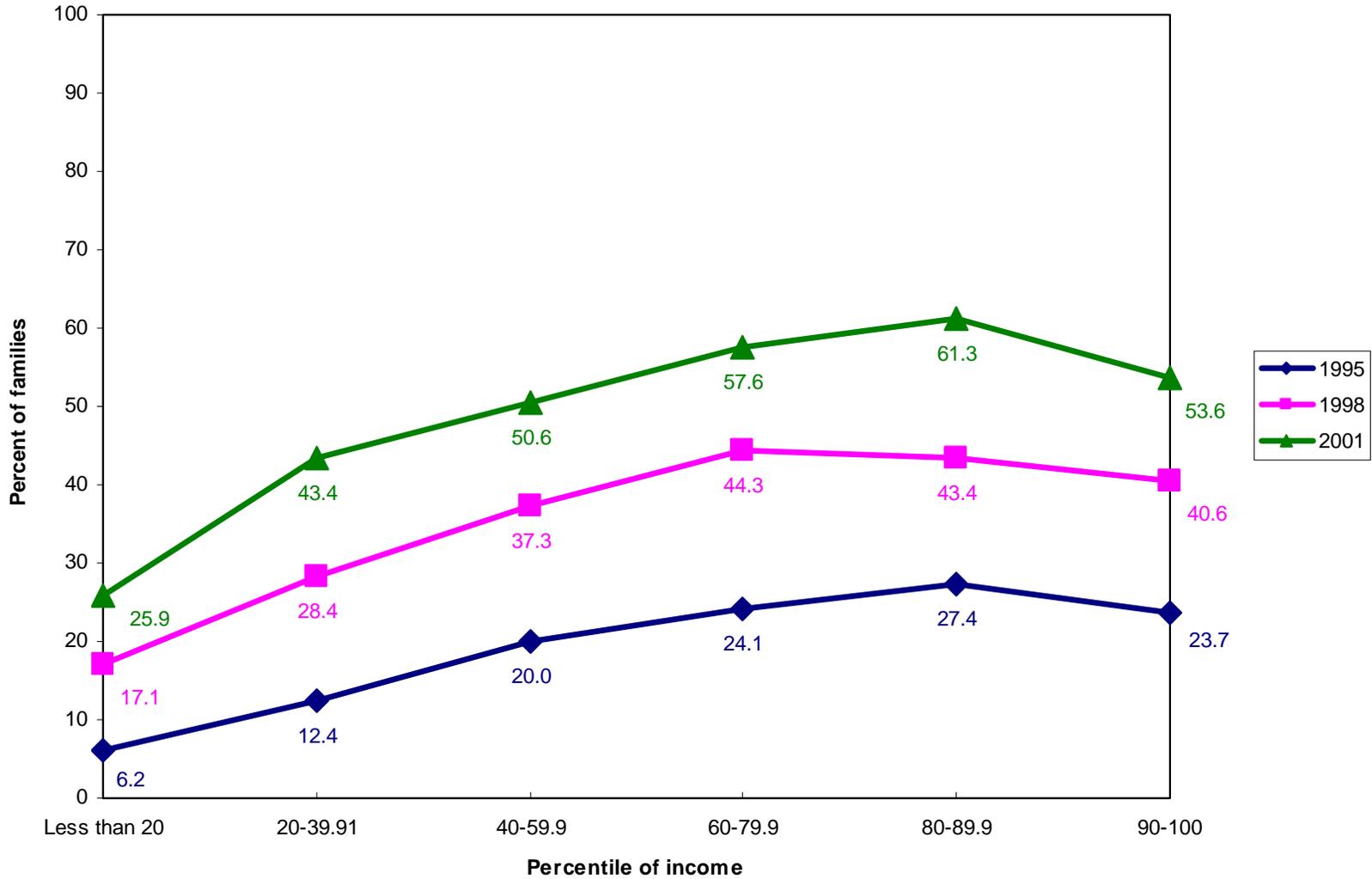
Source: Survey of Consumer Finances, Federal Reserve.

### Use of debit cards within bank credit card classes: 1995, 1998, 2001



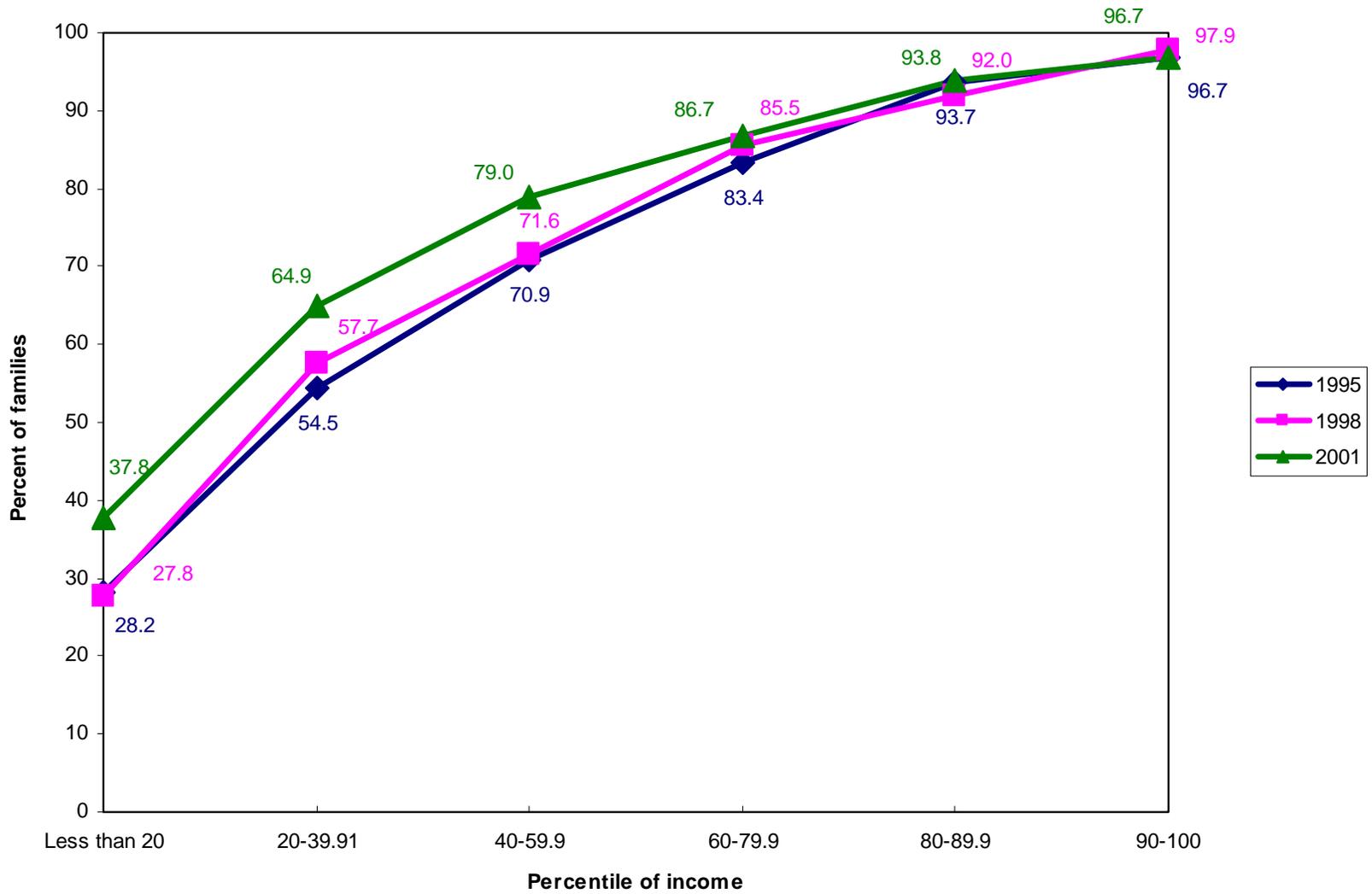
Source: Survey of Consumer Finances, Federal Reserve.

Debit card use: Percentile of income, 1995, 1998, 2001



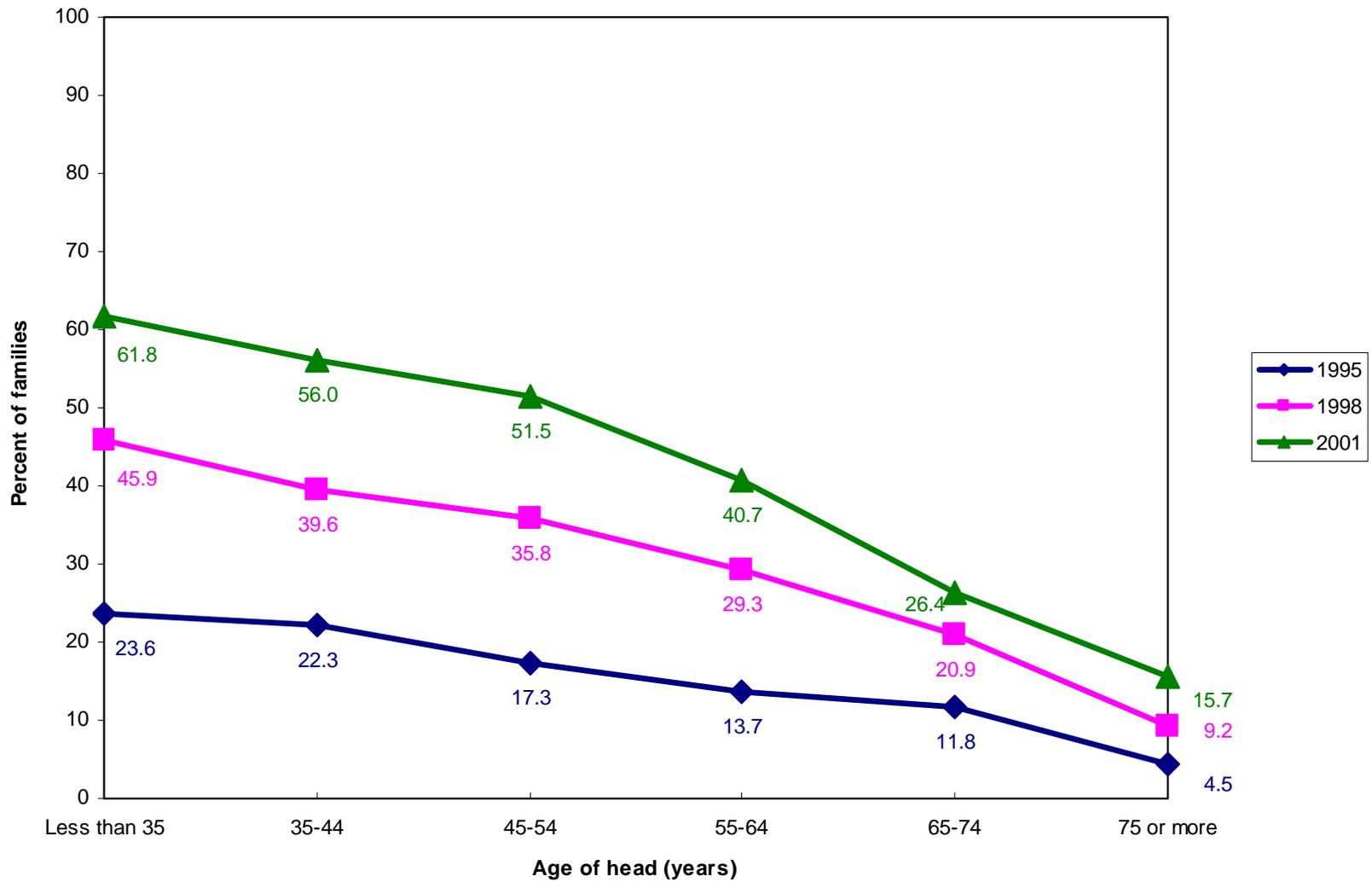
Source: Survey of Consumer Finances, Federal Reserve.

Bank credit card holdings: Percentile of income, 1995, 1998, 2001



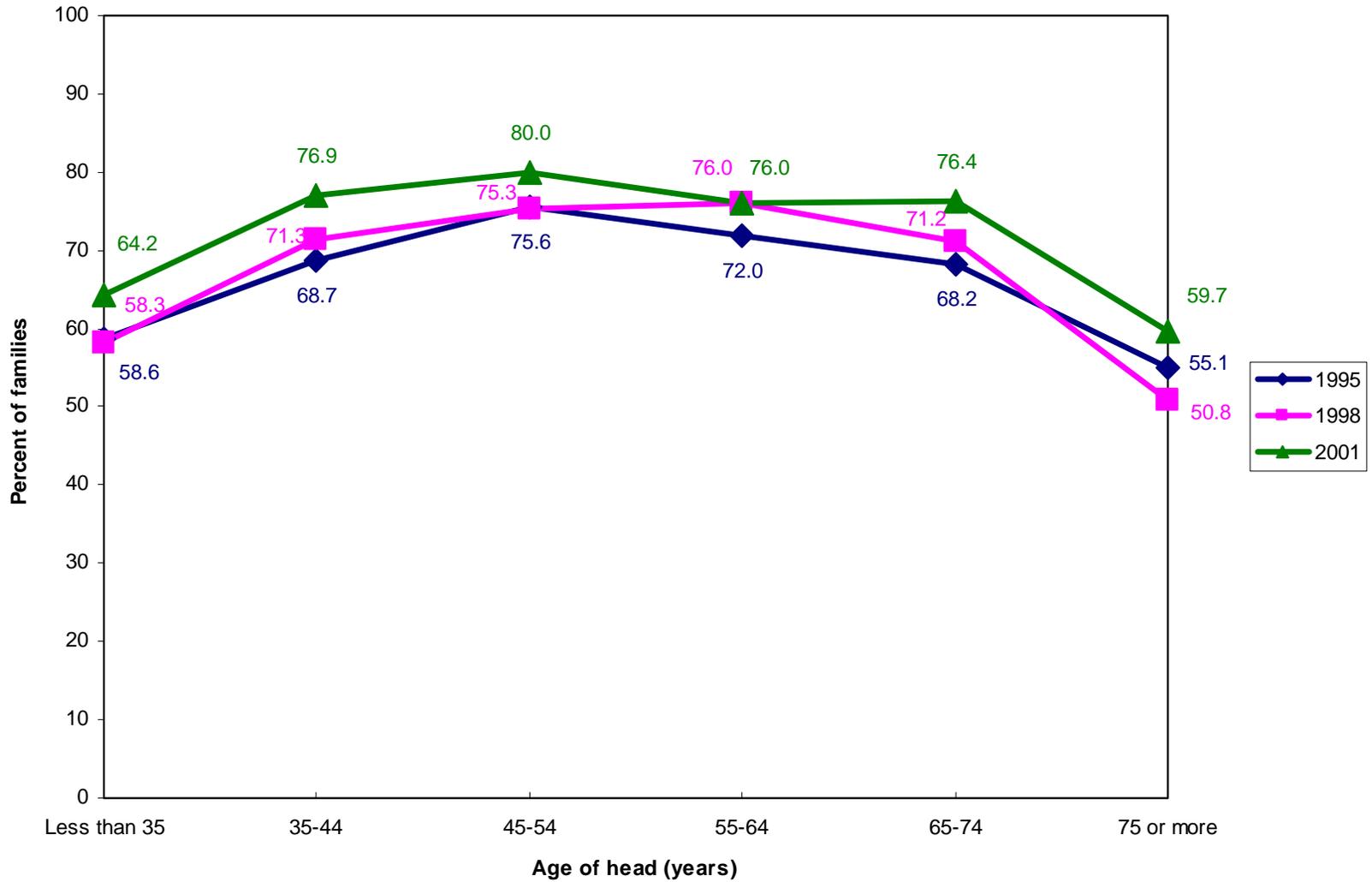
Source: Survey of Consumer Finances, Federal Reserve.

Debit card use: Age of head, 1995, 1998, 2001



Source: Survey of Consumer Finances, Federal Reserve.

Bank credit card holdings: Age of head, 1995, 1998, 2001



Source: Survey of Consumer Finances, Federal Reserve.

# Discussion

- Given aggregate data, results agree with intuition.
- We see that revolvers use debit cards. Do consumers use debit cards as a “commitment device” to control their borrowing behavior?
  - Results indicate no, because revolvers borrow and use debit cards.
- But, revolvers may be borrowing less than they would have otherwise, because they have debit cards.
  - Instead of charging up even more debt, they buy things with their debit card.
- The sign of the dummy variable – positive – cannot distinguish between these two cases. Debit cards may or may not be a commitment device.
  - Drawback of SCF: No intensity of debit card use.

# Conclusions and suggestions for further research

- Paper raises interesting issues
  - Credit question: Are debit cards and credit cards substitutes?
  - Payment question: Are debit cards and credit cards substitutes?
- Future research: Using attitudinal variables to understand credit card balances
  - Survey respondents may systematically underreport balances.
  - Respondents may not report attitudes towards credit that are consistent with observed behavior.
  - Use attitudinal variables to get a better estimate of credit card balances and a better understanding of families' behavior.
- Given the dramatic change in the use of electronic payments, it is important to understand factors that contribute to this change.