



CREDIT AND DEBIT CARD HOLDS AT GAS STATIONS

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- Gas stations place authorization holds on both credit and debit card purchases
- Gas stations determine the amount of the hold, but the card issuer determines the length
- Since 2003, 15 states have introduced bills to regulate holds
- Only Tennessee has a law requiring merchants to notify consumers about any debit card holds over certain amounts
- In 2013 Connecticut had two bills that would have prohibited merchants from placing a hold larger than the consumer's actual purchase

ISSUE

How do gas stations process credit and debit card transactions for gas purchases? What have states done to regulate authorization holds? Has Connecticut proposed any legislation?

SUMMARY

When a consumer uses a credit or debit card to purchase gas, there is an authorization hold placed on the card. An authorization hold is the practice of authorizing electronic transactions of a specified amount (usually more than the expected transaction amount) and holding this balance until the transaction clears. For example, a gas station may place a \$50 hold when authorizing the card even if the consumer only intends to purchase \$20 worth of gas. The \$50 hold will remain until the transaction clears, which can take 48-72 hours.

In these transactions, gas stations determine the amount of the hold and card issuers determine its length. Gas stations, however, do not keep the

difference between the hold amount and the amount purchased. They place holds to ensure full payment for the gas purchase because they do not know at the beginning of the transaction how much gas will be purchased.

In general, holds involving PIN-based debit transactions are cleared almost immediately. The more lengthy holds generally occur with non-PIN debit transactions.

According to the National Conference of State Legislatures, 15 states, including Connecticut, have introduced bills to regulate holds since 2003. These bills, would have, among other things, limited the amount merchants could hold and required notice when placing holds of certain amounts. But only Tennessee has a law requiring merchants to notify consumers about any debit card holds that exceed 25% of the transaction amount or \$50, whichever is greater (Tenn. Code Ann. § 47-18-128).

CREDIT AND DEBIT CARD PURCHASES

Although consumers oftentimes treat credit and debit transactions the same, the accounts are different and the transactions are processed differently. A transaction involving a (1) credit card is based on an account's credit limit (which is generally higher) and (2) debit card is based on the amount of money in a checking account.

Additionally, with a debit card, a consumer may choose to use it two ways. The first is to run the debit card like a credit card and the second is as a PIN-based transaction. If a consumer chooses to use the debit card like a credit card, the payment goes through the credit card network and the payment is withdrawn within a few days. If a PIN is entered, the money is immediately deducted from the account.

Credit Card-Based Transactions

Gas stations put holds on both credit and debit cards in credit card-based transactions. However, due to the difference between credit and debit cards, the hold often impacts debit card users more than credit card users.

Credit. Since holds are merely an authorization of additional money for transactions, they affect credit card users less because consumers do not actually need to have the money, just the needed credit amount.

Debit. For debit card users, even when they are using the card like a credit card, they must still have that amount in the bank account. A problem may arise when a consumer attempts to use a debit card for a specified amount (which he or she has in the bank) but a hold is placed on the card for a higher amount, which could result in an overdraft fee. (This is often due to the bank's overdraft protection, which allows checking account holders to temporarily make purchases with a debit card even if they do not have sufficient funds to cover them, but there is an overdraft fee associated with this service. Without this service, the transaction would be denied because the consumer does not have enough money in the account.)

Another problem that could occur is when a consumer who purchases gas has to wait up to 48-72 hours for the transaction to clear and is unable to use the amount of the hold. For example, if a consumer buys \$20 worth of gas but a \$50 hold was placed on the account, he or she would not be able to access the \$50 until the transaction clears.

Debit PIN-Based Transactions

Although gas stations still place holds on debit cards when consumers use a PIN-based transaction, these holds are often cleared instantaneously after the transaction. This is because the money is being immediately deducted from the bank account. (Some banks may charge certain fees (e.g., transaction fee) for PIN-based transactions.)

With PIN-based transactions, if a gas station sets its hold amount too high, it could deny potential consumers because the amount of the hold must be available in the account. For example, a consumer with \$40 in his or her bank account would not be able to get \$20 of gas if the station requires a \$50 hold.

CONNECTICUT BILLS

In 2013, two bills ([SB 196](#) and [HB 6205](#)) were introduced in Connecticut to restrict merchants from placing a hold larger than the consumer's actual purchase.

The General Law Committee held public hearings for both bills, but only passed SB 196. The Senate then referred it to the Banks Committee, where no action was taken.

SB 196 would have prohibited anyone who accepts credit or debit cards for retail sales from placing or allowing a third party, without the consumer's knowledge and consent, to place a hold larger than the consumer's actual purchase for goods or services.

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